

SLING GROUP HOLDINGS LIMITED

森浩集團股份有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 8285

BY WAY OF SHARE OFFER



SOLE SPONSOR

SUNWAH KINGSWAY
新華滙富

JOINT BOOKRUNNERS AND JOINT LEAD MANAGERS

SUNWAH KINGSWAY
新華滙富

 新富證券
SANFULL SECURITIES

Sanfull Securities Limited

IMPORTANT

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

Sling Group Holdings Limited

森浩集團股份有限公司

(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 : 140,000,000 Shares
Number of Public Offer Shares : 14,000,000 Shares (subject to reallocation)
Number of Placing Shares : 126,000,000 Shares (subject to reallocation)
Offer Price : HK\$0.43 per Offer Share, plus brokerage of 1.0%, 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 each
Stock code : 8285

Sole Sponsor

SUNWAH KINGSWAY

新華滙富

Kingsway Capital Limited

Joint Bookrunners and Joint Lead Managers

SUNWAH KINGSWAY

新華滙富

Kingsway Financial Services Group Limited



Sanfull Securities Limited

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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in 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.

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.

Prior to making an investment decision, prospective investors should carefully consider all the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

Prospective investors of the Offer Shares should note that the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Underwriters) is entitled, in its sole and absolute discretion, to terminate the Underwriting Agreement with immediate effect by giving notice in writing to us if any of the events set forth under the section headed "Underwriting — Underwriting arrangements and expenses — Grounds for termination" of this prospectus occurs at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Should the Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) terminate the 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 high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the website of the Stock Exchange at www.hkexnews.hk in order to obtain up-to-date information on companies listed on GEM.

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.sling-inc.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

2018

(Note 1)

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at www.hkeipo.hk <i>(Note 2)</i>	11:30 a.m. on Thursday, 4 January
Application lists of the Public Offer open <i>(Note 3)</i>	11:45 a.m. on Thursday, 4 January
Latest time for lodging WHITE and YELLOW Application Forms and to give electronic application instructions to HKSCC <i>(Note 4)</i>	12:00 noon on Thursday, 4 January
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s).....	12:00 noon on Thursday, 4 January
Application lists of the Public Offer close <i>(Note 3)</i>	12:00 noon on Thursday, 4 January
Announcement of (i) the level of indications of interest in the Placing; (ii) the level of applications in the Public Offer; (iii) the basis of allotment of the Public Offer Shares; and (iv) 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 www.sling-inc.com.hk <i>(Note 5)</i> and the website of the Stock Exchange at www.hkexnews.hk	Monday, 15 January
Results of allocation in the Public Offer will be available at www.tricor.com.hk/ipo/result with a “search by ID” function from.....	Monday, 15 January

EXPECTED TIMETABLE

2018
(Note 1)

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 Monday, 15 January

Despatch/collection of share certificates of
the Public Offer Shares or deposit of share certificates of
the Public Offer Shares into CCASS in respect of wholly
or partially successful applications pursuant to the Public Offer
on or before (Notes 6, 7, 8, 9 and 10)..... Monday, 15 January

Despatch/collection of refund cheques and
HK eIPO White Form e-Auto Refund payment instructions
in respect of wholly or partially successful applications pursuant to
the Public Offer on or before (Note 11) Monday, 15 January

Dealings in the Shares on GEM to commence at 9:00 a.m. on
Tuesday, 16 January

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. You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. 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 Thursday, 4 January 2018, 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.
4. 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.
5. None of our Company's website or any of the information contained in our Company's website forms part of this prospectus.
6. Share certificates for the Offer Shares are expected to be issued on or about Monday, 15 January 2018 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 January 2018 provided that (i) the Share Offer has become unconditional in all respects and (ii) the Underwriting Agreement has been terminated. If the Share Offer does not become unconditional or the Underwriting Agreement is terminated, we will make an announcement as soon as possible.

EXPECTED TIMETABLE

7. Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Public Offer. 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.
8. Applicants for 1,000,000 Public Offer Shares or more on **WHITE** Application Forms 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 Monday, 15 January 2018 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 are eligible 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.
9. Applicants for 1,000,000 Public Offer Shares or more on **YELLOW** Application Forms 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.
10. Uncollected share certificates and 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.
11. **HK eIPO White Form** e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application. Part of your Hong Kong identity card number/passport number or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in 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 and the Application Forms to make your investment decision. Our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person or party involved in the Share Offer have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives or any other person involved in the Share Offer. The contents of our Company's website at www.sling-inc.com.hk do not form part of this prospectus.

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SUMMARY AND HIGHLIGHTS

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk factors” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a women’s handbag company ranked first in the online middle-end women’s handbag market in the PRC and had a market share of approximately 0.75% in the online middle-end women’s handbag market in terms of online retail sales revenue in 2016. We ranked third in the overall middle-end women’s handbag market in the PRC, with approximately 0.36% market share in terms of retail sales revenue in 2016. The middle-end women’s handbag market is a market of women’s handbag products with suggested retail price generally ranged between RMB500 and RMB1,999 and handbags in such market are mainstream products targeting freshwomen and white collar women who value cost performance, quality and design. We primarily design, promote and sell women’s handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases, in the PRC. Our brand portfolio comprises two brands, namely (i) ELLE, our licensed brand; and (ii) Jessie & Jane, our own brand. Each brand is tailored to the preferences of consumers in varying age groups.

Generally, we develop and design our products and engage suppliers, who are manufacturers, to produce such products. We have our own quality control measures to ensure that finished products produced by our suppliers are of high standard before they are delivered to our sales network (which covers both online and offline retail points). We sell our products to end customers directly through online and offline retail points operated by us and sell our products on a wholesale basis to third party retailers, who then sell our products to end customers through online or offline retail points operated by them.

The following table sets forth our revenue by brand for the years/period indicated.

	Year ended 31 December				Six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
ELLE	164,767	85.6	149,887	71.2	67,955	63.2
Jessie & Jane	27,681	14.4	60,594	28.8	39,530	36.8
Total	<u>192,448</u>	<u>100.0</u>	<u>210,481</u>	<u>100.0</u>	<u>107,485</u>	<u>100.0</u>

The following table sets forth a breakdown of our revenue by product category for the years/period indicated.

	Year ended 31 December				Six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Handbags	173,500	90.1	191,726	91.1	96,889	90.1
Others ^(Note)	18,948	9.9	18,755	8.9	10,596	9.9
Total	<u>192,448</u>	<u>100.0</u>	<u>210,481</u>	<u>100.0</u>	<u>107,485</u>	<u>100.0</u>

Note: It primarily includes wallets, travel goods, small leathers goods and cardholders, etc..

SUMMARY AND HIGHLIGHTS

For further information, please refer to the sections headed “Business — Overview” and “Business — Our business” of this prospectus.

Since the establishment of our office in the PRC in 2005, we have built our offline sales network in first and second tier cities in the PRC. In order to expand the geographic coverage of our sales network effectively without incurring significant costs, we sell our products on a wholesale basis to third party retailers, who then sell them to end customers through their retail points. As at 30 June 2017, we had 8 self-operated offline retail points and 89 retailer-operated offline retail points for our products in four municipal cities, 17 provinces and four autonomous regions in the PRC. Having considered the rapid development of technology and changes in consumption habits of the young generation in the PRC, we launched our first online retail point in 2010. Our online sales network currently consists of (i) our self-operated online retail points on e-commerce platforms, such as T-mall, JD.com and VIP.com; and (ii) third party retailer-operated online retail points, which sell the products to end customers through online retail points operated by such third party retailers on e-commerce platforms. As at 30 June 2017, our products were sold through 14 self-operated online retail points and 18 retailer-operated online retail points.

The following table sets forth a breakdown of our revenue generated from online and offline sales channels for the years/period indicated.

	Year ended 31 December				Six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Online sales channels						
Self-operated online retail points	85,519	44.4	115,719	55.0	69,627	64.8
Sales to online retailers ^(Note)	<u>22,031</u>	<u>11.5</u>	<u>20,865</u>	<u>9.9</u>	<u>11,761</u>	<u>10.9</u>
Subtotal	<u>107,550</u>	<u>55.9</u>	<u>136,584</u>	<u>64.9</u>	<u>81,388</u>	<u>75.7</u>
Offline sales channels						
Self-operated offline retail points	65,239	33.9	48,694	23.1	10,280	9.6
Sales to offline retailers	<u>19,659</u>	<u>10.2</u>	<u>25,203</u>	<u>12.0</u>	<u>15,817</u>	<u>14.7</u>
Subtotal	<u>84,898</u>	<u>44.1</u>	<u>73,897</u>	<u>35.1</u>	<u>26,097</u>	<u>24.3</u>
Total	<u>192,448</u>	<u>100.0</u>	<u>210,481</u>	<u>100.0</u>	<u>107,485</u>	<u>100.0</u>

Note: Out of the sales of our products to a number of online retailers, it included the sales of our products to a customer, which is an Independent Third Party, on a wholesale basis. Such customer then sold the products to corporates, such as banks, which may use the products as reward gifts to its clients. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our sales to such customer accounted for approximately RMB9.9 million, RMB5.9 million and RMB6.4 million, respectively, representing approximately 5.2%, 2.8% and 5.9% of our total revenue, respectively.

SUMMARY AND HIGHLIGHTS

The following tables set forth our gross profit and gross profit margin by brand and by sales channel for the years/periods indicated.

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
ELLE	97,401	59.1	84,979	56.7	37,862	55.5	37,815	55.6
Jessie & Jane	<u>15,215</u>	55.0	<u>31,024</u>	51.2	<u>12,379</u>	50.2	<u>21,543</u>	54.5
Total	<u><u>112,616</u></u>	58.5	<u><u>116,003</u></u>	55.1	<u><u>50,241</u></u>	54.1	<u><u>59,358</u></u>	55.2

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
Retail sales								
Online retail points	51,312	60.0	67,025	57.9	25,827	57.4	41,570	59.7
Offline retail points	44,152	67.7	31,765	65.2	17,458	64.2	6,775	65.9
Wholesale								
Sales to offline retailers	7,196	36.6	7,681	30.5	2,764	25.4	6,386	40.4
Sales to online retailers	<u>9,956</u>	45.2	<u>9,532</u>	45.7	<u>4,192</u>	42.7	<u>4,627</u>	39.3
Total	<u><u>112,616</u></u>	58.5	<u><u>116,003</u></u>	55.1	<u><u>50,241</u></u>	54.1	<u><u>59,358</u></u>	55.2

Due to the increase in our sales through e-commerce platforms during the year after offsetting the effect of a decrease in offline sales, our overall gross profit increased by approximately 3.0% from approximately RMB112.6 million for the year ended 31 December 2015 to approximately RMB116.0 million for the year ended 31 December 2016. For the six months ended 30 June 2017, due to the continuous increase in our sales through e-commerce platforms, our overall gross profit was approximately RMB59.4 million, representing an increase of approximately 18.1% from approximately RMB50.2 million for the six months ended 30 June 2016.

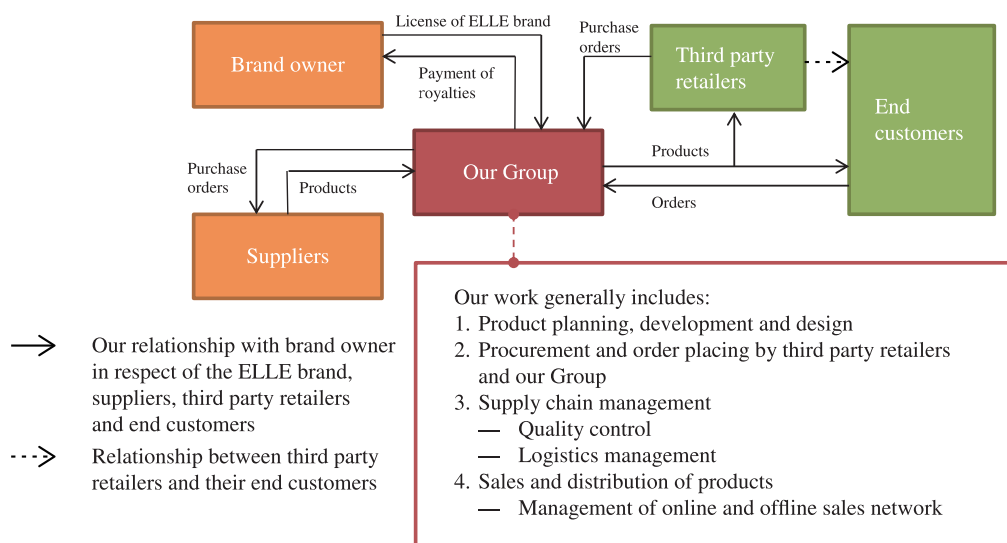
Due to the increase in our cost of sales caused by higher procurement costs resulting from surge in raw material costs, our gross profit margin decreased from approximately 58.5% for the year ended 31 December 2015 to approximately 55.1% for the year ended 31 December 2016. For the six months ended 30 June 2017, our gross profit margin of approximately 55.2% remained stable when compared to our gross profit margin of approximately 54.1% for the six months ended 30 June 2016.

For further information, please refer to the section headed “Business — D. Sales and distribution” of this prospectus.

SUMMARY AND HIGHLIGHTS

BUSINESS MODEL

The simplified diagram below illustrates our existing business model:



For further information, please refer to the section headed “Business — Our business” of this prospectus.

COMPETITIVE STRENGTHS

Our Directors believe that we have the following competitive strengths which have contributed to our success and distinguished us as a reputable women’s handbag company in the industry: (i) our product design and development capabilities; (ii) extensive online and offline sales network; (iii) close relationships with reliable suppliers; (iv) our quality assurance and control measures ensure that our products are of high quality to satisfy the needs of our customers; and (v) our dedicated management team with extensive industry exposure ensures the successful development of our business.

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

STRATEGIES AND FUTURE PLANS

We aim at achieving sustainable growth in our business by creating long-term value to our Shareholders. We intend to achieve these by implementing the following business strategies: (i) strengthen our market position in the women’s handbag industry by expanding our marketing efforts; (ii) further expand our product design and development capabilities; (iii) continue to expand our sales network; and (iv) enhance our information management system and information technology support for our business expansion.

For details, please refer to the sections headed “Business — Strategies and future plans” and “Future plans and use of proceeds — Future plans — Implementation plans” of this prospectus.

SUMMARY AND HIGHLIGHTS

USE OF PROCEEDS AND REASONS FOR LISTING

Our Directors believe that Listing will enhance our Group's profile and recognition and the net proceeds from the Share Offer will strengthen our Group's financial position such that our Group is fully equipped to pursue the business plans as set out in the section headed "Future plans and use of proceeds" of this prospectus. Net proceeds from the Share Offer, after deducting underwriting commission and other expenses relating to Listing payable by our Company, are expected to be approximately RMB31.0 million. We intend to apply the net proceeds from the Share Offer in the following manner:

- approximately RMB13.6 million, representing approximately 43.9% of the net proceeds from the Share Offer, will be used for marketing investment in social media and events;
- approximately RMB4.2 million, representing approximately 13.5% of the net proceeds from the Share Offer, will be used for the expansion of our product design and development team;
- approximately RMB6.2 million, representing approximately 20.2% of the net proceeds from the Share Offer, will be used for physical shop opening and refurbishment;
- approximately RMB6.9 million, representing approximately 22.1% of the net proceeds from the Share Offer, will be used for information technology system purchase and upgrade; and
- approximately RMB0.1 million, representing approximately 0.3% of the net proceeds from the Share Offer, will be used for the general working capital of our Group.

For details, please refer to the section headed "Future plans and use of proceeds" of this prospectus.

CUSTOMERS

During the Track Record Period, we primarily sold our products to end customers through our self-operated online and offline retail points in the PRC and wholesaled our products to our online and offline retailers in the PRC. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest customers accounted for approximately 12.9%, 11.4% and 14.0% of our revenue, respectively, and our largest customer accounted for approximately 5.2%, 3.9% and 5.9% of our revenue, respectively. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest customers are our online and offline retailers, which are engaged in the retail business in the PRC.

For details, please refer to the section headed "Business — Customers" of this prospectus.

SUPPLIERS

During the Track Record Period, we engaged suppliers, which are manufacturers, to produce our products in the PRC. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest suppliers accounted for approximately 86.6%, 88.4% and 86.9% of our cost of sales, respectively, and our largest supplier accounted for approximately 25.4%, 24.3% and 35.9% of our cost of sales, respectively. During the Track Record Period, our five largest suppliers are handbag and small leather goods manufacturers and most of them are handbag manufacturers located in Guangdong province, the PRC. Except for Dongguan Taiheng, all of our five largest suppliers during the Track Record Period are Independent Third Parties. For

SUMMARY AND HIGHLIGHTS

further information about our transactions with Dongguan Taiheng, please refer to the section headed “Continuing connected transactions — Non-exempt continuing connected transactions” of this prospectus.

For details, please refer to the section headed “Business — Suppliers” of this prospectus.

CONTROLLING SHAREHOLDERS’ INFORMATION

Upon completion of our Reorganisation but prior to completion of the Share Offer, Yen Sheng BVI and Summit Time owned approximately 69.4855% and 30.5145% of the issued share capital of our Company, respectively. Immediately following completion of the Share Offer (without taking into account any Shares which may be issued and allotted pursuant to the exercise of any options that may be granted under the Share Option Scheme), each of Yen Sheng BVI and Summit Time will own approximately 52.1141% and 22.8859% of the issued share capital of our Company respectively. Each of Yen Sheng BVI and Summit Time was an investment holding company as at the Latest Practicable Date.

As at the Latest Practicable Date, Yen Sheng BVI was owned as to approximately 49.3120%, 49.2321%, 0.6863%, 0.6863% and 0.0833% by Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Ms. Cecilia Hiang, respectively; and Summit Time was wholly-owned by Ms. Agnes Li. By virtue of their interests in Yen Sheng BVI and Summit Time, apart from Yen Sheng BVI and Summit Time, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Ms. Cecilia Hiang and Ms. Agnes Li are also considered as our Controlling Shareholders under the guidance letter GL89-16 issued by the Stock Exchange. Each of Ms. Agnes Li and Summit Time will cease to be our Controlling Shareholders upon Listing.

For details, please refer to the section headed “Relationship with our Controlling Shareholders — Our Controlling Shareholders” of this prospectus.

KEY OPERATIONAL AND FINANCIAL DATA

The following tables set forth highlights of our results of operation and our combined statement of financial position and cash flows during the Track Record Period as extracted from the Accountants’ Report set out in Appendix I to this prospectus.

Highlights of our combined statements of comprehensive income

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB’000	RMB’000	RMB’000	RMB’000
Revenue	192,448	210,481	92,937	107,485
Gross profit	112,616	116,003	50,241	59,358
Profit before income tax	13,649	9,631	958	5,779
Profit for the year/period	10,102	6,257	623	3,549

Our net profit for the year ended 31 December 2015 was approximately RMB10.1 million, achieving a net profit margin of approximately 5.2%, whereas our net profit for the year ended 31 December 2016 was approximately RMB6.3 million, representing a net profit margin of approximately 3.0%. Such decrease was mainly due to (i) the increase in non-recurring listing

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expenses; (ii) the decrease in an one-off government grant; (iii) a slight decrease in gross profit margin; (iv) the increase in selling and distribution expenses; and (v) the increase in administrative and other operating expenses. Our net profit for the six months ended 30 June 2016 was approximately RMB0.6 million, achieving a net profit margin of approximately 0.7%, whereas our net profit for the six months ended 30 June 2017 was approximately RMB3.5 million, representing a net profit margin of approximately 3.3%. The increase in our net profit for the six months ended 30 June 2017 was mainly due to the relatively stable selling and distribution costs despite the increase in our revenue as a result of the transfer of our self-operated offline retail points outside Shanghai area to our offline retailers which significantly reduced our shop expenses.

Highlights of our combined statements of financial position

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Non-current assets	7,459	5,576	5,638
Current assets	73,143	89,058	95,906
Current liabilities	61,269	69,572	72,591
Net current assets	11,874	19,486	23,315
Net assets	19,333	25,062	28,953

Highlights of our combined statements of cash flows

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Net cash generated from/(used in)				
operating activities	6,848	5,273	(3,171)	12,613
Net cash used in investing activities	(2,448)	(855)	(596)	(289)
Net cash generated from financing activities	203	6,492	3,239	88
Net increase/(decrease) in cash and cash equivalents	4,603	10,910	(528)	12,412
Cash and cash equivalents at the beginning of the year/period	4,512	9,140	9,140	20,193
Effect of foreign exchange rate changes	25	143	46	(163)
Cash and cash equivalents at the end of the year/period	<u>9,140</u>	<u>20,193</u>	<u>8,658</u>	<u>32,442</u>

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Key financial ratios

The following table sets forth the key financial ratios of our Group as at/for the period indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
Current ratio	1.2 times	1.3 times	1.3 times
Quick ratio	0.7 times	0.9 times	1.0 times
Gearing ratio	136.0%	138.1%	116.3%
Net debt to equity	88.8%	57.5%	4.3%
Inventory turnover days	115.4 days	110.1 days	104.1 days
Trade receivables turnover days	35.5 days	37.1 days	36.1 days
Trade payables turnover days	36.7 days	43.3 days	55.6 days
	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
Return on equity	52.3%	25.0%	24.5%
Return on total assets	12.5%	6.6%	7.0%
Interest coverage ratio	16.1 times	15.0 times	14.9 times

For further details of the key financial ratios, please refer to the section headed “Financial information — Key financial ratios” of this prospectus.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business model has remained unchanged and our revenue and cost structure has remained stable since 30 June 2017.

For the four months ended 31 October 2017, based on our unaudited combined financial statements, which have been reviewed by our reporting accountants, Grant Thornton Hong Kong Limited, in accordance with the Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, our revenue was approximately RMB53.9 million; and our gross profit and gross profit margin were approximately RMB28.7 million and approximately 53.3%, respectively. Our revenue for the four months ended 31 October 2017 was slightly lower than the monthly average revenue of the six months ended 30 June 2017 due to (i) extra consumption was absorbed in June 2017 as a result of the 618 festival promotion; and (ii) our Group had put less marketing effort during the third quarter, with advertising and promotion expenses during the third quarter amounted to approximately RMB2.2 million, compared to approximately RMB3.2 million and RMB3.2 million for the first and second quarter respectively, as management of our Group intended to focus on the Double 11 shopping festival. During the Double 11 shopping festival which took place in November 2017, we recorded unaudited sales of our

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products through our self-operated online retail points on T-mall of approximately RMB25.6 million. In connection with the Double 11 shopping festival, we incurred related marketing expenses of approximately RMB2.8 million for, among others, (i) video and photo-shooting; (ii) catalogs and online retail point display updates; and (iii) advertisement promotion on social media platforms. We currently expect that our financial results for the year ending 31 December 2017 will be negatively impacted by the non-recurring listing expenses to be recognised as expenses in our profit or loss and other comprehensive income. For further details regarding our listing expenses, please refer to the paragraph headed “Listing expenses” in this section and the section headed “Financial information — Listing expenses” of this prospectus.

Prospective investors should note that our financial information subsequent to the Track Record Period is unaudited and may not reflect the full year results for the year ending 31 December 2017 and may be subject to adjustments based on the audit.

Save as disclosed in the this paragraph and the paragraph headed “Listing expenses” in this section, our Directors confirm that, since 30 June 2017 and up to the date of this prospectus, (i) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

LISTING EXPENSES

The total amount of listing expenses, commissions together with SFC transaction levy and the Stock Exchange trading fee in connection with Listing is estimated to be approximately RMB22.4 million, of which approximately RMB8.8 million is expected to be capitalised upon Listing. The remaining estimated listing expenses amount to approximately RMB13.6 million, including (i) approximately RMB2.0 million charged for the year ended 31 December 2016; (ii) approximately RMB4.3 million charged for the six months ended 30 June 2017; and (iii) approximately RMB7.3 million is expected to be charged upon Listing. The estimated listing expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Group upon Listing.

DIVIDEND

No dividend was declared or paid by our Group to its then equity holders for the two years ended 31 December 2016 and the six months ended 30 June 2017, and up to the Latest Practicable Date. Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the recommendation by our Board at their discretion in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, our business opportunities, our financial condition and operating results, our working capital requirements and anticipated cash needs, statutory and contractual restrictions and obligations on the payment of dividends by us and other factors that our Board considers relevant. In addition, our Controlling Shareholders (including

SUMMARY AND HIGHLIGHTS

Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI) will be able to influence our dividend policy. Cash dividends on Shares, if any, will be paid in Hong Kong dollars.

STATISTICS OF THE SHARE OFFER

The Share Offer comprises (i) the Public Offer of 14,000,000 new Shares initially offered in Hong Kong; and (ii) the Placing of 126,000,000 new Shares (subject to reallocation on the basis as described in the section headed “Structure and conditions of the Share Offer” of this prospectus).

Market capitalisation^(Note) HK\$240.8 million

Unaudited pro forma adjusted combined net tangible assets per Share^(Note) HK\$0.14

Note: The unaudited pro forma adjusted combined net tangible assets per Share has been prepared with reference to certain estimation and adjustment. Please refer to Appendix II to this prospectus for details regarding the assumptions and calculation basis used.

RISK FACTORS

Our business is subject to a number of risks and uncertainties, including the following highlighted risks:

- we rely heavily on our licensed brand “ELLE”. Failure to successfully maintain or promote our licensed brand or maintain or renew our licence agreement in relation to the use of ELLE brand on commercially reasonable terms may materially and adversely affect our business, financial condition, results of operation and growth prospects;
- we operate in a highly competitive market in which we face competitions from other online retailers in the market;
- we may not be able to identify and respond to changes in women’s handbag and accessories trends and consumer preferences in a timely manner;
- our Jessie & Jane brand is a newly acquired brand and it may not be able to meet and maintain the target growth rate in market share and profit in the future; and
- any loss of or significant reduction in the government grants from the local government authorities in Shanghai we enjoy may negatively affect our profitability.

As different investors may have different interpretations and standards for determining the materiality of a risk, you should read the entire section headed “Risk factors” of this prospectus carefully before you decide to invest in the Offer Shares. You should not place any reliance on any information contained in press articles, research analysts’ reports or other media regarding us and the Share Offer, which may not be consistent with the information contained in this prospectus.

DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this prospectus.

“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), individually or collectively, as the context may require
“Articles” or “Articles of Association”	the articles of association of our Company conditionally approved by the written resolutions of the Shareholders on 15 December 2017 and effective upon Listing, a summary of which is set out in Appendix III to this prospectus, and as amended from time to time
“associates”	has the meaning ascribed thereto in the GEM Listing Rules
“Atbest”	Atbest Investments Limited (置暢投資有限公司), a company incorporated in Hong Kong with limited liability on 5 May 1981, which was owned by each of Mr. Sonny Yau and Mr. Sammy Yau as to 50% as at the Latest Practicable Date, and a connected person of our Company
“Board” or “Board of Directors”	the board of Directors
“business day(s)”	any day (other than a Saturday, and Sunday or public holidays) on which banks are generally open for business in Hong Kong
“BVI”	the British Virgin Islands
“CAGR(s)”	compound annual growth rate(s), representing the year-over-year growth rate of a value over a specified period of time, taking into account the effects of compounding
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Further information about our Group — 3. Resolutions of our Shareholders” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant

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“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“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 Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the Chairman of our Board
“close associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Companies Law” or “Cayman Companies Law”	the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company” or “our Company”	Sling Group Holdings Limited (森浩集團股份有限公司), an exempted company incorporated in the Cayman Islands on 6 January 2017
“connected person”	has the meaning given to it under the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules and, for the purpose of this prospectus, refers to each of (i) Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, and Yen Sheng BVI at all material times; and (ii) Ms. Agnes Li and Summit Time immediately prior to completion of the Share Offer (i.e. Ms. Agnes Li and Summit Time will cease to be our Controlling Shareholders upon Listing)
“core connected person(s)”	has the meaning ascribed to it under the GEM Listing Rules

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 28 December 2017 given by each of our Controlling Shareholders (including (i) Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI; and (ii) Ms. Agnes Li and Summit Time) in favour of our Company, details of which are set forth in the paragraph headed “Further information about our Group — 19. Estate duty, tax and other indemnities” in Appendix IV to this prospectus
“Director(s)”	director(s) of our Company
“Dongguan Taiheng”	東莞泰亨手袋有限公司 (Dongguan Taiheng Handbags Company Limited*), a company established in the PRC with limited liability on 31 December 2001 and was wholly owned by Tai Heng Factory as at the Latest Practicable Date, and a connected person of our Company
“Dongguan Yuanheng”	東莞源亨皮具製品有限公司 (Dongguan Yuanheng Leather Goods Company Limited*), a company established in the PRC with limited liability 18 June 2002 and was wholly owned by Yen Sheng Factory as at the Latest Practicable Date, and a connected person of our Company
“Double 11”	11 November of every year, known as the “Singles’ Day” in the PRC
“Elite Grand”	Elite Grand Limited (彭麗有限公司), a company incorporated in Hong Kong with limited liability on 30 October 2009, an indirect wholly-owned subsidiary of our Company as at the Latest Practicable Date
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., a global market research and consulting company, which is an Independent Third Party
“Frost & Sullivan Report”	an independent market research report dated 20 December 2017, commissioned by our Company on the online and offline women’s handbag retail markets in the PRC and prepared by Frost & Sullivan
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange

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“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“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
“Government”	the Government of Hong Kong
“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Group”, “Our Group”, “we” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires, in respect of the period prior to our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company or the businesses carried on by such subsidiaries or (as the case may be) their predecessors or any of them
“ HK eIPO White Form ”	the application of the Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HK\$”, “HKD”, “HK dollars” or “Hong Kong dollars” or “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a subsidiary of Hong Kong Exchanges and Clearing Limited
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Legal Adviser”	Mr. Dixon Y.T. Co, barrister-at-law and legal counsel advising on certain aspects of Hong Kong law
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited

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“Independent Third Party(ies)”	an individual or a company which is independent from and not connected with (within the meaning of the GEM Listing Rules) any directors, chief executive, substantial shareholders of our Company, our subsidiaries or any of their respective associates
“Joint Bookrunners” and “Joint Lead Managers”	collectively, (i) Kingsway Financial Services Group Limited, a licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO; and (ii) Sanfull Securities Limited, a licensed corporation to conduct type 1 (dealing in securities) regulated activities under the SFO, being the joint bookrunners and the joint lead managers of the Share Offer
“JD.com”	JD.com (京東), a business-to-customer e-commerce platform in the PRC
“Latest Practicable Date”	20 December 2017, being the latest practicable date prior to the date of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Lee Sang”	Lee Sang Investment Company Limited (利生置業有限公司), a company incorporated in Hong Kong with limited liability on 6 April 1962, which was owned by Mr. Sonny Yau, Mr. Sammy Yau, Mr. Fred Yau, Mr. Nicholas Yau and Atbest as to approximately 17.6711%, 17.6711%, 1.1342%, 1.1342% and 62.3894%, respectively, as at the Latest Practicable Date, and a connected person of our Company
“Listing”	the listing of and the commencement of dealings in our Shares on GEM
“Listing Date”	the date expected to be on or about Tuesday, 16 January 2018, on which our Shares are listed and from which dealings therein are permitted to take place on GEM
“Listing Division”	the listing division of the Stock Exchange
“Macia (Hong Kong)”	Macia Company Limited (瑪詩雅有限公司) (formerly known as Macia Company Limited), a company incorporated in Hong Kong with limited liability on 23 April 1980, which was owned by Ms. Cecilia Hiang, Mr. Sammy Yau and Mr. Sonny Yau as to approximately 50.0%, 49.0% and 1.0%, respectively, as at the Latest Practicable Date, and a connected person of our Company

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“Main Board”	the stock market operated by the Stock Exchange, which excludes GEM and the options market
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), a summary of which is set out in Appendix III to this prospectus
“Mr. Brian Lee”	Mr. Lee Tat Fai Brian (李達輝), son of Ms. Agnes Li, spouse of Ms. Jiang, our chief executive officer and our executive Director
“Mr. Fred Yau”	Mr. Yau Frederick Heng Chung (邱亨中), son of Ms. Cecilia Hiang and Mr. Sonny Yau, elder brother of Mr. Nicholas Yau, nephew of Mr. Sammy Yau, our executive Director and one of our Controlling Shareholders
“Mr. Nicholas Yau”	Mr. Yau Nicholas Heng Wah (邱亨華), son of Ms. Cecilia Hiang and Mr. Sonny Yau, younger brother of Mr. Fred Yau, nephew of Mr. Sammy Yau and one of our Controlling Shareholders
“Mr. Sammy Yau”	Mr. Yau Tai Leung Sammy (邱泰樑), younger brother of Mr. Sonny Yau, brother-in-law of Ms. Cecilia Hiang, uncle of Mr. Fred Yau and Mr. Nicholas Yau, our non-executive Director and one of our Controlling Shareholders
“Mr. Sonny Yau”	Mr. Yau Sonny Tai Nin (邱泰年), elder brother of Mr. Sammy Yau, spouse of Ms. Cecilia Hiang, father of Mr. Fred Yau and Mr. Nicholas Yau, our non-executive Director and one of our Controlling Shareholders
“Ms. Agnes Li”	Ms. Li Wing Chi Agnes (李詠芝), mother of Mr. Brian Lee, mother-in-law of Ms. Jiang, and one of our Controlling Shareholders immediately prior to completion of the Share Offer (i.e. ceasing to be one of our Controlling Shareholders upon Listing)
“Ms. Cecilia Hiang”	Ms. Hiang Siu Wei Cecilia (項小蕙) (also known as Ms. Yau Siu Wei Cecilia), spouse of Mr. Sonny Yau, mother of Mr. Fred Yau and Mr. Nicholas Yau, sister-in-law of Mr. Sammy Yau and one of our Controlling Shareholders
“Ms. Jiang”	Ms. Jiang Liwen (蔣驪雯), spouse of Mr. Brian Lee, daughter-in-law of Ms. Agnes Li and a connected person of our Company

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“Non-competition Undertaking”	a non-competition undertaking dated 15 December 2017 and signed by our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only), details of which are set out in the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Offer Price”	HK\$0.43 per Offer Share (exclusive of brokerage, SFC transaction levy and Stock Exchange trading fee payable thereon) at which the Offer Shares are to be subscribed for and issued pursuant to the Share Offer
“Offer Shares”	the Placing Shares and the Public Offer Shares
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with selected professional, institutional and/or other investors in Hong Kong as described in the section headed “Structure and conditions of the Share Offer” of this prospectus
“Placing Shares”	126,000,000 new Shares (subject to reallocation) initially being 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
“Placing Underwriters”	the underwriters of the Placing Shares whose names are set out in the section headed “Underwriting — The Underwriters — The Public Offer Underwriters and the Placing Underwriters” of this prospectus
“PRC”	the People’s Republic of China and for the sole purpose of this prospectus shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Commerce & Finance Law Offices, the legal advisers to our Company as to PRC law
“Public Offer”	the issue and offer of the Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Application Forms as further described in the section headed “Structure and conditions of the Share Offer” of this prospectus

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“Public Offer Shares”	14,000,000 new Shares (subject to reallocation) initially being offered by our Company for subscription under 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 Underwriters — The Public Offer Underwriters and the Placing Underwriters” of this prospectus
“PVC”	polyvinyl chloride
“Qitai Leather Goods”	啟泰皮具製品(梅州)有限公司 (Qitai Leather Goods (Meizhou) Company Limited*), a company established in the PRC with limited liability on 4 July 2007 and was wholly owned by Tai Heng Factory as at the Latest Practicable Date, and a connected person of our Company
“Regulation S”	Regulation S under the U.S. Securities Act
“retail point”	the location where transaction occurs, including an offline retail store located within a shopping mall, a sales counter in a department store and sale through e-commerce platforms
“Reorganisation”	refers to the reorganisation arrangement undergone by our Group in preparation for the Share Offer as described in the section headed “History and development and Reorganisation — Reorganisation” of this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Senhao Shanghai”	森浩商貿(上海)有限公司 (Senhao Shangmao (Shanghai) Company Limited*), a wholly foreign owned enterprise established in the PRC with limited liability on 19 October 2005, an indirect wholly-owned subsidiary of our Company as at the Latest Practicable Date
“Senqing Shanghai”	森晴商貿(上海)有限公司 (Senqing Shangmao (Shanghai) Company Limited*), an enterprise established in the PRC with limited liability on 18 September 2012 and deregistered on 22 January 2017, an indirect wholly-owned subsidiary of Sling Incorp during the Track Record Period

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“Senxuan Shanghai”	森渲商貿(上海)有限公司 (Senxuan Shangmao (Shanghai) Company Limited*), an enterprise established in the PRC with limited liability on 17 April 2016, an indirect wholly-owned subsidiary of our Company as at the Latest Practicable Date
“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 Option Scheme”	the share option scheme conditionally adopted by our Company, a summary of the principal terms are set out in the paragraph headed “Other information — 18. Share Option Scheme” in Appendix IV to this prospectus
“Share(s)”	ordinary shares with a nominal value of HK\$0.01 each in the share capital of our Company, which are to be traded in Hong Kong dollars and listed on GEM
“Shareholders”	holders of the Shares
“Share Offer”	the Public Offer and the Placing
“Shenzhen Yaying”	深圳雅盈設計有限公司 (Shenzhen Yaying Design Company Limited*), an enterprise established in the PRC with limited liability on 7 July 2016, an indirect wholly-owned subsidiary of our Company as at the Latest Practicable Date
“Sling BVI”	Sling Investment Limited, a company incorporated in BVI with limited liability on 13 January 2017, a direct wholly-owned subsidiary of our Company as at the Latest Practicable Date
“Sling Incorp”	Sling Incorporated Limited (森浩企業有限公司) (formerly known as Sino Supreme Enterprise Limited (華盈企業有限公司)), a company incorporated in Hong Kong with limited liability on 20 January 1999, an indirect wholly-owned subsidiary of our Company as at the Latest Practicable Date
“Sole Sponsor”	Kingsway Capital Limited, a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the sponsor of Listing

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance) of our Company
“Substantial Shareholder(s)”	has the same meaning ascribed to it under the GEM Listing Rules
“Summit Time”	Summit Time Resources Limited, a company incorporated in BVI with limited liability on 10 March 2015 and was wholly-owned by Ms. Agnes Li as at the Latest Practicable Date, and one of our Controlling Shareholders immediately prior to the completion of the Share Offer (i.e. ceasing to be one of our Controlling Shareholders upon Listing)
“T-mall”	Tmall.com (天貓商城), a business-to-customer online shopping platform in the PRC
“Tai Heng Factory”	Tai Heng Factory Limited (泰亨廠有限公司), a company incorporated in Hong Kong with limited liability on 16 November 2001 and was owned by Macia (Hong Kong) and Ms. Cecilia Hiang as to 99.99% and 0.01%, respectively, as at the Latest Practicable Date, and a connected person of our Company
“Tai Heng Group”	Tai Heng Factory and its subsidiaries, namely Dongguan Taiheng and Qitai Leather Goods
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers, as amended, supplemented or otherwise modified from time to time
“Track Record Period”	the period comprising the two financial years ended 31 December 2016 and the six months ended 30 June 2017
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 28 December 2017 relating to the Public Offer and the Placing entered into between, amongst others, our Company, our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only), our executive Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters, details of which are set forth in the section headed “Underwriting — Underwriting arrangements and expenses — Underwriting Agreement” of this prospectus
“Unigrade”	Unigrade International Limited (宇基國際有限公司), a company incorporated in Hong Kong with limited liability on 23 December 1992 and was wholly and beneficially owned by Lee Sang as at the Latest Practicable Date, and a connected person of our Company
“U.S.” or “U.S.A.” or “United States”	the United States of America
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“ 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)
“VIP.com”	VIP.com (唯品會), a business-to-customer e-commerce platform in the PRC
“Yau Family”	collectively, Mr. Sonny Yau, Mr. Sammy Yau, Ms. Cecilia Hiang, Mr. Fred Yau and Mr. Nicholas Yau
“ 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
“Yen Hing”	Yen Hing Factory Limited (formerly known as Polystock Limited), a company incorporated in Hong Kong with limited liability on 28 July 1981, which was owned by Yen Sheng Factory and Atbest as to approximately 82.3077% and 17.6923%, respectively, as at the Latest Practicable Date, and a connected person of our Company

DEFINITIONS

“Yen Sheng BVI”	Yen Sheng Investment Limited, a company incorporated in BVI with limited liability on 18 January 2017, which was owned by Mr. Sonny Yau, Mr. Sammy Yau, Ms. Cecilia Hiang, Mr. Fred Yau and Mr. Nicholas Yau as to approximately 49.2321%, 49.3120%, 0.0833%, 0.6863% and 0.6863%, respectively, as at the Latest Practicable Date, and one of our Controlling Shareholders
“Yen Sheng Factory”	Yen Sheng Factory Limited (源成廠有限公司) (formerly known as Yen Sheng Plastic and Rattan Factory Limited (源成有限公司)), a company incorporated in Hong Kong with limited liability on 27 August 1963, which was owned by Mr. Sonny Yau, Mr. Sammy Yau, Lee Sang and Atbest as to approximately 10.6061%, 10.6061%, 60.6061% and 18.1817%, respectively, as at the Latest Practicable Date, and a connected person of our Company
“Yen Sheng Group”	Yen Sheng Factory and its subsidiaries, including Yen Hing and Dongguan Yuanheng
“Yen Sheng International”	Yen Sheng International Limited (源成國貿有限公司) (formerly known as Success Rainbow International Limited (彩盛國際有限公司)), a company incorporated in Hong Kong with limited liability on 27 May 2016 and was wholly owned by Lee Sang as at the Latest Practicable Date, and a connected person of our Company
“YS Cambodia”	YS Manufacturing (Cambodia) Limited, a company incorporated in Cambodia with limited liability on 10 August 2016 and was wholly owned by Yen Sheng International as at the Latest Practicable Date, and a connected person of our Company
“sq.m.” or “m ² ”	square metres
“%”	per cent.

Certain figures set out in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

The English names of the Chinese nationals, companies, entities, departments, facilities, certificates, titles and the like are translation of their Chinese names and are included in this prospectus for identification purpose only and should not be regarded as their official English translation. In the event of any inconsistency, the Chinese name prevails.

* For identification purposes only

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “ought to”, “plan”, “potential”, “predict”, “project”, “seek”, “shall”, “should”, “will”, “would” and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic trends and conditions;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- our dividend;
- 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 statements in the section headed “Financial information” of this prospectus with respect to trend in prices, volumes, operations, margins, overall market trends, risk management and exchange rates.

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

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and should consider and evaluate the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Additional risks and uncertainties not presently known to our Group or that our Group currently deems immaterial could also harm the business, financial condition and operating results of our Group. The trading prices of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

OUR BUSINESS AND OUR INDUSTRY

We rely heavily on our licensed brand “ELLE”. Failure to successfully maintain or promote our licensed brand or maintain or renew our licence agreement in relation to the use of ELLE brand on commercially reasonable terms may materially and adversely affect our business, financial condition, results of operation and growth prospects.

We have entered into a licence agreement to, among others, design, manufacture and sell our ELLE products in the PRC for a term ending on 31 December 2020 and renewable for an additional term of five years expiring on 31 December 2025. Please refer to the section headed “Business — Our business — Brand portfolio — ELLE — Our licence agreement in relation to the use of ELLE brand” of this prospectus for further information about the salient terms of the licence agreement. Such licensed brand name is critical to our success as we believe that the market perception of a brand is one of the key factors for consumers to make decisions in purchasing women’s handbags. We primarily sell our products under our licensed brand “ELLE”, which is a middle-end products brand targeting white collar women who value cost performance, quality and design. For the two years ended 31 December 2016 and the six months ended 30 June 2017, the revenue generated from the sale of our ELLE products accounted for approximately RMB164.8 million, RMB149.9 million and RMB68.0 million, respectively, representing approximately 85.6%, 71.2% and 63.2% of our total revenue, respectively. If we are unsuccessful in promoting our licensed brand or fail to maintain the brand culture or brand recognition or maintain or renew our licence agreement in relation to the use of ELLE brand on commercially reasonable terms, our results of operation and prospects may be materially and adversely affected. Any negative publicity or disputes involving our licensed brand, changes in market perception or consumer preferences in relation to this brand could materially and adversely affect the sales under this brand. In addition, the growth momentum of this brand may slow down and its growth potential may decrease over time. In this case, our future development may be adversely affected, which could have a material and adverse effect on our business, financial condition, results of operation and growth prospects.

RISK FACTORS

We operate in a highly competitive market in which we face competitions from other online retailers in the market. Any such increased competition may result in a reduction of our market share in the PRC.

We operate in a highly competitive and fragmented industry. We compete with a broad range of women's handbag companies and online retailers, including those of international and domestic brands. According to the Frost & Sullivan Report, the middle-end women's handbag market in the PRC is highly competitive where (i) the top five market players accounted for approximately 1.87% of the total market share in terms of retail sales revenue in 2016 and (ii) the top five online retailers accounted for approximately 2.07% of the total market share in terms of total revenue of the online market in 2016. Please refer to the section headed "Industry overview — Competitive landscape of the China women's handbag retail market" of this prospectus for further details. It is expected that future competition in this industry will become increasingly intensified, leading us to a variety of competitive challenges, which include:

- the ability to position ourselves in the market and continue to design and launch attractive products to meet the rapidly changing trends and consumer demands;
- the ability to maintain control over third party retailers and the various types of sales channels;
- the ability to maintain and build mutual trust and trust partnerships with reliable suppliers;
- the ability to maintain reliable and stable relationships with online e-commerce platforms;
- the ability to maintain efficient supply chain management;
- the ability to recruit and retain an experienced and committed management team and employees;
- the ability to promote our brand and maintain our brand's reputation; and
- the ability to maintain our design capability and differentiate our brand from others.

Some of our competitors (including other online retailers, both existing and new) may have greater capital investments, better brand recognition and/or wider distribution networks than we do. To compete more effectively, we must continue to invest significant resources in the ongoing development of new products, improvement of existing products and brand management. There can be no assurance that we will have sufficient resources to make these investments, or that these investments will improve our market position in comparison with our competitors.

RISK FACTORS

In addition, due to the increasing number of new entrants in the competitive women's handbag market in the PRC, if we fail to retain customers and compete effectively against our competitors for favourable terms in relation to brand influence, product quality, design capability, logistics system and after-sales system, our business, financial condition, results of operation and market share may be materially and adversely affected.

We may not be able to identify and respond to changes in women's handbag and accessories trends and consumer preferences in a timely manner.

The women's handbag industry is highly susceptible to changes in fashion and handbag retail trends and styles and fluctuations in consumer tastes and preferences. In order to achieve continued and sustainable success in our business, we must be able to anticipate, identify and respond promptly to such changes. The success of our business is largely dependent on our ability to anticipate future fashion trends and consumer preferences in the regions where we operate, and subsequently our ability to design and market products in a timely manner.

If we fail to accurately anticipate fashion and women's handbag retail trends and react to prevailing consumer preferences in a timely manner, or fail to anticipate accurately any shift in online customers' preferences, this could result in lower sales volume, lower selling prices, obsolete inventory and lower profits, which may have a material adverse effect on our business, financial condition, results of operation and growth prospects. On the other hand, if we fail to anticipate the increase in consumer demand for our products, we may experience inventory shortages and loss of sales opportunities, which may also materially and adversely affect our reputation.

We recorded net cash used in operating activities of approximately RMB3.2 million for the six months ended 30 June 2016. If we record net cash outflow from operating activities in the future, our liquidity and financial condition may be materially and adversely affected.

We recorded net cash used in operating activities of approximately RMB3.2 million for the six months ended 30 June 2016, which was primarily resulted from changes in working capital, being the net effect of the increase in trade and other receivables of approximately RMB1.2 million and the decrease in amount due to the then immediate holding company of approximately RMB2.1 million. In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. We can give no assurance that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

RISK FACTORS

We were exposed to credit risk arising from trade receivables and amounts due from associates during the Track Record Period. If settlements from our third party retailers or repayments by our associates are not made on a timely manner, our financial position, profitability and cash flow may be adversely affected.

We recorded impairment losses on trade and other receivables of approximately RMB0.2 million, approximately RMB0.3 million and nil for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. We also recorded impairment losses on amounts due from associates of approximately RMB1.0 million, RMB0.3 million and nil for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, respectively. Should the credit worthiness of our third party retailers deteriorate or should a significant number of our third party retailers fail to settle their trade and bill receivables in full for any reason, we may incur impairment losses and our results of operation and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment by our third party retailers from their respective credit period, which in turn may also result in an impairment loss provision. There is no assurance that we will be able to fully recover our trade and bill receivables from our third party retailers or that they will settle our trade and bill receivables in a timely manner. Moreover, there is no guarantee that we will receive repayment of the amounts due from our associates in future (if applicable), which is non-trade in nature, in full or in a timely manner. In the event the settlements from the third party retailers or our associates are not made on a timely manner, the financial position, profitability and cash flow of our Group may be adversely affected.

Our Jessie & Jane brand is a newly acquired brand and it may not be able to meet and maintain the target growth rate in market share and profit in the future.

We entered into an agreement to acquire the Jessie & Jane brand and products in April 2014. Please refer to the section headed “Business — Our business — Brand portfolio — Jessie & Jane” of this prospectus for further details. There can be no assurance that our Jessie & Jane brand will grow as our Directors have expected. Jessie & Jane is a brand focusing on women’s handbags featuring what we believe are chic and classic styles and targeting freshwomen who seek fashion in touch with individuality. For our Jessie & Jane brand, we need to identify and respond to the different competitive conditions, consumer preferences and spending patterns of the target customers. In addition, we may need to make significant investments to build stronger brand awareness among the target customers. We may not be able to attract enough demand for our Jessie & Jane products. If our Jessie & Jane products fail to effectively meet the market demand and thus fail to generate our target growth in market share and profit in a timely manner, our Group’s business and results of operation may be adversely affected.

Our endeavours to develop and launch new product lines may not be successful.

We plan to further leverage our competitive strengths and enhance our product design capability in order to expand our product portfolio and develop and launch new product lines. We may face challenges relating to, amongst others, brand positioning, marketing and pricing strategies when developing and launching new product lines. We have to commit substantial financial and operational resources as a new product line typically requires a period of initial development, during which such new product line requires on-going investment that may negatively affect overall profitability before becoming, profitable, if at all. We may face inherent risks and uncertainties

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such as misjudgement of levels of consumers' demands as well as selling prices for the new products. We may also lack sufficient experience in the management of new product lines with respect to which we may face different challenges, such as those relating to marketing, sales and competition. In addition, we may receive less than expected demand from our customers for the products. In that regard, we cannot guarantee that any of the products we may introduce and promote will generate income as expected. Failure of any of our products could lead to a waste of our resources and damage to our reputation and could materially and adversely affect our business, financial condition, results of operation and prospects.

Our online business relies on the proper operation of the e-commerce platforms which are operated and maintained by third parties, and thus any failure of the e-commerce platforms could materially and adversely affect our business and results of our operation.

The proper functioning of the e-commerce platforms on which we sell our products is essential to our business and any failure to maintain the satisfactory performance and security of the e-commerce platform will materially and adversely affect our business, financial condition and results of operation.

As most of our revenue is generated from online sales channels, our business relies on their proper functioning and maintenance of e-commerce platforms. For orders processed on such e-commerce platforms, any telecommunications or network failures that result in the unavailability or slowdown of the e-commerce platform or reduction in order fulfillment performance may reduce the volume of our products sold. The servers and data centres for the e-commerce platforms may also be vulnerable to computer viruses, hacking, physical or electronic break-ins and other similar disruptions, which could lead to interruptions, delays or the inability to accept and fulfill customer orders. The occurrence of any of those incidents could result in a decrease in our revenue and this may materially and adversely affect our business, financial condition and results of operation.

We rely on our third party retailers for the sale of our products to end customers. Termination of or failure to renew cooperation agreements with our third party retailers, any significant decrease in purchases from our third party retailers or failure to maintain the existing relationships with our third party retailers may result in a material and adverse effect on our business, financial condition, results of operation and prospects.

We sell our products to our third party retailers on a wholesale basis. Our third party retailers sell our products to end customers through retail points and outlets operated by them. As at 30 June 2017, our products were sold through 89 retailer-operated offline retail points and 18 retailer-operated online retail points. Sales to our third party retailers accounted for approximately 21.7%, 21.9% and 25.6% of our revenue for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. During the same periods, sales to our single largest third party retailer accounted for approximately 5.2%, 3.9% and 5.9% of our revenue, respectively.

We typically enter into cooperation agreements with each of our third party retailers. We cannot assure you that the cooperation agreements we have with the existing third party retailers will be renewed on the same or similar terms, or at all, upon or before the expiration of these cooperation agreements, nor can we assure you that existing third party retailers will not terminate these cooperation agreements before they expire. There is no assurance that we will be able to

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maintain the existing relationships with our third party retailers or that the existing third party retailers will continue to place orders with us at historical levels, or at all. If any of the major third party retailers substantially reduces its volume of purchases from us or ceases to do business with us altogether, our sales may decrease substantially and our financial condition and results of operation may be materially and adversely affected.

We may not be able to maintain the existing relationships with our suppliers.

Although we seek to maintain a stable relationship with most of our suppliers, we cannot assure you that our suppliers will continue to maintain business relationships with us by renewing the contracts at terms acceptable to us upon expiry thereof, or even maintain such business relationships with us at all. If any supplier terminates or refuses to renew a contract with us, we may not be able to secure any suitable alternative suppliers as replacement on terms acceptable to us in a timely and efficient manner. In addition, we cannot assure you that our new suppliers will possess the same necessary skills and capacity in meeting the requirements of our customers for high quality products. If most of our third-party suppliers are unable to fulfill their obligations under the contracts, this may materially and adversely affect our business, financial condition and results of operation.

Any loss of our senior management and failure to attract and retain qualified personnel could affect our operations and growth prospects.

We believe talent, experience and leadership of our senior management team are critical to the success of our business. Please refer to the section headed “Directors and senior management” of this prospectus for further details. In addition, other members of our senior management team also have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also have a materially adverse effect on us.

Our future success also depends substantially on our ability to recruit, train and retain qualified management, designers and other qualified personnel. For example, our business is dependent on talented designers to create appealing and fashionable handbags. We are especially reliant on our product design and development department, which is responsible for designing women’s handbags and accessories and developing various product categories and sub-brands. The departure of any of these individuals could have an adverse effect on our business and prospects. Competition for talent in some areas of the PRC retail industry is intense and qualified individuals can be difficult to recruit. Consequently, we may not be able to easily and quickly replace lost personnel and we may incur additional expenses to recruit, train and retain new hires. Significant increase in employee turnover rates, which is generally high in the PRC retail industry, or significant increase in labour costs due to competition for talents, could have a material adverse effect on our results of operation and financial condition.

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Our business relies on the proper operation of our information technology system, and thus any malfunction, for prolonged periods, could materially and adversely affect our business and results of operation.

Our business relies on the proper operation of our information technology system in order for us to manage, among others, our inventory levels and sales and billing records. Any failure associated with our information technology system, including those caused by power disruption or loss, malfunctions, natural disasters, computer viruses or hacking, network failures and other unauthorised tampering, may cause interruptions in our ability to keep accurate records and maintain proper business operations. Further, as such information technology system is provided by a third party service-provider, we are reliant on them for periodic maintenance and/or system upgrade. Therefore, any malfunction to a particular part of our information technology system may result in a disruption to our business and our ability to continue our operations smoothly may be negatively affected, which in turn could materially adversely affect our results of operation.

We are subject to certain risks relating to warehousing and transportation of our products.

Before delivery of our finished products to our retail points, our end-customer who purchased our products through our self-operated online retail points or our third party retailers, we temporarily store them in leased warehouses in the PRC. If any accidents, including fire accidents, were to occur, causing damage to our finished products or our warehouses, our ability to supply finished products to our retail points, our end-customers or our third party retailers on time and our market reputation, financial condition, results of operation or business could be materially and adversely affected.

The delivery of our products to our retail points and to our online customers is outsourced to third party logistics service providers. Relying on these third party logistics service providers increases the risk that we may fail to deliver finished products on time. The efficient operation of our retail points and e-commerce operations depends on the timely receipt of products from our warehouses. Such logistics services could be suspended and thereby interrupt the supply of our finished products if unforeseen events occur which are beyond our control, such as poor handling of and damage to our finished products, transportation bottlenecks and/or labour strikes. If our finished products are not delivered on time or are delivered in a damaged state, our market reputation could be adversely affected. Disruptions in the delivery of products due to work stoppages by employees and contractors of any of these third parties could delay the timely receipt of products. There can be no assurance that such stoppages or disruptions will not occur in the future. The occurrence of any of these problems alone, or together, could have a material adverse effect on our business, financial condition and results of operation.

Unfavourable fluctuations in price, availability and quality of raw materials could cause material production delays and materially increase our costs of sales.

The success of our overall business depends in part on the ability of our suppliers to obtain, in a timely manner, sufficient quantities of raw materials necessary to manufacture our products that are of adequate quality and at commercially acceptable prices. Generally, unfavourable fluctuations

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in price, quality or availability of necessary raw materials could cause material production delays and negatively affect our costs of sales, as our suppliers may incur additional costs to acquire sufficient quantities of these materials in order to meet the product launch schedules and ensure timely delivery of our products to customers. The occurrence of such fluctuations could have a material adverse effect on our business, financial condition and results of operation.

We rely on our suppliers for the production of our products and any material disruption to the supply of our products or instability in product quality could materially and adversely affect our business and results of operation.

We do not own any facility for production of our products. During the Track Record Period, we engaged suppliers, who are manufacturers, to produce our products. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our cost of sales were approximately RMB79.8 million, RMB94.5 million and RMB48.1 million, respectively. A number of factors could cause prolonged interruptions in the operations of these suppliers, including but not limited to equipment failures or property damage experienced by these suppliers, changes in laws and regulations that affect their manufacturing processes, or financial difficulties and labour disputes faced by these suppliers. We may experience material disruptions in the supply of finished goods due to any of the above factors in the future.

In addition, although we have our control measures to ensure product quality, we may not be able to monitor the production quality of the suppliers directly and effectively. If the suppliers fail to supply products in accordance with our delivery schedules, quality standards or product specifications, we may be forced to provide these products on a delayed basis or cancel our product offering, either of which could harm our reputation and relationships with customers and therefore potentially expose us to litigation and damage claims. If we fail to maintain our product quality, our brand image and reputation could be adversely affected, especially if we become the target of any negative publicity as a result of actions taken by our suppliers. Such actions may include their non-compliance from any laws and regulations applicable to their business operations.

In addition, we cannot assure you that our suppliers will continue to accept our future product orders on the same or similar terms (including prices and quantities) or at all in the future, nor can we assure you that our suppliers' resources will not be used for their other customers, or that they will continuously have sufficient resources to meet our demand. Should these suppliers fail to deliver sufficient finished products to us that meet our standards and the expectations from our customers, it would severely affect our ability to supply the products to our retail points. We cannot ensure that we will not face material disruptions to the supply of products from our suppliers in the future. In the event of such disruptions, we may not be able to find suitable alternative suppliers on a timely basis to supply the same or similar types and quantities of products. During the Track Record Period and up to the Latest Practicable Date, our Group had not experienced any material disruption to the supply of products from the suppliers. Any material disruption in the supply of products from our suppliers may materially and adversely affect our results of operation.

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Failure to maintain optimal inventory levels could cause an interruption to our operation, which could materially and adversely affect our business, financial condition and results of operation.

Maintaining an optimal level of inventory is critical to the success of our business. Such business decision requires our management exercises a certain degree of judgement and estimate based on their past experience and market sense. As at 31 December 2015 and 2016 and 30 June 2017, our inventory turnover days were approximately 115.4 days, 110.1 days and 104.1 days, respectively. We are exposed to inventory risks as a result of various factors beyond our control, including changing women's handbags and accessories trends and consumer needs, uncertainty of the success of product launches and seasonality. Although we actively supervise the operation of our sales channel, including our inventory levels, we cannot assure you that there will not be under or over-stocking at our retail points. We cannot assure you that we can accurately predict these trends and events to avoid under or over-stocking of inventory. A sudden decrease in the market demand for our products and the consequent unanticipated drop in the sales of our products could cause our inventory of unsold items to be sold at prices below cost, which in turn may materially and adversely affect our business, financial condition and results of operation. Meanwhile, if we under-stock our inventory, we may lose sales and therefore our business, financial condition and results of operation may also be materially and adversely affected.

Our business may be negatively affected if our third party retailers fail to comply with our retail policies.

We rely on the contractual terms as set forth in our cooperation agreements with our third party retailers to impose our policies on our third party retailers in respect of their operation of the retail points, such as store decoration, product layout and retail prices. If our third party retailers are unable to meet our requirements or fulfill obligations set out in the cooperation agreements, we may not be able to effectively manage our sales network or maintain our brand image, which may result in damage to our reputation and lead to an unfavourable public perception of our brand. Therefore, there can be no assurance that our third party retailers will comply with our policies to prevent our brands from being associated with a negative reputation. In addition, we may be unable to identify appropriate replacements for the third party retailers who fail to comply with our retail policies in a timely manner. As a result, our business and results of operation may be materially and adversely affected.

Our past performance is not necessarily indicative of future results.

Our past performance is not necessarily indicative of future results. Although we have grown rapidly over the past few years and our revenue increased by approximately 9.4% from approximately RMB192.4 million in 2015 to approximately RMB210.5 million in 2016, such growth only reflects our past performance. To increase our market share, we plan to continue to expand our sales channel through e-commerce. As we continue to expand our sales channel, this expansion plan may place significant strain on our managerial, operational and financial resources.

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If the expansion of our sales channel is not successfully managed, our operating costs may increase and our sales and financial results may be materially and adversely affected. We may not meet our sales channel expansion target if our business or financial conditions change from what we anticipated or there is a change in the overall economic conditions.

The rapid growth and expansion of our sales channel and our results of operation during the Track Record Period may not be indicative of our future growth and financial performance and we cannot assure you that the growth we experienced during the Track Record Period will be sustainable or achievable at all in the future. If we are unable to successfully handle these risks and difficulties, our business, financial condition, results of operation and prospects may be materially and adversely affected.

We face certain risks relating to the properties leased by us in the PRC.

As at the Latest Practicable Date, we had seven leased properties in the PRC. For further details, please refer to the section headed “Business — Property — Leased properties — PRC” of this prospectus. In respect of the properties leased by Senhao Shanghai for use as our office, our lessor had not provided us with the necessary permit to lease such properties. We may encounter difficulties in continuing to lease such properties and may be required to relocate. In such event, we may be unable to find suitable alternative premises or may be unable to obtain new leases at desirable locations or on desirable terms. Further, we may incur additional costs arising from the relocation as well as business disruption. Therefore, our business, financial condition and results of operation may be adversely affected if we are unable to find suitable alternative premises or obtain new leases at desirable locations or on desirable terms in the event that we are required to vacate from these properties.

We may not be able to renew current leases or locate desirable alternatives for our self-operated retail points.

Our performance depends, to a significant extent, on the location of our self-operated retail points as well as the retail points operated by our third party retailers, as we believe that prime location is a key to access to our targeted customer groups and brand building. A majority of our self-operated retail points and our retailer-operated retail points across the PRC is presently located on leased premises. Please refer to the section headed “Business — Property” of this prospectus for further details. Our and our third party retailers’ ability to renew existing leases upon their expiry is crucial to our operations and profitability, especially for outlets in locations of high volume of pedestrian traffic. At the end of each lease term, we and our third party retailers may not be able to negotiate an extension of the lease, and may therefore be forced to move to a less favourable location. Due to rapid rental increase and limited supply of prime locations in the PRC, particularly in the first-tier cities, we and our third party retailers may not be able to renew our existing leases at reasonable prices or on commercially acceptable terms and conditions that are viable to us. In addition, we compete with other businesses, including our competitors, for premises at desirable locations and/or of desirable sizes. Therefore, we may not be able to obtain new leases at desirable

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locations or renew our existing leases on acceptable terms in a timely fashion or at all and we may incur relocation costs, which could materially and adversely affect our business and results of operation.

We may be affected by infringement of our intellectual property rights or counterfeiting of our products.

Our licensed brand, ELLE, and our self-owned brand, Jessie & Jane, trademarks and other intellectual property rights are important to our success and competitive position. We rely on PRC laws to protect our intellectual property rights. For details of our registered trademarks and domain names, please refer to the section headed “Further information about the business of our Company — 13. Intellectual property rights of our Group” in Appendix IV to this prospectus. There is no assurance that third parties, including our suppliers, will not infringe on our intellectual property rights or that the actions taken by us will be adequate to prevent such infringement by others. Likewise, we cannot assure you that third parties will not imitate our designs and trademarks and make products that are similar or easily confused with our products.

Any loss of or significant reduction in the government grants from the local government authorities in Shanghai we enjoy may negatively affect our profitability.

During the Track Record Period, we received government grants from local government authorities in Shanghai in connection with support to enterprises in an amount of approximately RMB2.3 million and RMB2.1 million for the two years ended 31 December 2016, representing approximately 2.0% and 1.8% of our gross profit for the two years ended 31 December 2016, respectively. The government grants vary from year to year, depending on government policy and whether we are, in a particular year, eligible for such available grants or subsidiaries. We cannot assure you that we will be eligible to receive further government grant or that the amount of any grants or subsidiaries will not be reduced in the future. Any loss of or significant reduction in the government grants would in turn negatively affect our profitability.

Our current insurance coverage may not be sufficient to cover the risks related to our operations.

We currently maintain insurance policies in respect of our fixed and liquid assets, labour insurance for our staff in Hong Kong, and social insurance for our employees in the PRC, which we believe are consistent with the industry norm in our industry in both Hong Kong and PRC. Please refer to the section headed “Business — Insurance” of this prospectus for further details. However, we do not have insurance coverage for product liability and therefore we may be exposed to product liability claims in the event that any of our products is alleged to have caused bodily harm or other adverse effects. Further, we do not maintain business interruption insurance or third party liability insurance against claims for property damage, personal injury and environmental liabilities. The occurrence of any of these events may result in interruptions to our operations and subject us to significant losses or liabilities. Any losses or liabilities that are not covered by our current insurance policies may have a material adverse effect on our business, financial condition and results of operation.

RISK FACTORS

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

Natural disasters, acts of war, political unrest and epidemics, which are beyond our control, may materially and adversely affect the economy, infrastructure and livelihood of our customers in both Hong Kong and the PRC. In particular, some cities in the PRC are susceptible to floods, earthquakes, sandstorms, snowstorms and droughts. Our business, financial condition, results of operation and prospects may be materially and adversely affected if such natural disasters occur in places where we operate or where our products are sold, whether directly or indirectly. Political unrest, acts of war and terrorists attacks may cause damage or disruptions to us, our employees, our retail and distribution network and our third party retailers, any of which could materially and adversely affect our sales, cost of sales, overall results of operation and financial condition. The potential for war or terrorists attacks may also cause uncertainty and cause our business to suffer in ways which are beyond our prediction.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Fluctuations in consumer spending and a decline in consumer demand caused by changes in economic, political and legal developments in the PRC may significantly affect our business, financial condition, results of operation and prospects.

We derive a substantial amount of our revenue from sales of our products in the PRC. Our business, financial condition, results of operation and prospects are therefore subject to economic, political and legal developments in the PRC. Further, consumer demand in the PRC depends upon a range of factors outside of our control, including demographic factors, consumer preferences and discretionary consumer spending. A decline in consumer demand in the PRC could substantially reduce our revenue and profitability and may consequently have a material adverse effect on our business, financial condition and results of operation. Generally, the PRC economy differs from the economies of numerous developed countries in different respects, including but not limited to: social structure, growth rate, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In the past decades, the PRC government has implemented economic reform measures to emphasise the importance in utilisation of market forces for economic development. The PRC's political and social conditions may also affect the implementation of economic reform by the PRC government.

There can be no assurance that projected growth rates of the PRC economy will be realised or that there will not be any future deterioration of economic conditions in the PRC. In the event that our competitors react to any declines in consumer confidence by reducing retail prices, our ability to maintain our market share may be adversely impacted, and we may have to intensify our marketing efforts in order to compete effectively. If we are required to conduct more aggressive promotions or reduce our prices to respond to price competition, it may have a material adverse effect on our business, financial condition and results of operation.

RISK FACTORS

We are subject to foreign exchange risk.

The prices we charge our customers and third party retailers are generally denominated in Renminbi and our functional currency is RMB, but part of our operational costs and cash and cash equivalents are denominated in HK dollars and other currency, which exposes us to foreign exchange risk. If exchange rate fluctuations cause increases in our operation costs, we may not be able to adjust our selling prices promptly to pass such increase to our customers and third party retailers, which would adversely affect our profits. For the two years ended 31 December 2016, we recorded net exchange losses of approximately RMB1.1 million and RMB1.5 million respectively. For the six months ended 30 June 2017, we recorded a net exchange gain of approximately RMB0.5 million. Any significant changes in the exchange rates between our functional currency and these various other currencies may result in losses for us and may adversely affect our financial position.

The PRC legal system has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protections available to investors.

A substantial amount of our operations are conducted in the PRC and are thus governed by PRC laws, regulations and rules. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as references and have limited precedential value. As many of these laws, regulations and rules are relatively new, and because of the limited volume of published decisions and their non-binding nature, the interpretation and enforcement of the laws, rules and regulations in the PRC may involve uncertainties and may not be consistent or predictable as in other more developed jurisdictions. The legal protections available to us under these laws, regulations and rules may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and could result in substantial costs and diversion of resources and management attention. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them. Please refer to the section headed “Regulatory overview” of this prospectus for further details.

RISKS RELATING TO THE SHARE OFFER

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

Prior to Listing, there has been no public market for our Shares. Our Company has applied for listing of our Shares on GEM. However, there is no assurance that Listing will result in the development of an active public market for our Shares or that the market price of our Shares will not decline below their Offer Price. You may be unable to resell your Shares at or above the Offer Price, and as a result, may lose all or part of your investment in such Shares.

RISK FACTORS

The trading price of the Shares may be volatile.

The price at which the Shares will trade after the Share Offer may fluctuate substantially as a result of many factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our results of operation;
- changes in securities analysts' estimates, if any, of our financial performance;
- acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations of exchange rates between HK dollars or other foreign currencies; and
- general market conditions or other developments affecting us or our industry.

In addition, shares of the companies listed on the Stock Exchange have from time to time experienced significant price and volume fluctuations which are not related to the operating performance of the companies listed on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of the Shares, regardless of our operating performance or prospects.

Shareholders' equity interests may be diluted as a result of additional equity fund-raising activities.

In the future, we may need to raise additional funds to finance acquisitions, expansion or new developments of our business. If funds are raised through the issue of new equity and equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of the Shareholders in our Company may be reduced accordingly as a result of which Shareholders may experience dilution in their percentage shareholdings in our Company. Further, it is also possible that such new securities may have preferred rights, options or pre-emptive rights that render them more valuable than the Shares.

The exercise of options as may be granted under the Share Option Scheme may result in dilution to the Shareholders.

Our Company has conditionally adopted the Share Option Scheme though no options had been granted thereunder as at the Latest Practicable Date. Any exercise of the options to be granted under the Share Option Scheme in the future and issue of Shares thereunder upon exercise of any options to be granted under the Share Option Scheme would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and the net asset value per Share, as a result of the increase in the number of Shares outstanding after such issue.

RISK FACTORS

Sale or perceived sale of substantial amounts of the Shares in the public market after the Share Offer could adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods under the GEM Listing Rules. There is no assurance that our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI) will not dispose of these Shares following the expiration of the lock-up periods. Sale of substantial amounts of the Shares in the public market, or the perception that such sale may occur, could adversely affect the prevailing market price of the Shares.

Investors may experience difficulties in enforcing Shareholder's rights because our Company is incorporated in the Cayman Islands.

Our Company is an exempted company incorporated in the Cayman Islands with limited liability and the laws of the Cayman Islands differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. The corporate affairs of our Company are governed by the Memorandum and the Articles, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take legal action against our Company and/or our Directors, actions by minority Shareholders and the fiduciary responsibilities of our Directors to our Company under Cayman Islands laws are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands.

The rights of the Shareholders and the fiduciary responsibilities of our Directors under Cayman Islands laws may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where investors reside. In particular, the Cayman Islands has a less developed body of securities laws. As a result of all of the above, Shareholders may have more difficulty in exercising their rights in the face of actions taken by the management of our Company, the Directors or major Shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

RISK RELATING TO THE STATEMENTS MADE IN THIS PROSPECTUS

Statistics and facts in this prospectus have not been independently verified.

This prospectus includes certain statistics and facts that have been extracted from Government official sources and publications or other sources. We believe that the sources of these statistics and facts are appropriate for such statistics and facts and have taken reasonable care in extracting and reproducing such statistics and facts. We have no reason to believe that such statistics and facts are false or misleading or that any material information has been omitted that would render such statistics and facts false or misleading. These statistics and facts from these sources have not been independently verified by us, our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Yen Sheng BVI, Ms. Agnes Li and Summit Time), the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective

RISK FACTORS

directors or any other party involved in the Share Offer and therefore, we make no representation as to the accuracy or completeness of these statistics and facts, as such these statistics and facts should not be unduly relied upon.

Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics from official government publications referred to or contained in this prospectus could be inaccurate or there is a risk that they are not comparable to statistics produced for other economies and should not be relied upon. Furthermore, we cannot assure you that the facts and other statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should attach to, or place on, such facts or other statistics.

Forward-looking statements in this prospectus could prove inaccurate.

This prospectus contains certain forward-looking statements relating to the plans, objectives, expectations and intentions of our Directors. Such forward-looking statements are based on numerous assumptions as to our present and future business strategies and the development of the environment in which we operate. Our actual financial results, performance or achievements could differ materially from those discussed in this prospectus. Investors should be cautious against placing undue reliance on any forward-looking statements as these statements involve known and unknown risks, uncertainties and other factors which could cause our actual financial results, performance or achievements to be materially different from our anticipated financial results, performance or achievements expressed or implied by these statements. We are not obliged to update or revise any forward-looking statements in this prospectus, whether by reason of new information, future events or otherwise.

You should read this entire prospectus and we strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the Share Offer.

There may be press and media coverage regarding us or the Share Offer, which may include certain events, financial information, financial projections and other information about us that do not appear in this prospectus. We have not authorised the disclosure of any other information not contained in this prospectus. We do not accept any responsibility for any such press or media coverage and we make no representation as to the accuracy or completeness or reliability of any such information or publication. 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 disclaim responsibility for them. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to subscribe for our Shares, you should rely only on the financial, operational and other information included in this prospectus.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

In preparation for the Share Offer, we have applied to the Stock Exchange for the following waiver from strict compliance with the relevant provisions of the GEM Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

After Listing, certain transactions, which we have entered into and will continue to conduct, will constitute non-exempt continuing connected transactions for us under the GEM Listing Rules.

On 15 December 2017, Dongguan Taiheng and Sling BVI (on its own behalf and as trustee for the benefit of other members of our Group) entered into a manufacturing agreement pursuant to which Dongguan Taiheng will produce samples and manufacture women's handbags, small leather goods and travel goods for our Group upon receipt of placing orders from us, for a term commencing from 15 December 2017 and ending on 31 December 2019. Sling BVI has an option to renew the manufacturing agreement for a further period of three years, and for each exercise of a renewal option by Sling BVI, Dongguan Taiheng will be deemed to have granted a new option to Sling BVI for a further extension of three years on terms to be negotiated between the parties on a fair and reasonable basis and on the condition that all applicable disclosure and/or Shareholders' approval requirements under the GEM Listing Rules shall have been complied with by our Company. As at the Latest Practicable Date, Dongguan Taiheng was wholly owned by Tai Heng Factory, which was in turn owned by Macia (Hong Kong) and Ms. Cecilia Hiang as to approximately 99.99% and 0.01%, respectively. Macia (Hong Kong) was owned by Ms. Cecilia Hiang, Mr. Sammy Yau and Mr. Sonny Yau as to 50.0%, 49.0% and 1.0%, respectively, as at the Latest Practicable Date. The proposed annual caps for the on-going transactions contemplated under the manufacturing agreement are RMB14,200,000, RMB15,500,000 and RMB16,900,000 for the three years ending 31 December 2019, respectively. Such transactions constitute continuing connected transactions for our Company and are subject to the annual review, reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted a waiver from strict compliance with the announcement, circular and independent Shareholders' approval requirements set out in Chapter 20 of the GEM Listing Rules in respect of such non-exempt continuing connected transactions.

Further details of such non-exempt continuing connected transactions are set out in the section headed "Continuing connected transactions" of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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:

- the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
- there are no other matters the omission of which would make any statement herein or this prospectus misleading; and
- all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are 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 not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, advisers, officers, agents, employees, affiliates 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 which is sponsored by the Sole Sponsor and managed by the Joint Bookrunners. The Offer Shares will be fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement. For further information about the Underwriters and underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

RESTRICTIONS ON SALE OF THE OFFER SHARES

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.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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.

PROCEDURES FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedures for application for the Public Offer Shares are set out in the section headed “How to apply for the Public Offer Shares” of 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” of this prospectus.

APPLICATION FOR 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 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 140,000,000 Offer Shares, representing 25% of the enlarged issued share capital of our Company, will be in the hands of the public immediately following completion of the Capitalisation Issue and the Share Offer (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.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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 approval of the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus on GEM and the compliance with the stock admission requirements of HKSCC, our 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 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 necessary arrangements have been made for the Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, SMP Partners (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong branch register of members will be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, in Hong Kong.

All Shares in issue will be registered in our Company's branch register of members to be maintained in Hong Kong. Only Shares registered on our Company's branch register of members maintained in Hong Kong may be traded on GEM. Dealings in 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 cheque sent by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or, if joint Shareholders, to the first-named therein in accordance with the Articles.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to taxation implications of the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares. None of our Company, the Sole Sponsor, the Joint Bookrunners the Underwriters, any of their respective directors, advisers, officers, employees, agents or representatives (where applicable) or any other persons or parties involved in the Share Offer accepts responsibility for any tax effects on or liabilities of any person resulting from the subscription for, purchase, holding or disposal of, dealings in, or the exercise of any rights in relation to, our Shares.

DEALINGS AND SETTLEMENT

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. (Hong Kong time) on or about Tuesday, 16 January 2018.

Shares will be traded in board lots of 5,000 Shares each and are freely transferable.

The GEM stock code for the Shares is 8285.

The Company will not issue any temporary document of title.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities which have been translated 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, the Chinese name prevails.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains translations for the convenience of the reader the following rates: HK dollars into US dollars at the rate of HK\$7.80 = US\$1.00 and HK dollars into RMB at the rate of HK\$1.00 = RMB0.87 as at the Latest Practicable Date. These translations are provided for reference and convenience only, and no representation is made, and no representation should be construed as being made, that any amounts in HK\$ or US\$ can be or could have been at the relevant dates converted at the above rates or any other rates at all.

ROUNDING

Any discrepancies in any table or chart between the totals and the sums of the amounts listed therein are due to rounding.

DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Yau Frederick Heng Chung (邱亨中) (i.e. Mr. Fred Yau)	Flat B, 15/F, Celestial Garden 5 Repulse Bay Road Repulse Bay Hong Kong	Chinese
Mr. Lee Tat Fai Brian (李達輝) (i.e. Mr. Brian Lee)	2/F, Laford Court 54 La Salle Road Kowloon Hong Kong	Chinese
Mr. Yip Chun Wai (葉振威)	Flat C, 16/F, Block 5 Parc Palais, 18 Wylie Road Ho Man Tin Kowloon Hong Kong	Chinese
<i>Non-executive Directors</i>		
Mr. Yau Sonny Tai Nin (邱泰年) (i.e. Mr. Sonny Yau)	Flat 12A, Fortuna Court 25 Repulse Bay Road Hong Kong	British
Mr. Yau Tai Leung Sammy (邱泰樑) (i.e. Mr. Sammy Yau)	House 40, 38–48 Horizon Drive Chung Hom Kok Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Tong Raymond Kwok Kong (湯國江)	Flat 2, 25/F, Block B, Villa Rocha 10 Broadwood Road Happy Valley Hong Kong	Chinese
Mr. Won Chik Kee (溫捷基)	Flat A, 34/F, Block 1 Park Towers 1 King's Road Tin Hau Hong Kong	Chinese
Mr. Feng Dai (馮岱)	Flat C, 4/F, Excelsior Building 364–366 Nathan Road Yau Ma Tei Kowloon Hong Kong	Chinese

DIRECTORS, SENIOR MANAGEMENT AND PARTIES INVOLVED IN THE SHARE OFFER

SENIOR MANAGEMENT

<u>Name</u>	<u>Residential address</u>	<u>Nationality</u>
Ms. Jiang Ying (江英)	Room 401, Block 36 Beimensan Village Yushan County Kunshan Jiangsu Province PRC	Chinese
Mr. Fang Yan (方昕)	Room D, 19/F, Block 5 Island Resort Siu Sai Wan Hong Kong	Chinese
Ms. Shen Min (沈民)	Room 901, No. 6 Lane 259 Huanlong Road Pudong District Shanghai PRC	Chinese
Ms. Xu Yijie (徐宜捷)	Room 2408, No. 2 Lane 2584 Zhongshan North Road Putuo District Shanghai PRC	Chinese
Mr. Li Zhaoqing (厲兆清)	No. 1943 Xiaozaizi Village Chengyang District Qingdao Shandong Province PRC	Chinese

Further information about our Directors and other senior management members are set out in the section headed “Directors and senior management” of this prospectus.

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Kingsway Capital Limited

(a licensed corporation to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

**Joint Bookrunners and
Joint Lead Managers**

Kingsway Financial Services Group Limited

(a licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO)

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Sanfull Securities Limited

(a licensed corporation to conduct type 1 (dealing in securities) regulated activities under the SFO)

Room 2001-6
Cosco Tower
183 Queen's Road Central
Hong Kong

Underwriters

Kingsway Financial Services Group Limited

(a licensed corporation to conduct type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO)

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Sanfull Securities Limited

(a licensed corporation to conduct type 1 (dealing in securities) regulated activities under the SFO)

Room 2001–6
Cosco Tower
183 Queen’s Road Central
Hong Kong

Legal advisers to our Company

As to Hong Kong law:

Chiu & Partners

40th Floor
Jardine House
1 Connaught Place
Hong Kong

Dixon Y.T. Co

Room 1406
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

As to PRC law:

Commerce & Finance Law Offices

6/F, NCI Tower
A12 Jianguomenwai Avenue
Beijing
PRC

As to Cayman Islands law:

Conyers Dill & Pearman

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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

As to Hong Kong law:

Loeb & Loeb LLP

21/F, CCB Tower
3 Connaught Road Central
Hong Kong

As to PRC law:

Beijing Dentons Law Offices, LLP

7th Floor, Building D
Parkview Green FangCaoDi
No. 9, Dongdaqiao Road
Chaoyang District
Beijing
PRC

Auditors and reporting accountants

Grant Thornton Hong Kong Limited

Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

Industry consultant

Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.

Room 1018, Tower B
No. 500 Yunjin Road
Xuhui District
Shanghai
PRC

Tax adviser

Grant Thornton Tax Services Limited

Level 12
28 Hennessy Road
Wanchai
Hong Kong

Compliance adviser

Kingsway Capital Limited

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Receiving bank

Standard Chartered Bank (Hong Kong) Limited

15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon, Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business	Unit 1, 21st Floor, Yen Sheng Centre 64 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Company's website	<u>www.sling-inc.com.hk</u> <i>(The content of this website does not form part of this prospectus)</i>
Compliance officer	Mr. Yau Frederick Heng Chung (邱亨中) (i.e. Mr. Fred Yau) Flat B, 15/F, Celestial Garden 5 Repulse Bay Road Repulse Bay Hong Kong
Company secretary	Ms. Leung Sau Fong (梁秀芳) <i>(member of Hong Kong Institute of Chartered Secretaries)</i> Unit 1, 21st Floor, Yen Sheng Centre 64 Hoi Yuen Road Kwun Tong Kowloon Hong Kong
Authorised representatives	Mr. Yau Frederick Heng Chung (邱亨中) (i.e. Mr. Fred Yau) Flat B, 15/F, Celestial Garden 5 Repulse Bay Road Repulse Bay Hong Kong Ms. Leung Sau Fong (梁秀芳) <i>(member of Hong Kong Institute of Chartered Secretaries)</i> Unit 1, 21st Floor, Yen Sheng Centre 64 Hoi Yuen Road Kwun Tong Kowloon Hong Kong

CORPORATE INFORMATION

Audit committee	Mr. Won Chik Kee (溫捷基) (<i>Chairman</i>) Mr. Tong Raymond Kwok Kong (湯國江) Mr. Feng Dai (馮岱)
Remuneration committee	Mr. Feng Dai (馮岱) (<i>Chairman</i>) Mr. Tong Raymond Kwok Kong (湯國江) Mr. Won Chik Kee (溫捷基)
Nomination committee	Mr. Tong Raymond Kwok Kong (湯國江) (<i>Chairman</i>) Mr. Feng Dai (馮岱) Mr. Won Chik Kee (溫捷基)
Compliance adviser	Kingsway Capital Limited 7/F, Tower 1 Lippo Centre 89 Queensway Hong Kong
Hong Kong branch share registrar	Tricor Investor Services Limited Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
Cayman Islands share registrar and transfer agent	SMP Partners (Cayman) Limited Royal Bank House — 3rd Floor 24 Shedden Road, George Town Grand Cayman KY1-1110 Cayman Islands
Principal bankers	Bank of China (Hong Kong) Limited 24/F, Bank of China Tower 1 Garden Road Hong Kong Standard Chartered Bank (Hong Kong) Limited 3/F, Standard Chartered Bank Building 4-4A Des Voeux Road Central Hong Kong

INDUSTRY OVERVIEW

The information presented in this section is derived from various official government publications and other publications as indicated, and from the Frost & Sullivan Report which was commissioned by us. Our Directors believe that the sources of information in this section are appropriate sources for such information. Our Directors 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, our Directors, the Sole Sponsor, the Joint Bookrunners, the Underwriters, any of their respective directors, agents, advisers or affiliates or any other party involved in the Share Offer and no representation is given as to its accuracy, and accordingly, the information contained herein should not be unduly relied upon. The information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong. Our Directors confirm that, after taking reasonable care, there is no material adverse change in the market information disclosed in this section since the date of the Frost & Sullivan Report.

OVERVIEW OF CHINA WOMEN’S HANDBAG MARKET

General classification

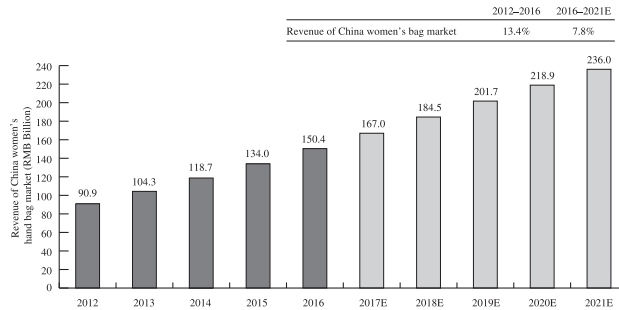
The women’s handbag market can generally be categorised into handbag and small leather good segments. Handbags include top handle bag, clutch bags, shoulder bags, tote bags, etc., while small leather goods include wallets, cosmetic bags, pouches, card holders, etc.. The women’s handbag market can also be classified in terms of retail price range in the PRC and the following table summarises the key features of each sub-sector.

	<u>Luxury</u>	<u>High-end</u>	<u>Middle-end</u>	<u>Low-end</u>
Suggested retail price range	Over RMB5,000 per unit.	Between RMB2,000 and RMB4,999.	Between RMB500 and RMB1,999.	Under RMB500.
Main market feature	Mainly comprised well established foreign luxury brands.	Mainly comprised foreign brands. These brands target at customers who pursue quality, design and brand.	Middle-end products are the mainstream in the PRC market. Their target market is freshwomen and white collar women who value cost performance, quality and design.	They usually do not have a certain brand and are sold through online platform. Major target customers are students who are sensitive to selling prices.
Major players	Hermes; Chanel; Dior etc..	Coach; Michael Kors; Tory Burch; Kate Spade etc..	ELLE; Dissona; Fion; Kipling; Jessie & Jane etc..	Viney; Micherr etc..

INDUSTRY OVERVIEW

Growth of China women's handbag market

Revenue of China women's handbag market (China), 2012–2021E



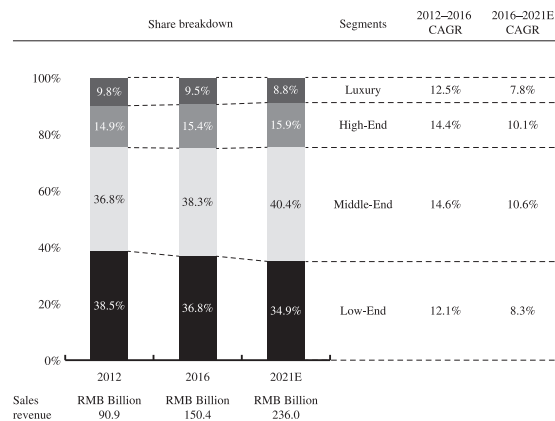
Source: Frost & Sullivan

In recent years, due to the increase of disposable income and purchasing power, China women's handbag market enjoyed a steady growth. The revenue of China women's handbag market increased from approximately RMB90.9 billion in 2012 to approximately RMB150.4 billion in 2016, at a CAGR of approximately 13.4%. The distribution channels of women's handbag in China traditionally include department stores, hypermarket & supermarket and specialty store retailing. With the proliferation of e-commerce in recent years, online retailing is established as an important alternative sales channel. In particular, it reaches and captures the consumer group in remote area such as second or third tier cities and counties where such physical retail points mentioned above does not have their presence.

In the future, China women's handbag market is estimated to grow at a CAGR of approximately 7.8% from 2016 to 2021. Moreover, the middle-end women's handbag market is likely to experience the fastest growth with a CAGR of approximately 10.6% from 2016 to 2021.

Market size and forecast of women's handbag market segment by price in China

Revenue breakdown of China women's handbag market (China), 2012, 2016 & 2021E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The chart above has illustrated certain degree of structural change within women's handbag market in China. Although low-end segment dominated in 2012, the middle-end surpassed its leading position in 2016, becoming the most significant sub-sector within the women's handbag market in China in 2016. It has also experienced a relatively higher growth rate at a CAGR of approximately 14.6% from 2012 to 2016. It is mainly attributed to the consumption upgrade as a result of the rise in the per capita income of Chinese residents, shifting spending pattern from cost awareness (i.e. price) to quality and design.

The high-end market also exhibited slightly lower growth rate at approximately 14.4% from 2012 to 2016. Through a series of advertising and promotion activities, these high-end brands were able to enlarge their market share along with such consumption upgrade for more affluent spending group. These two segments, middle-end and high-end, are expected to continue to foster in the near future.

COMPETITIVE LANDSCAPE OF THE CHINA WOMEN'S HANDBAG RETAIL MARKET

Market share and ranking of middle-end women's handbag retail market

The China women's handbag market is highly fragmented, with hundreds of different brands, ranging from the luxury-end to the low-end but no single or cluster of dominant players exist in the market.

Our Group's key market is the middle-end market. In 2016, the middle-end women's handbag market took the largest market share in the total China women's handbag market, with market share of approximately 38.3%. Moreover, the top five players only accounted approximately 1.87% of the total market share in terms of retail sales revenue.

The following table sets forth the ranking of major players in the middle-end China women's handbag retail market.

Market share of top 5 players in terms of retail sales revenue (China), 2016

<u>Ranking</u>	<u>Company</u>	<u>Market share</u> (%)
1	Company A	0.52%
2	Company B	0.51%
3	Our Group	0.36%
4	Company C	0.28%
5	Company D	0.20%
	Top 5 players in China	<u>1.87%</u>
	Others	<u>98.13%</u>

Total revenue of China middle-end women's bag market in 2016: RMB57.6 billion

Source: Frost & Sullivan

Main drivers of women's handbag retail market in China

Steady growth of China's economy and disposable income

Consumer spending power is believed to be the primary propelling force of the consumer product market. The PRC economy has maintained a solid growth rate for the past few years, with the nominal GDP achieving a CAGR of approximately 8.3% from 2012 to 2016, according to the National Bureau of Statistics of China. The per capita annual disposable income of urban households in China has also increased from approximately RMB24,565 in 2012 to approximately RMB33,616 in 2016, at a CAGR of approximately 8.2%, while the per capita annual net income of rural residents in China increased from approximately RMB8,391 in 2012 to approximately RMB12,363 in 2016, at a CAGR of approximately 10.2%.

Rising brand awareness of consumers

Due to the rise in purchasing power and living standard, Chinese female consumers prefer branded women's handbag over non-branded counterparts as they represent finer quality, aesthetic design, personal style and sense of decency. Brand owners with good reputation and image in this market thus are expected to experience a highly positive growth over the forecast period.

Increasing urbanisation rate

Consumption habits are gradually shifting to a city lifestyle as more of the population migrates from rural areas to cities. Urban households are more sensitive to fashion and style whilst paying more attention to brands, thus usually are willing to spend more on women's handbags. From 2012 to 2016, urbanisation rate of China increased by approximately 4.7%, from approximately 52.6% to approximately 57.3%.

Entry barriers

Capital investment

Substantial initial investment outlay is required to capitalise the image and infrastructure of a brand including hiring experienced talents, building up sales channels and brand promotion. Large amounts of capital are spent on brand promotion each year by brands of successful women's handbag.

Proper market positioning

Consumers of women's handbag have become more mature and rational. Brand reputation is no longer the only criteria as these customers have developed their own evaluation standard on choosing the style that fits their personality. Under these circumstances, brand positioning is crucial and also difficult for new entrants due to a lack of rich market experience.

Management skill over distributors and sales channel

As the overall positioning and control over various types of sales channel, including both direct sales and distribution sales, are crucial to the brand image of a start-up, skillful management over directly owned retail points along with the support and instruction given to retail points owned by distributors should all be mastered by new entrants in regards to decisions such as shop location and store layout.

INDUSTRY OVERVIEW

Relationship with suppliers

Having reliable suppliers that provide high quality raw materials, such as leather and fabric, at reasonable cost is essential for participants in the China women's handbag market. New entrants may face difficulties in building mutual trust partnerships with suppliers in short term.

Future outlook for women's handbag retail market

Further development in online sales channel

The China online women's handbag market has been going through a fast developing stage. However, its share of revenue is still just a small portion of the total China women's handbag market at only approximately 26.4% as of 2016. Online sales of women's handbag in China is expected to enjoy further development, and is predicted to take a share of approximately 42.3% of the total China women's handbag market in 2021.

Consumer concept becoming rational

In 2016, consumers preferred to choose high-end and luxury women's handbag, having a share of approximately 15.4% and 9.5% of the total China women's handbag market respectively. However, consumer concept in women's handbag will gradually become more rational and not blindly pursue handbags in the luxury category. Accordingly, middle-end women's handbag with reasonable price, high quality and good design will likely be popular among consumers.

Low innovative capabilities of local brands

China women's handbag market has entered into the second half of a quick growth stage. However, local handbag brand owners lack innovative design or clear product positioning, resulting in homogeneity in all kinds of bag product. Most local women's handbags often take reference from the design of leading foreign brands.

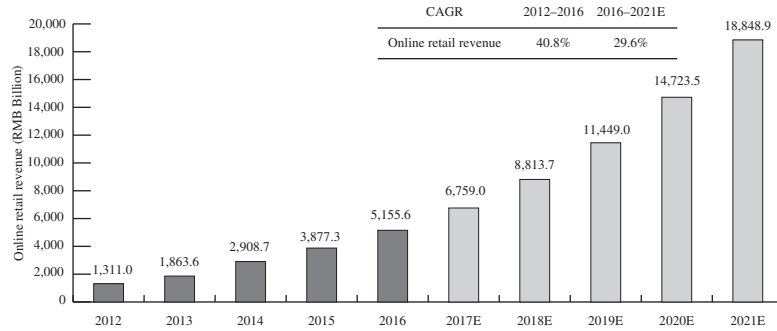
OVERVIEW OF THE PRC ONLINE WOMEN'S HANDBAG MARKET

Growth of China online women's handbag market

The combination of China's remarkable economic rise and internet revolution is transforming the retail landscape. With increasing penetration rate of online shoppers, improvement of technology and innovation of online services (including online transaction data services, financial services and logistics services), the Chinese online retail market size has grown from approximately RMB1,311.0 billion in 2012 to approximately RMB5,155.6 billion in 2016, at a CAGR of approximately 40.8% and is likely to have large potential for growth. In 2021, the total revenue of the Chinese online retail market is expected to reach approximately RMB18,848.9 billion at a CAGR of approximately 29.6% from 2016 to 2021.

INDUSTRY OVERVIEW

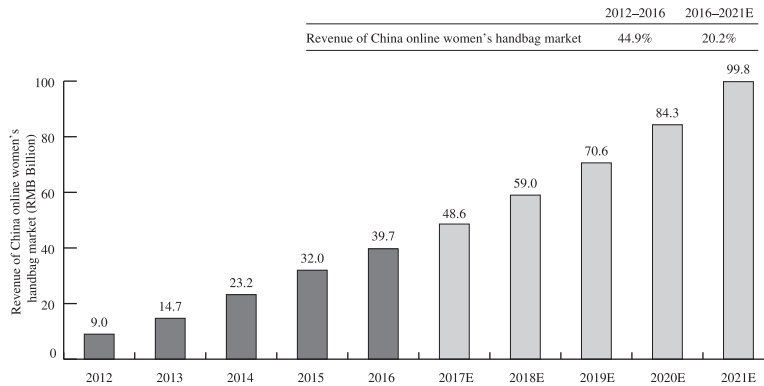
Total revenue of online retail market (China), 2012–2021E



Source: Frost & Sullivan

Along with such pace of development, the revenue of China online women’s handbag market increased from approximately RMB9.0 billion in 2012 to approximately RMB39.7 billion in 2016, at a CAGR of approximately 44.9%. Being a significant distribution channel, it accounted for approximately 20.2% of total China women’s handbag market in 2016. In the following five years, the China online women’s handbag market is estimated to grow at a CAGR of approximately 16.3%, reaching approximately RMB99.8 billion in 2021.

Revenue of China online women’s handbag market (China), 2012–2021E



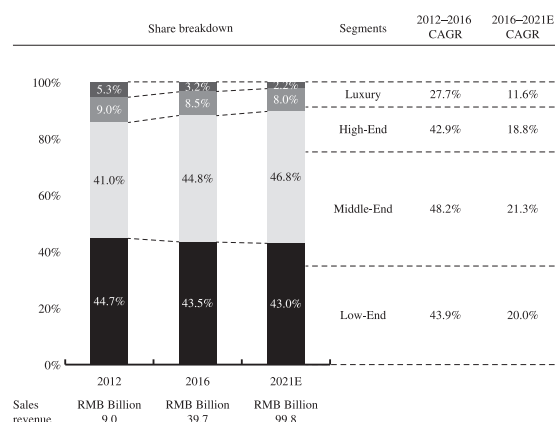
Source: Frost & Sullivan

Market size and forecast of online women’s handbag market segment by price in China

In recent years, brand owners of women’s handbag realise the importance of developing online sales channels. Consumers are now paying more attention to the brand of a handbag and its quality instead of price when online shopping, while leading online shopping platforms promote branded products to help mitigate problems such as counterfeits, poor quality etc.. Therefore, the online middle-end women’s handbag market has developed quickly, and was the predominant market segment in the overall market, accounting for approximately 44.8% of total sales revenue in 2016. It is estimated to grow at a CAGR of approximately 21.3% from 2016 to 2021, accounting for approximately 46.8% of the China online women’s handbag market in 2021.

INDUSTRY OVERVIEW

Revenue breakdown of China online women's handbag market (China), 2012, 2016 & 2021E



Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF THE CHINA ONLINE MIDDLE-END WOMEN'S HANDBAG MARKET

Market share and ranking of online middle-end women's handbag market

Middle-end women's handbags brand sell their products through multiple online platforms, such as T-mall, Taobao, JD.com etc.. Similar to the China women's handbag market, the middle-end segment also took the largest market share in the total China online women's handbag market, with a share of approximately 44.8%. The following table sets forth the ranking of major online middle-end China women's handbag brands.

Market share of top 5 players in terms of online retail sales revenue (China), 2016

Ranking	Company	Market Share (%)
1	Our Group	0.75%
2	Company A	0.41%
3	Company B	0.37%
4	Company C	0.32%
5	Company D	0.22%
Top 5 players in China		<u>2.07%</u>
Others		<u>97.93%</u>

Total revenue of China online middle-end women's handbag market in 2016: RMB17.8 Billion

Source: Frost & Sullivan

Main drivers for the online women's handbag market in China

Growing influence of China's younger generation

China's younger generation is becoming a leading consumer group of women's handbag. Compared to older generations, this group of people is generally well educated and tech-savvy, and is used to purchasing online. Due to their busier lifestyle, they increasingly seek "shopping convenience" where they can shop anytime, anywhere and any way via desktops or mobile devices.

Booming mobile commerce and social media

The rising popularity of mobile devices has changed the way people shop. The mobile platform is now a highly popular sales and marketing channel for most players in the online women's handbag market. According to the China Internet Network Information Center, the number of mobile commerce users reached approximately 440.93 million in 2016, accounting for approximately 63.4% of China total mobile phone users. Meanwhile, social media is also having an explosive impact on consumer purchasing decisions in women's handbag. It is able to increase the conversion rate and encourage more consumers to make purchases of women's handbag.

Virtual shop is an alternative showcase for remote area

Development of physical sales network in China is capital intensive. Given the ease of access to internet nowadays, brand owners can achieve a greater degree of consumer penetration through setting up virtual shops in different social platforms. These virtual shops is a relatively low cost solution to establish more extensive consumer reach, enabling them not only to capture busy shoppers as mentioned above but also consumers in remote area with no physical retail point presence in their neighbourhood.

Entry barriers

Market competition

In recent years, new entrants have entered into the China online women's handbag market, especially in the middle-end segment. Early entrants have built up good brand image and have established a large product portfolio.

Differentiation of product

Most participants in the online women's handbag market face the issue of product homogenisation. Therefore, good design capability and market experience are essential for product differentiation.

Sales network and customer base

Key players in the online women's handbag market have already established stable relationships with different leading online sales platforms. Moreover, they have also accumulated certain number of target consumers to guarantee their sales. It is difficult for new entrants to set up their own sales network and develop their own customer base.

INDUSTRY OVERVIEW

Future outlook for online women's handbag market

Development of e-business

Due to the increase in operating costs, thereby driving up offline retail prices, together with the increase in convenience and enhancement of online security have seen a wider adoption of online purchases by consumers. In addition, third party logistics have greatly improved work efficiency for online platforms.

Growing investment of brand owners in online channels

In recent years, reputable brand owners have either built their own online retail points or have set up flagship stores in leading online shopping platforms. These players will likely increase investments in social media advertising, product design capability, improve their logistics system and after sales service systems, which in turn will further establish their brand image so as to keep their leading position in the market.

Emerging of middle-end sector

Due to problems such as counterfeit and poor quality products in the low-end segment of online women's handbag market, together with the increase in disposable income, the middle-end segment of online women's handbag market is projected to develop rapidly.

RAW MATERIALS OF CHINA WOMEN'S HANDBAG MARKET

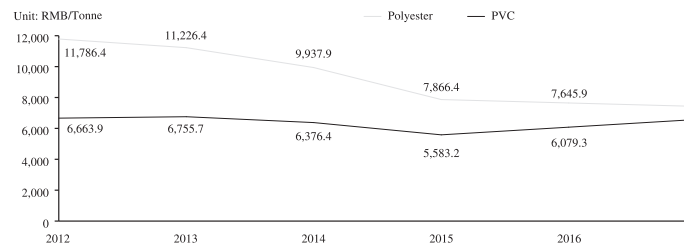
Major raw materials used in the manufacturing of handbags include yellow cattle leather, polyester and PVC. The following charts show the price trends of leather, polyester and PVC in China from 2012 to 2016.

Price trend of yellow cattle leather (China), 2012–2016



Source: Frost & Sullivan

Price trend of polyester and PVC (China), 2012–2016



Source: Frost & Sullivan

INDUSTRY OVERVIEW

The price for polyester declined considerably from 2012 to 2016 because the price of the underlying raw material for polyester, namely petroleum, also decreased during the same period, while the price for PVC also followed similar movement of polyester but with lesser degree of fluctuation. However, the price for leather has been rising steadily over the same period mainly due to the increase with the cost of dealing with environmental protection issue in the leather manufacturing process.

SOURCE OF INFORMATION

Industry report from Frost & Sullivan

In connection with Listing, we have commissioned Frost & Sullivan, an Independent Third Party, to conduct a research on the online and offline women's handbag retail markets in the PRC and to prepare the Frost & Sullivan Report at a total fee of RMB350,000. Founded in 1961, Frost & Sullivan is a research institute providing industry research and market strategies in various industries.

Methodology

The Frost & Sullivan Report includes both historical and forecast information relating to the women's handbag retail markets in the PRC and other relevant economic data. Frost & Sullivan has relied on a variety of industry sources in determining its market data, including but not limited to, industry databases, interviews with market participants, publicly available statistics, publicly released corporate information and the expertise of Frost & Sullivan industry analysts. Based on the following reasons, Frost & Sullivan considers the above sources of information and data to be reliable.

Assumptions and parameters

The market projections in the commissioned report are based on the following key assumptions: (i) China's economy and industry development is likely to maintain steady growth over the next decade; (ii) related key industry drivers, such as the increasing urbanisation rate and disposable income, and the prosperous economic development, are likely to drive the growth of China's online and offline women's handbag market during the forecast period; and (iii) there is no extreme force majeure or industry regulation by which the market may be affected dramatically or fundamentally.

All statistics are reliable and are based on information available as of the date of the Frost & Sullivan Report. Other sources of information, including government, trade associations or marketplace participants, may have provided some of the information on which the analysis or data is based.

REGULATORY OVERVIEW

REGULATORY REQUIREMENTS IN THE PRC

This section sets forth a summary of the most significant laws and regulations that affect our business in China. Information contained in this section should not be construed as a comprehensive summary of laws and regulations applicable to us.

ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE

The establishment, operation and management of corporate entities in China are governed by the PRC Company Law (《中華人民共和國公司法》) (the “**Company Law**”), which was promulgated by the National People’s Congress (the “**NPC**”) Standing Committee on 29 December 1993 and became effective on 1 July 1994. It was subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively. The companies are classified into two categories — limited liability companies and limited companies by shares. The Company Law shall also apply to foreign-invested limited liability companies. According to the Company Law, where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirement, foreign exchange, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》) (the “**Wholly Foreign-owned Enterprise Law**”), which was promulgated on 12 April 1986, amended on 31 October 2000 and 3 September 2016, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990, amended on 12 April 2001 and 19 February 2014.

According to the Provisions on Guiding the Orientation of Foreign Investment (Order No. 346 of the State Council) (《指導外商投資方向規定》) (國務院令[2002]第346號) (the “**Foreign Investment Orientation Provision**”), which were promulgated by the State Council on 11 February 2002 and came into effect on 1 April 2002, projects with foreign investment are divided into four categories, namely encouraged, permitted, restricted and prohibited. The encouraged, restricted and prohibited projects with foreign investment are listed in the Catalogue of Industries for Guiding Foreign Investment (2015 version) (《外商投資產業指導目錄(2015年修訂)》) (the “**Catalogue (2015 version)**”), which was jointly amended by National Development and Reform Commission of the PRC (國家發展和改革委員會) (the “**NDRC**”) and the Ministry of Commerce of the PRC (the “**MOFCOM**”) on 10 March 2015 and came into effect on 10 April 2015. The Catalogue (2015 version) has been replaced by the Catalogue of Industries for Guiding Foreign Investment (2017 version) (《外商投資產業指導目錄(2017年修訂)》), which was promulgated on 28 June 2017 and came into effect on 28 July 2017. Our industry is permitted, which is not included in the two catalogues.

LAWS AND REGULATIONS RELATING TO THE RETAIL INDUSTRY

Supervision of the retail industry

The Administrative Measures for Fair Transactions between Retails and Suppliers (《零售商供應商公平交易管理辦法》) jointly promulgated by the NDRC, the MOFCOM, the Ministry of Public Security, the State Administration of Industry and Commerce (國家工商行政管理總局) (the “SAIC”) and the State Administration of Taxation (國家稅務總局) (the “SAT”) on 13 October 2006, and became effective on 15 November 2006, provide the code of business conduct, collection of charges, payment of purchases, return policies and punishments between retailers and suppliers during the transactions.

The Measures for Administration on Sales Promotion Acts of retailers (《零售商促銷行為管理辦法》) jointly promulgated by the MOFCOM, the NDRC, the Ministry of Public Security, the SAT, the SAIC of the PRC on 12 September 2006, and became effective on 15 October 2006, provide the standards and requirements of retailer’s sales promotion and advertisement.

Regulations relating to the PRC online trading

In accordance with the Administration Measures for Online Trading promulgated by the SAIC which came into effect on 15 March 2014 (《網絡交易管理辦法》) (the “Measures”), any business activity of selling goods or providing through the Internet (including mobile Internet) services and other relevant services within the PRC shall abide by the laws and regulations of the PRC and the provisions of the Measures. The relevant services refers to profitable services provided for online product transactions, including, among others, third party transaction platform, publicity and promotion, credit rating, payment and settlement, logistics, courier services, Internet access, sever hosting, virtual space rental, and website and webpage design.

Operators engaging in online goods trading and related services (“Online Goods Operators”) are required to make an industrial and commercial registration in accordance with laws. In selling goods or providing services to consumers, Online Goods Operators must observe the PRC Law on the Protection of the Consumer Rights and Interests 《中華人民共和國消費者權益保護法》(the “Consumer Protection Law”), the PRC Product Quality Law 《中華人民共和國產品質量法》(the “Product Quality Law”), and provisions of other laws, regulations and rules. Online Goods Operators must not infringe other operator’s lawful rights and interests by unfair competition, disturb social and economic order, or engage in any of the following unfair competition activities by using internet technology, media or other means:

- (1) using unique domain name, name and/or logo of famous website without authorisation or using any domain name, name and/or logo that are analogous to those of a famous website and confusing with other famous website, and cause mistakes by consumers;
- (2) using or forging electronic sign or logo of governmental authorities or social organisation without authorisation, creating misleading and false publicity;

REGULATORY OVERVIEW

- (3) conducting sales which carry a chance to win a lottery with any virtual goods as the prize, and the value of such virtual goods agreed on the network market exceeds the maximum amount permitted by laws;
- (4) improving business reputation or credit standing (either for itself or for others) through fictitious transactions, removing negative comments or otherwise;
- (5) damaging competitor's business reputation or credit standing through malicious comments contrary to the facts after conclusion of a transaction; and
- (6) other unfair competition activities as defined by laws and regulations.

According to the Measures, when selling goods or providing services to consumers, Online Goods Operators must state information such as the business address, contract information, quantity and quality, price or expense, performance period and means, payment method and return or placement method of goods or services, safety precautions, risk warning, civil liabilities and so on. The Online Goods Operators must also take safety guarantee measures to ensure the safety of transactions and must provide such goods or services as promised.

PRODUCT QUALITY

The principal law governing product liability is the Product Quality Law, which was promulgated on 22 February 1993, amended on 8 July 2000 and 27 August, 2009. Pursuant to the Product Quality Law, a seller shall have the following obligations:

- (1) a check-for-acceptance system for stock replenishment shall be adopted to examine the quality certificates and other labels of such stock;
- (2) measures shall be adopted to keep products for sale in good quality;
- (3) lose-effect and defective or deteriorated products shall not be sold;
- (4) products must be sold with labels that comply with the relevant provisions;
- (5) must not forge the origin of a product or falsely use the name and address of another producer;
- (6) must not forge or falsely use another producer's authentication marks, marks of famous/premium brand names or other product quality marks; and
- (7) must not mix impurities or imitations into products, substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the sale of products.

REGULATORY OVERVIEW

Violations of the Product Quality Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business licence may be revoked. Criminal liability may be incurred in serious cases.

According to the Product Quality Law, consumers or other victims who suffer injury or property losses due to product defects may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

LAWS AND REGULATIONS RELATING TO PRODUCT LIABILITIES

Pursuant to the General Principles of the Civil Law of the PRC (《中華人民共和國民法通則》), which was promulgated by the NPC of the PRC on 12 April 1986 and became effective on 1 January 1987 and amended on 27 August 2009, both manufacturers and distributors shall be held jointly liable for losses and damage suffered by consumers caused by the defective products they manufacture and/or distribute.

The Tort Liability Law of the PRC (《中華人民共和國侵權責任法》), which was promulgated by the Standing Committee of the NPC (“SCNPC”) on 26 December 2009 and became effective on 1 July 2010, further provides that where a defective product causes damage or physical injury to any person, the victim may claim compensation from either the manufacturer or the seller. If the defect of the product is caused by the manufacturer, and the seller has made the compensation for such defect, the seller should be entitled to claim reimbursement from the manufacturer, and vice versa.

CONSUMER PROTECTION LAW

The Consumer Protection Law, adopted on 31 October 1993 by the SCNPC and effective on 1 January 1994, and was amended on 27 August 2009 and 25 October 2013, sets out standards of behaviour which business operators must observe during their dealings with consumers, including the following:

- (1) goods and services must comply with the PRC Product Quality Law and other relevant laws and regulations, including requirements regarding personal safety and protection of property;
- (2) to provide consumers with true information and advertisement concerning goods and services, and to provide true and clear answers to questions raised by consumers concerning the quality and use of goods or services provided by them;
- (3) to issue purchase or service vouchers to consumers in accordance with relevant national regulations or business practices or upon request of a consumer;

REGULATORY OVERVIEW

- (4) to ensure the quality, functionality, applications and duration of use of the goods or services under normal use and to ensure that the actual quality of the goods or services are consistent with that displayed in advertising materials, product descriptions or samples;
- (5) to properly perform responsibilities for guaranteed repair, replacement and return or other liabilities in accordance with national regulations or any agreement with the consumer; and
- (6) not to set unreasonable or unfair terms for consumers, or exclude themselves from civil liabilities for undermining the legal rights and interests of consumers by means such as standard contracts, circulars, announcements and shop notices.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator will be ordered to suspend its operations and its business licence will be revoked. Criminal liability may be incurred in serious cases.

According to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced during the purchase or use of goods may demand compensation from the seller. Where the responsibility lies with the manufacturer or another seller that provides the goods to the seller, the seller shall, after settling compensation, have the right to recover such compensation from that manufacturer or that other seller. Consumers or other injured parties who suffer injury or property losses due to product defects in commodities may demand compensation from the manufacturer as well as the seller. Where the responsibility lies with the manufacturer, the seller, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

COMPETITION LAW

Pursuant to the PRC Anti-Unfair Competition Law (《中華人民共和國反不正當競爭法》) (the “**Anti-Unfair Competition Law**”) promulgated on 2 September 1993 and amended on 4 November 2017, which will come into effect on 1 January 2018, business operators may not engage in the following improper market activities to undermine their competitors:

- (1) infringement of confidential business information;
- (2) false publicity through advertising or other means, or forgery and dissemination of false information that infringes upon the goodwill of competitors or the reputation of their products; and
- (3) other improper practices, including commercial bribery, impeding or disrupting the normal operation of online products or services legally provided by another business operator by taking advantage of technical means to influence users’ choices or otherwise.

Violations of the Anti-Unfair Competition Law may result in the imposition of fines and, in serious cases, revocation of its business licence as well as incurrence of criminal liability.

LABOUR LAW

Pursuant to the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the Implementation Rules of the PRC Labour Contract Law (《中華人民共和國勞動合同法實施條例》), the Work-related Injury Insurance Regulations (《工傷保險條例》), the PRC Social Security Law (《中華人民共和國社會保險法》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Interim Regulations on the Collection and Payment of Social Insurance Fees (《社會保險費徵繳暫行條例》) and the Regulations on Management of Housing Provident Fund (《住房公積金管理條例》), Decisions of the State Council on Modifying the Basic Endowment Insurance System for Enterprise Employees (《國務院關於完善企業職工基本養老保險制度的決定》) issued by State Council with effect from 3 December 2005, Decision of the State Council on Establishment of Basic Medical System for Urban Employee (《國務院關於建立城鎮職工基本醫療保險制度的決定》) issued by State Council with effect from 14 December 1998, the Regulations on Unemployment Insurance (《失業保險條例》) effective from 22 January 1999, and the Interim Measures concerning the Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》) promulgated on 14 December 1994 with effect from 1 January 1995, employers must enter into written labour contracts with employees in order to establish employment relationship. Employers must compensate their employees with wages in an amount equal to or above the local minimum wage standards, establish a labour safety and workplace sanitation system, strictly comply with state rules and standards and provide employees with appropriate training on workplace safety. Violations of the PRC Labour Contract Law and the PRC Labour Law may result in imposition of fines and other administrative liabilities and incur criminal liabilities in the case of serious violations. Employers are required to register with the competent social insurance authorities and provide their employees with welfare schemes covering pension insurance, unemployment insurances, maternity insurance, work-related injury insurance and medical insurance.

INTELLECTUAL PROPERTY

Trademark Law

In accordance with the PRC Trademark Law (《中華人民共和國商標法》) promulgated on 23 August 1982, as newly amended by the SCNPC on 30 August 2013 and effective on 1 May 2014, the Trademark Office of the administrative department for industry and commerce under the State Council shall be responsible for the registration and administration of trademarks in China. The administrative department for industry and commerce under the State Council has established a Trademark Review and Adjudication Board to be responsible for handling trademark disputes. Any individual, legal person or other entity that needs to acquire the right to the exclusive use of a trademark for the commodities produced, manufactured, processed, selected or marketed shall apply to the Trademark Office for trademark registration.

China has adopted a “first-to-file” principle with respect to trademarks. If two or more applicants apply for the registration of identical or similar trademarks for the same or similar goods, the preliminary approval and the announcement shall be made for the trademark that is first filed.

REGULATORY OVERVIEW

For applications that are filed on the same day, the preliminary approval, and the announcement shall be made for the trademark that is filed the earliest, and the applications of the others shall be refused without announcement.

The period of validity of a registered trademark shall be 10 years, starting from the day that the registration is approved. When it is necessary to continue using the registered trademark upon expiration of the valid period, an application for renewal shall be made within 12 months before the expiration. If such application cannot be filed within that period, an extension period of 6 months may be granted. The period of validity for each renewal of registration shall be 10 years as of the next day of the previous period of validity. If the formalities for renewal have not been handled upon expiration of extension period, the registered trademarks will be deregistered.

Our Group uses trade marks related to our licensed brand ELLE, which is duly authorised by the licence agreement with Hachette Filipacchi Presse, S.A., owner of the trade mark ELLE, and other trade marks are owned by our Group, including trade marks related to our own brand Jessie & Jane.

Domain name

Internet domain name registration and related matters are primarily regulated by the Implementing Rules of Domain Name Registration (《中國互聯網絡信息中心域名註冊實施細則》) issued by China Internet Network Information Center (中國互聯網絡信息中心) (the “CINIC”) which became effective on 29 May 2012, the Administrative Measures on Internet Domain Names (《互聯網絡域名管理辦法》) issued by Ministry of Industry and Information Technology (中華人民共和國工業和信息化部) on 24 August 2017 and coming into effect on 1 November 2017 and the Measures on Country Top-Level Domain Name Disputes Resolution issued by CINIC (《中國互聯網絡信息中心國家頂級域名爭議解決辦法》) issued by CINIC with effect from 21 November 2014. Domain name registrations are handled through domain name service agencies established under the relevant regulations, and the applicants become domain name holders upon successful registration. Domain name dispute shall be accepted and solved by the dispute resolution institution as verified by CINIC.

SUPERVISION AND ADMINISTRATION OVER FOREIGN EXCHANGE

According to the Regulations on the Control of Foreign Exchange (《中華人民共和國外匯管理條例》), which was promulgated by the State Council on 29 January 1996, came into effect on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008, foreign exchange receipts of domestic institutions or individuals may be transferred to the PRC or deposited abroad; the conditions for transfer to the PRC or overseas deposit, time limit and other details will be specified by the foreign exchange control department of the State Council. Foreign exchange receipts for current account transactions may be retained or sold to financial institutions engaging in the settlement of foreign exchange in accordance with relevant regulations. Domestic institutions or individuals that make direct investments abroad or are engaging in the overseas distribution or trade of valuable securities or derivative products should register according to the provisions of the foreign exchange control department of the State Council. Relevant institutions or individuals

REGULATORY OVERVIEW

should submit relevant documentation for examination and approval or for record-filing prior to foreign exchange registration, if they are required to file with, or receive approval from, the competent administration departments in advance as required by the State. The exchange rate for RMB follows a managed floating exchange rate system based on market demand and supply.

According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (SAFE Circular No. 13) (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》(匯發[2015]13號)), which was promulgated by State Administration of Foreign Exchange on 13 February 2015 and came into effect on 1 June 2015, the Administrative Examination and Approval Procedures relating to the Foreign Exchange Registration Approval under Overseas Direct Investment were cancelled. The foreign exchange registration under overseas direct investment will be directly reviewed and handled by banks in accordance with the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies and the Guidelines for Direct Investment-related Foreign Exchange Business, and the SAFE and its branches shall perform indirect regulation over the direct investment-related foreign exchange registration via banks.

SAFE Circular No. 19

Circular of the State Administration of Foreign Exchange on Reforming the Management Approach regarding the Settlement of Foreign Exchange Capital of Foreign-invested Enterprises (SAFE Circular No. 19) (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》(匯發[2015]19號)) was promulgated on 30 March 2015 and became effective on 1 June 2015.

Discretionary settlement of foreign exchange capital of foreign-invested companies means that foreign exchange capital in the capital account of foreign-invested companies, whose rights and interests of monetary contribution have been confirmed by the local foreign exchange bureau (or book-entry registration through the banks), can be settled at the banks based on the actual operating needs of the companies. The proportion of discretionary settlement of foreign exchange capital for foreign-invested companies is temporarily set at 100%.

Capital by foreign-invested companies should only be used for legitimate operating needs within the business scope. The capital of foreign-invested companies and capital denominated in RMB obtained through foreign exchange settlement should not be used for the following purposes:

- (1) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by national laws and regulations;
- (2) directly or indirectly used for investment in securities unless otherwise provided by laws and regulations;

REGULATORY OVERVIEW

- (3) directly or indirectly used for granting the entrust loans denominated in RMB (unless permitted by the scope of business), repaying the inter-enterprise borrowings (including advances by third party) or repaying the bank loans denominated in RMB that have been sub-lent to third party; and
- (4) paying the expenses related to the purchase of real estate not for self-use, except for the foreign-invested real estate enterprises.

SAFE Circular No. 16

Circular of the State Administration of Foreign Exchange on Reforming and Regulating Policies on the Control over Foreign Exchange Settlement of Capital Accounts (SAFE Circular No. 16) 《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》(匯發[2016]16號)) was promulgated and became effective on 9 June 2016.

Discretionary settlement of foreign exchange receipts under capital accounts refers to the case in which the foreign exchange receipts under capital accounts (including foreign exchange capital, foreign debts, and repatriated funds raised through overseas listing) are subject to discretionary settlement as expressly prescribed in the relevant policies may be settled with banks according to the actual need of domestic institutions for business operations. The proportion of foreign exchange receipts under capital accounts is temporarily set at 100%.

Foreign exchange receipts under capital accounts of a domestic institution and the RMB funds obtained thereby from foreign exchange settlement should not be used for the following purposes:

- (1) directly or indirectly used for expenditure beyond the enterprise's business scope or expenditure prohibited by laws and regulations of the State;
- (2) directly or indirectly used for investments in securities or other investments than banks' principal-secured products;
- (3) used for the granting of loans to non-affiliated enterprises, except where it is expressly permitted in the business licence; and
- (4) used for the construction or purchase of real estate for purposes other than self-use (except for real estate enterprises).

Where any previous provision under SAFE Circular No. 19 is in conflict with SAFE Circular No. 16, the SAFE Circular No. 16 shall prevail.

TAX

Enterprise Income Tax

According 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 the NPC on 16 March 2007 and came into effect on 1 January 2008 and amended on 24 February 2017, and the PRC Implementing Regulations of the Law on Enterprise Income Tax (《中華人民共和國企業所得稅法實施條例》) (the “**Implementation Regulations of EIT Law**”), which was promulgated by the State Council on 6 December 2007 and came into effect on 1 January 2008, a uniform income tax rate of 25% applies to all PRC companies, foreign-invested companies and foreign companies which have established “de facto management bodies” in the PRC or whose income is related to their production and operation facilities established in the PRC. These companies are classified as either resident companies or non-resident companies. Under the EIT Law, enterprises established under the laws of foreign countries or regions and whose “de facto management bodies” are located within the PRC are considered as “resident enterprises” and thus will generally be subject to enterprise income tax at the rate of 25% on their global income. Also, the Implementation Regulations of EIT Law defines the term “de facto management bodies” as “bodies that substantially carry out comprehensive management and control on the business operation, employees, accounts and assets of enterprises”.

According to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (《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》), which was promulgated by the State Administration of Taxation (the “**SAT**”) on 21 August 2006, came into effect on 21 August 2006 and applied to the income derived on or after 1 January 2007 in the case of mainland China and newly amended on 1 April 2015, and the Circular of the SAT on Relevant Issues Relating to the implementation of Dividend Clauses in Tax Treaty (Guo Shui Han [2009] No. 81) (《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》(國稅函[2009]81號)) issued by SAT on 20 February 2009, a company incorporated in Hong Kong will be subject to withholding tax at the lower rate of 5% on dividends it receives from a company established in the PRC if it holds directly a 25% interest or more in the PRC company at any time within 12 months prior to the receipt of the dividends. According to the Notice on the Understanding and Identification of the Beneficial Owners in the Tax Treaty (Guo Shui Han [2009] No. 601) (《關於如何理解和認定稅收協定中“受益所有人”的通知》) (國稅函[2009]601號), which was promulgated by SAT and became effective on 27 October, 2009, a beneficial ownership analysis will be used based on a substance-over-form principle to determine whether or not to grant tax treaty benefits.

Value-added Tax

Pursuant to the PRC Provisional Regulations on Value-added Tax (the “**VAT Regulations**”) (《中華人民共和國增值稅暫行條例》) which became effective from 1 January 1994 and was newly amended on 19 November 2017 and its implementation rules, (《中華人民共和國增值稅暫行條例實施細則》) amended by the MOF and the SAT on 15 December 2008 and 28 October 2011 respectively. Entities and individuals selling goods and providing processing, repairs or

REGULATORY OVERVIEW

maintenance services in China, or importing goods in China, shall be identified as taxpayers of value-added tax (“VAT”), and shall pay value-added tax under the VAT Regulations. VAT payable is calculated as “output VAT” minus “input VAT”. The general rate of VAT for sales of goods is 17%, unless otherwise stipulated, depending on the product type. The rate of VAT for goods exported by a taxpayer is 0, unless otherwise stipulated by the State Council.

Our operations in the PRC are subject to the abovementioned laws and regulations in the PRC.

REGULATORY REQUIREMENTS IN HONG KONG

This part sets out summaries of certain aspects of Hong Kong laws and regulations which are relevant to our Group’s operation and business.

Intellectual property

Trade Marks Ordinance

The Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) makes provision in respect of the registration of trade marks and provides for connected matters.

It provides that a person infringes a registered trade mark if he uses in the course of trade or business a sign which is:

- (a) identical to the registered trade mark in relation to goods or services which are identical to those for which it is registered;
- (b) identical to the registered trade mark in relation to goods or services which are similar to those for which it is registered and such use is likely to cause confusion on the part of the public;
- (c) similar to the registered trade mark in relation to goods or services which are identical to or similar to those for which it is registered and such use is likely to cause confusion on the part of the public; or
- (d) identical or similar to the registered trade mark in relation to goods or services which are not identical or similar to those for which the trademark is registered, and the trade mark is entitled to protection under the Paris Convention as a well-known trade mark, and such use, being without due cause, takes unfair advantage of or is detrimental to the distinctive character or repute of a trade mark.

Under the Trade Marks Ordinance, the owner of a trade mark may bring infringement proceedings against the infringer for damages, injunction, accounts or any other relief available in law.

REGULATORY OVERVIEW

Our Group uses only trade marks related to our licensed brand ELLE, which is duly authorised by the licence agreement with Hachette Filipacchi Presse, S.A., owner of the trademark “ELLE”, and the trade marks that are owned by our Group.

Copyright Ordinance

The Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) makes provisions in respect of copyright and related rights and for connected purposes.

It provides that the copyright owner has the exclusive right to, among other things, copy the work and to issue, rent and make available copies of the work to the public.

Those acts if carried out by anyone without the licence of the copyright owner constitute primary infringement of the copyright.

The following acts, among other things, if done without the licence of the copyright owner, would constitute secondary infringement:

- (a) imports into Hong Kong or exports from Hong Kong, otherwise than for his private and domestic use, a copy of the work which is, and which he knows or has reason to believe to be, an infringing copy of the work; and
- (b) possesses for the purpose of or in the course of any trade or business, sells or lets for hire or offers or exposes for sale or hire, exhibits in public or distributes for the purpose of or in the course of any trade or business, or distributes (otherwise than for the purpose of or in the course of any trade or business) to such an extent as to affect prejudicially the owner of the copy right, a copy of the work which is, and which he knows or has reason to believe to be, an infringing copy of the work.

Infringement of copyright is actionable through civil litigation

Further, under s.118(1) of the Copyright Ordinance, a person commits an offence if he, without the consent of the copyright owner of a copyright work, among other things, makes for sale, or hire an infringing copy of the work, or importing into Hong Kong or exporting from Hong Kong an infringing copy of the work otherwise than for his private and domestic use, or possesses an infringing copy of the work with a view to its being, among other things, sold or let for hire by any person for the purpose of or in the course of that trade or business.

A person who contravenes s.118(1) of the Copyright Ordinance shall be guilty of an offence and shall be liable to a fine of HK\$50,000 and to imprisonment for four years.

Products of our Group are designed by our designers as original works. Our Directors confirm that they do not have any actual knowledge nor have any reason to believe that any design of our Group is an infringing copy of any work within the meaning of the Copyright Ordinance.

REGULATORY OVERVIEW

Consumer protection

Under the Trade Description Ordinance (Chapter 362 of the Laws of Hong Kong), it is an offence for any person:

- (a) to apply a false trade description to any goods, or supply or offer to supply any goods to which a false trade description is applied, or have in his possession for sale or any purpose of trade or manufacture any goods to which a false trade description is applied;
- (b) to forge any trade mark or falsely apply to any goods any trade mark or any mark so nearly resembling a trade mark as to be calculated to deceive commits an offence unless he proves that he acted without intent to defraud; or
- (c) to engage in relation to a consumer in a commercial practice that is a misleading omission, is aggressive, constitutes bait advertising, constitutes a bait and switch, or constitutes wrongly accepting payment for a product.

The maximum penalty of such offence is on conviction on indictment, a fine of HK\$500,000 and imprisonment for five years and, on summary conviction, a fine of HK\$100,000 and imprisonment for two years.

Employment

Employees' Compensation Ordinance

The Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) provides that an employer is liable for any personal injury by accident arising out of and in the course of the employment to the employee in accordance with such Ordinance.

It further provides that no employer shall employ any employee in the any employment unless there is in force in relation to such employee a policy of insurance issued by an insurer for more than the specified amount in respect of the liability of the employer.

It is an offence if there is no or insufficient insurance coverage for the employees. The maximum penalty is, on conviction on indictment, a fine of HK\$100,000 and imprisonment for two years and, on summary conviction, a fine of HK\$100,000 and imprisonment for one year.

An employer is also required to display in a conspicuous place a notice of insurance on each of its premises where any employee is employed. Failure to do so is an offence with a maximum penalty of a fine of HK\$10,000.

REGULATORY OVERVIEW

Mandatory Provident Fund Schemes Ordinance

Under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), employers must take all practicable steps to ensure that their employee who are at least 18 but under 65 years of age and employed for 60 days or more become members of a registered scheme (except for certain exempt persons) within the first 60 days of employment.

Failure to do so without reasonable excuse is an offence and the maximum penalty is a fine of HK\$350,000 and imprisonment for three years, and a daily penalty of HK\$500 after the permitted period.

It is also mandatory for employers to make mandatory contributions to the mandatory provident fund scheme. Subject to the maximum and minimum levels of income, an employer shall deduct 5% of the employee's income as contribution to the scheme.

Occupational Safety and Health Ordinance

The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) provides for the safety and health protection to employees.

Under such Ordinance, every employer must, so far as reasonably practicable, ensure the safety and health at work of all the employer's employees, including to:

- (a) provide or maintain plant and systems of work that are safe and without risks to health;
- (b) make arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- (c) provide such information, instructions, training and supervision as may be necessary to ensure the safety and health at work of the employees;
- (d) maintain a workplace, which is under the employer's control, in a condition that is safe and without risks to health;
- (e) provide or maintain means of access to and egress from a workplace, which is under the employer's control, that are safe and without risks to health; and
- (f) provide or maintain a working environment for the employees that is safe and without risks to health.

Failure to comply with the requirements is an offence. If the offence is committed intentionally, knowingly or recklessly, the maximum penalty is a fine of HK\$200,000 and imprisonment for six months, and in other cases, a fine of HK\$200,000.

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Minimum Wage Ordinance

The minimum hourly wage rate for an employee is provided in section 9 of and Schedule 3 to the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), which is currently HK\$34.5.

BUSINESS DEVELOPMENT OF OUR GROUP

Our Group was founded in 1999 when the Yau Family, together with Mr. Brian Lee and his then business partners, set up Sling Incorp with a view to develop the middle-end women's handbags' industry business with our initial business positioning as an asset-light operation focusing on sourcing and sale of products to end-users.

In 2005, Senhao Shanghai, our operating subsidiary in the PRC, was set up. In the next year, we saw the business opportunity of obtaining the licence of "ELLE" brand for our business and began discussion with Hachette Filipacchi Presse, S.A., the licensor of "ELLE", regarding the licence of "ELLE" and its associated brands in the PRC. In January 2006, we successfully entered into the licence agreement regarding (i) the manufacture, distribution and sale of women's handbags, wallets, name card holders, key holders, purses, ticket holders, shopping bags and women's belts (the "**Products**") under the ELLE brand; and (ii) the operation of ELLE boutiques for the Products in the PRC. Since then, we have begun the designing of women's handbags, small leather goods and travel goods for sale under the ELLE brand in the PRC. Since 2010, the licensor has further licensed us with the right to manufacture, distribute, sell and operate ELLE boutiques for women's hard and soft luggage, travel bags, garment bags, luggage carts, luggage belts, attaché cases, waist pouches and toiletry bags in the ELLE brand, in addition to the Products.

With the proliferation of e-commerce in recent years, online retailing is established as an important alternative sales channel. In 2010, we commenced our sale of ELLE products on an e-commerce platform in the PRC and online sales has gradually become our key revenue driver since then.

As China's younger generation is becoming a leading consumer group of women's handbag in the PRC, management of our Group envisaged that our market share in the women's handbag market in the PRC could be expanded through selling handbags and wallets to younger generation. Before the brand was acquired by us in 2014, the "Jessie & Jane" brand had been an e-commerce focused brand, products of which had been available for sale on e-commerce platforms. Given (i) Jessie & Jane's contemporary style products; and (ii) its focus on e-commerce platform, both of which appeal to the younger generation, we believe the brand could have a good prospect in the women's handbag market in the PRC in the future. As the positioning of the brand is also in line with our business strategy to expand our customer base to younger generation in the PRC, we believe the brand could compliment our business development. In April 2014, we entered into an agreement to acquire the brand "Jessie & Jane" and products from an Independent Third Party, of which Ms. Jiang Ying, our design director, was one of its employees. Since then, we have also been designing and selling women's handbags, wallets, name card holders, key holders, purses, ticket holders and shoes under the Jessie & Jane through both online and offline retailing, and wholesaling in the PRC.

As at the Latest Practicable Date, we developed and established our business as design and sale of women's handbags, small leather goods and travel goods focusing on elegant, chic and classic styles in the PRC.

HISTORY AND DEVELOPMENT AND REORGANISATION

Business milestones

The following sets out our business development milestones:

- 1999 — Incorporation of Sling Incorp and founding of our Group
- 2005 — Establishment of Senhao Shanghai in the PRC
- 2006 — Entering into of the licence agreement whereby we were granted the right to use the ELLE brand in connection with manufacturing, promotion, distribution, sale and operation of ELLE boutiques for the Products in the PRC
- 2010 — Commencement of sale of the ELLE products on an e-commerce platform in the PRC
- 2014 — Participating in the promotional event of Double 11 for T-mall in the PRC, and the ELLE products became one of the top selling brands of handbags and travel goods in such promotional event
- 2014 — Acquisition of Jessie & Jane from an Independent Third Party and commencement of the sale of our products under Jessie & Jane on T-mall in the PRC
- 2016 — The number of followers of both brands of our Group, namely ELLE and Jessie & Jane, on T-mall in the PRC exceeded 1,500,000

REORGANISATION

In preparation for Listing, the companies comprising our Group underwent our Reorganisation, pursuant to which our Company became the holding company of our Group. Further information in relation to the (i) establishment and development; (ii) principal business activities; (iii) major shareholding changes and the reasons of changes; and (iv) incorporation date, of each member of our Group are set out in the paragraph headed “Further information about our Group — 4. Subsidiaries of our Company” in Appendix IV to this prospectus. The main steps of our Reorganisation were:

(1) Incorporation of a holding company, namely Yen Sheng BVI, in the BVI

On 18 January 2017, Yen Sheng BVI was incorporated in the BVI with limited liability as an investment holding company, and it was authorised to issue a maximum of 1,000,000 shares of HK\$0.01 each. On 26 January 2017, 492,321 shares, 493,120 shares, 833 shares, 6,863 shares and 6,863 shares were issued and allotted to each of Mr. Sonny Yau, Mr. Sammy

HISTORY AND DEVELOPMENT AND REORGANISATION

Yau, Ms. Cecilia Hiang, Mr. Fred Yau and Mr. Nicholas Yau, respectively; and Yen Sheng BVI was owned by them as to approximately 49.2321%, 49.3120%, 0.0833%, 0.6863% and 0.6863%, respectively.

On 26 January 2017, Mr. Sonny Yau, Mr. Sammy Yau, Ms. Cecilia Hiang, Mr. Fred Yau and Mr. Nicholas Yau entered into a shareholders' agreement in respect of the rights and obligations of each shareholder and as an ultimate shareholder of our Group. Pursuant to such shareholders' agreement, shareholders of Yen Sheng BVI shall be bound by transfer restrictions, i.e. right of first refusal and tag-along right.

(2) Incorporation of our Company

On 6 January 2017, our Company was incorporated under the Companies Law as an exempted company with an authorised share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On 6 January 2017, our Company allotted and issued one nil-paid Share to the initial subscriber, an Independent Third Party, which was transferred to Mr. Sonny Yau on the same day.

On 28 February 2017, Mr. Sonny Yau transferred one nil-paid Share to Yen Sheng BVI and our Company also allotted and issued 694,854 nil-paid Shares to Yen Sheng BVI and 305,145 nil-paid Shares to Summit Time. As at 28 February 2017, the shareholding of our Company was set out below:

<u>Name of Shareholder</u>	<u>Number of Share(s) held</u>	<u>Approximate percentage of shareholding %</u>
Yen Sheng BVI	694,855	69.4855
Summit Time	<u>305,145</u>	<u>30.5145</u>
Total:	<u><u>1,000,000</u></u>	<u><u>100.0000</u></u>

(3) Incorporation of Sling BVI

Sling BVI was incorporated in the BVI on 13 January 2017 and it was authorised to issue a maximum of 1,000,000 shares with a par value of HK\$0.01 each. On 26 January 2017, one fully-paid share in Sling BVI was issued and allotted to Mr. Sonny Yau.

On 23 February 2017, (i) Mr. Sonny Yau transferred the entire issued share capital of Sling BVI to Yen Sheng BVI at par (i.e. HK\$0.01); and (ii) 694,854 shares and 305,145 shares were further issued and allotted to each of Yen Sheng BVI and Summit Time at par, respectively.

(4) Acquisition of Sling Incorp by Sling BVI

On 1 March 2017, Sling BVI entered into instruments of transfer, and bought and sold notes to acquire 9,189, 5,506,171 and 2,422,071 shares of Sling Incorp (representing the entire issued share capital of Sling Incorp) from Macia (Hong Kong), Yen Sheng Factory and Summit Time, respectively, at the consideration of HK\$30,898.00, HK\$18,514,491.85 and HK\$8,144,210.16, respectively, with reference to the net asset value of Sling Incorp as at 31 December 2016. Such acquisition was completed in 31 May 2017 and Sling Incorp has become a wholly-owned subsidiary of Sling BVI since 31 May 2017.

In respect of Yen Sheng Factory, as at 1 January 2016, it was owned by Mr. Sonny Yau, Mr. Sammy Yau, Lee Sang and Atbest as to approximately 10.6061%, 10.6061%, 60.6061% and 18.1817%, respectively; Lee Sang was owned by Mr. Sonny Yau, Mr. Sammy Yau, Mr. Fred Yau, Mr. Nicholas Yau and Atbest as to approximately 17.6711%, 17.6711%, 1.1342%, 1.1342% and 62.3894%, respectively; while Atbest was owned by each of Mr. Sonny Yau and Mr. Sammy Yau as to 50% respectively. There has been no changes in the shareholding structure of each of Atbest, Lee Sang and Yen Sheng Factory since 1 January 2016.

In respect of Summit Time, during the period between 1 January 2016 and 22 December 2016 (being the time prior to Ms. Agnes Li has become the sole member of Summit Time by way of Ms. Jiang transferring the one share held by her to Ms. Agnes Li on 23 December 2016), Summit Time was owned by Ms. Agnes Li and Ms. Jiang as to approximately 50% and 50% respectively. Given (i) Ms. Jiang is the daughter-in-law of Ms. Agnes Li; and (ii) Ms. Jiang had held the one share of Summit Time on trust for Ms. Agnes Li as confirmed by a declaration of trust signed by Ms. Jiang and Ms. Agnes Li, the one share of Summit Time then held by Ms. Jiang prior to the transfer of such share on 23 December 2016 was held by Mr. Jiang on trust for Ms. Agnes Li. In other words, Summit Time was wholly owned by Ms. Agnes Li at all times.

(5) Acquisition of Sling BVI by our Company

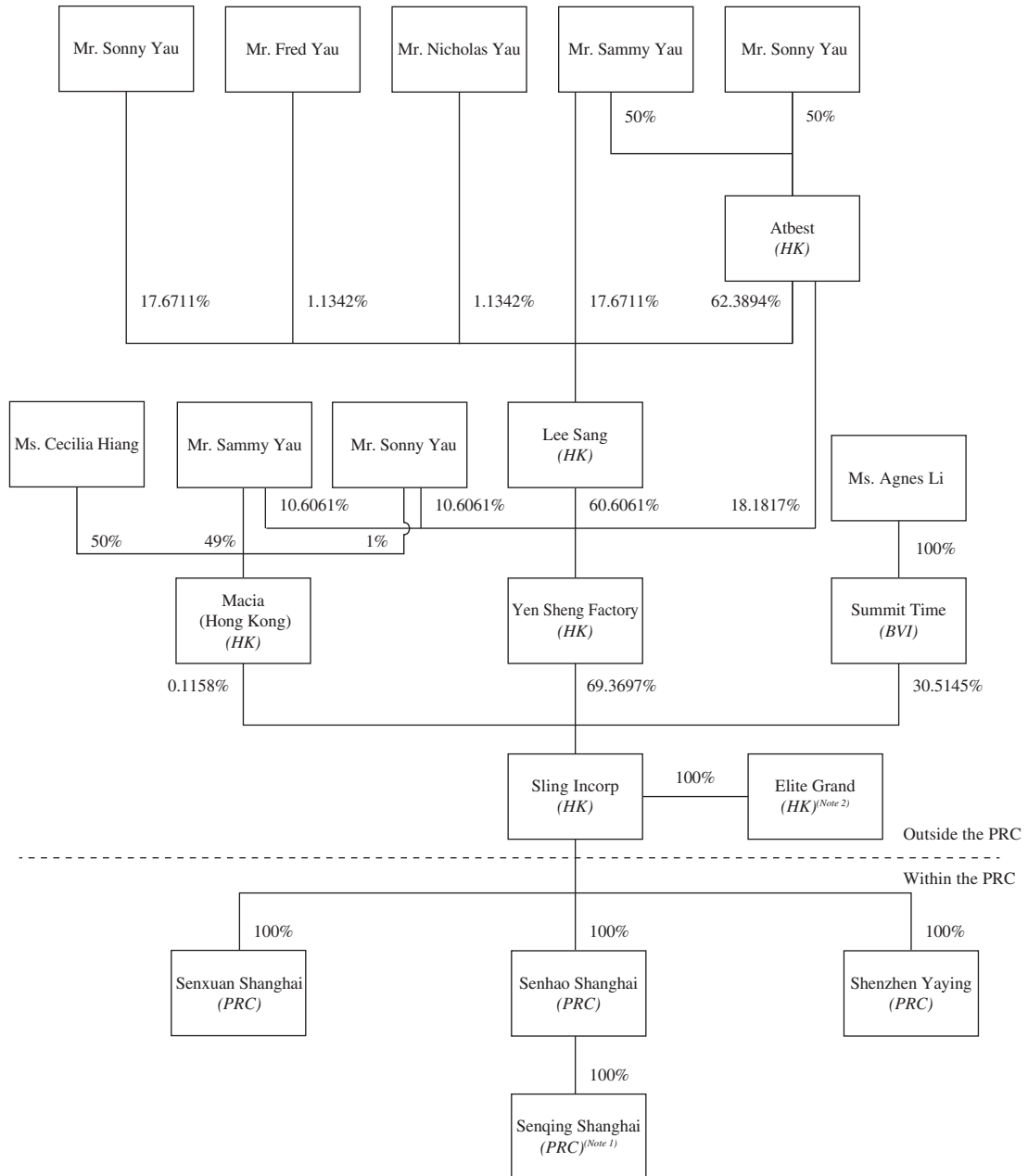
On 4 December 2017, our Company acquired the entire issued share capital of Sling BVI from Yen Sheng BVI and Summit Time, and in return 694,855 nil-paid Shares and 305,145 nil-paid Shares held by Yen Sheng BVI and Summit Time, respectively, were credited as fully-paid on the same date. Upon completion of the aforesaid acquisition, Sling BVI became a wholly-owned subsidiary of our Company.

The steps and the transfer mentioned above were properly and legally completed and settled. Our Reorganisation was completed on 4 December 2017.

HISTORY AND DEVELOPMENT AND REORGANISATION

Group structure

The following chart sets out the structure of our Group immediately before our Reorganisation:

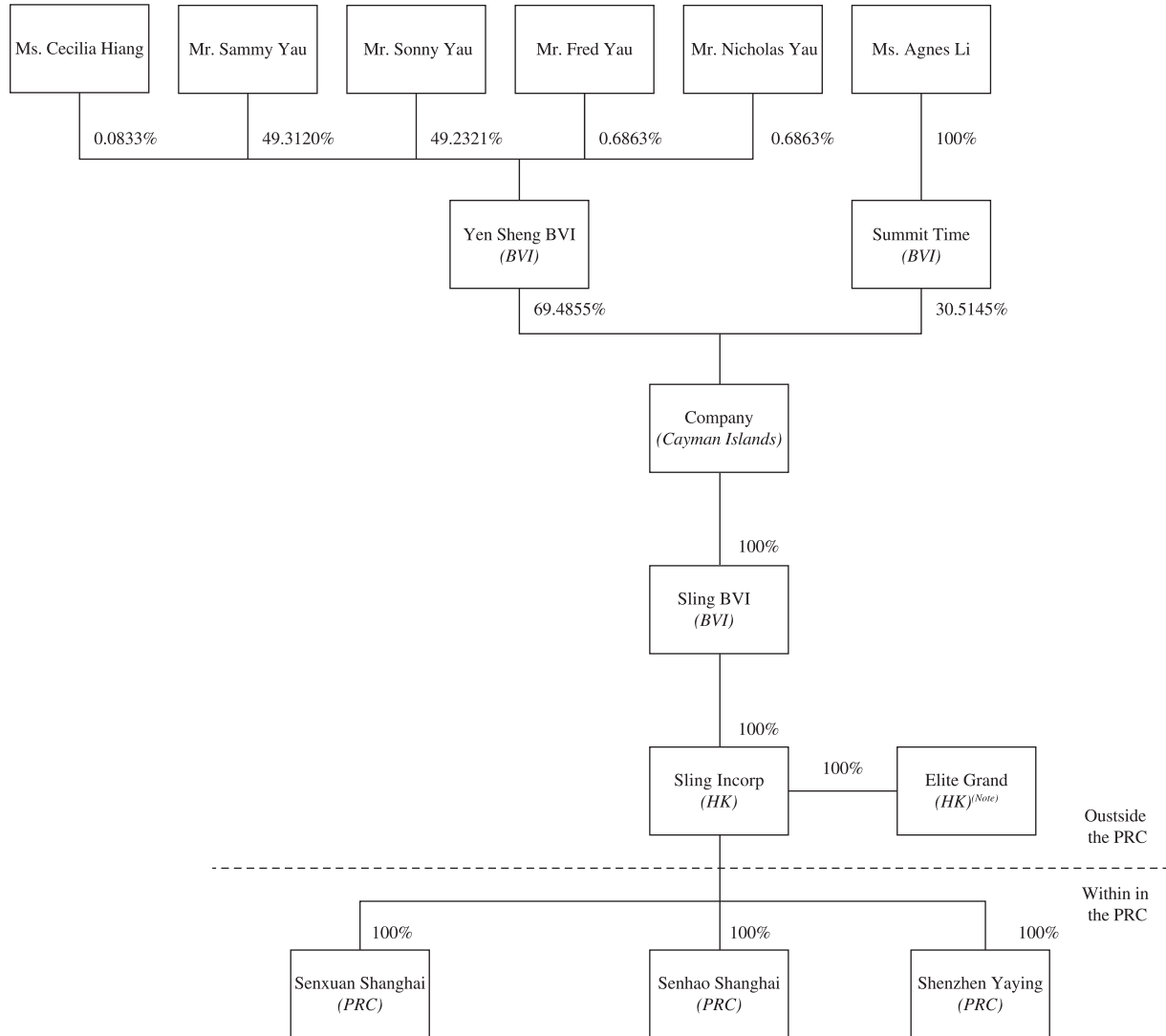


Notes:

1. Senqing Shanghai was deregistered on 22 January 2017.
2. Elite Grand has commenced dormancy since 13 February 2017 and was not engaged in any business as at the Latest Practicable Date.

HISTORY AND DEVELOPMENT AND REORGANISATION

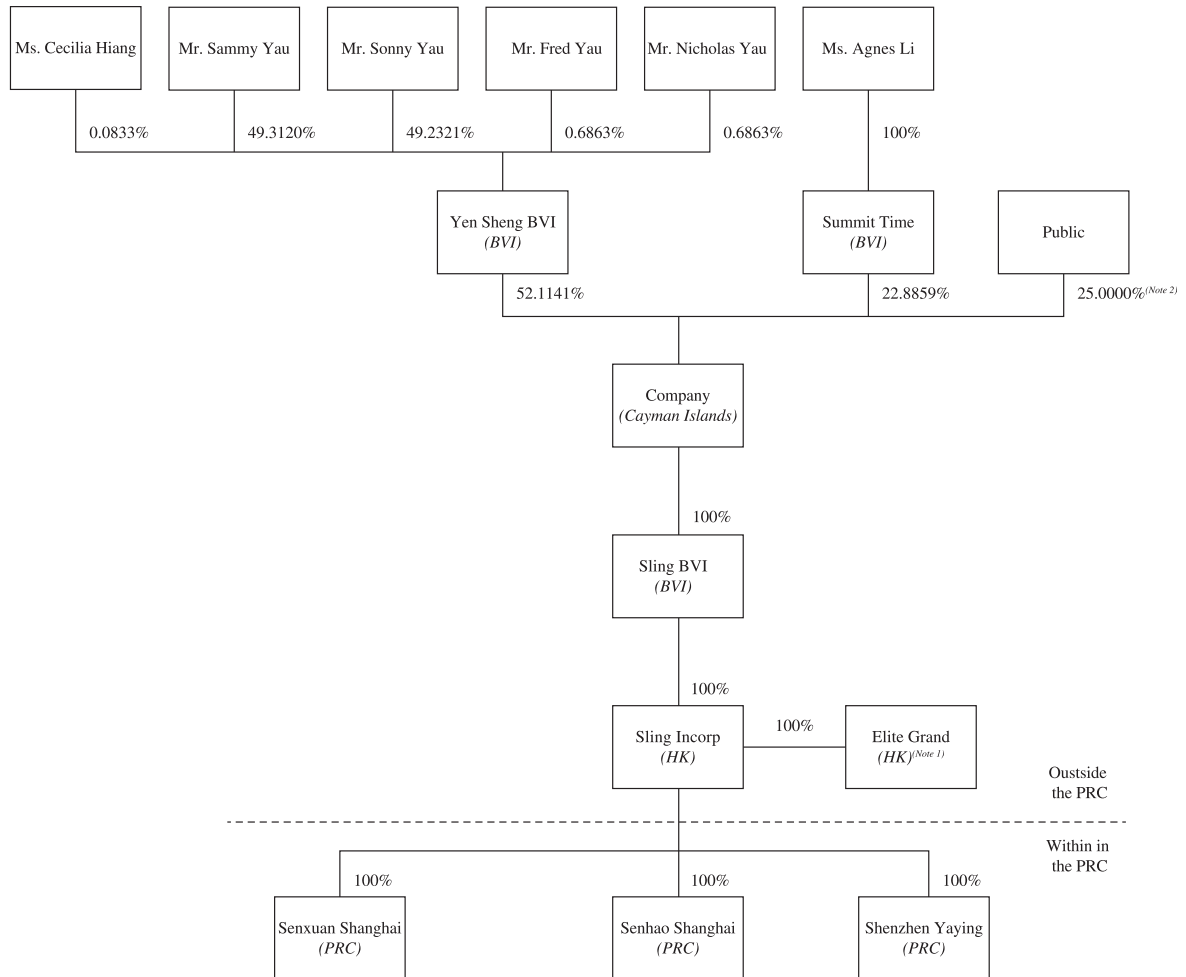
The following chart sets out the structure of our Group immediately after completion of our Reorganisation and prior to the Capitalisation Issue and the Share Offer:



Note: Elite Grand has commenced dormancy since 13 February 2017 and was not engaged in any business as at the Latest Practicable Date.

HISTORY AND DEVELOPMENT AND REORGANISATION

The following chart sets out the structure of our Group immediately after completion of our Reorganisation, the Capitalisation Issue and the Share Offer (assuming that no Shares are issued pursuant to the exercise of any options which may be granted under the Share Option Scheme):



Notes:

- (1) Elite Grand has commenced dormancy since 13 February 2017 and was not engaged in any business as at the Latest Practicable Date.
- (2) As Ms. Agnes Li and Summit Time will become our Substantial Shareholders immediately after completion of our Reorganisation, the Capitalisation Issue and the Share Offer (assuming that no Shares are issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), the shareholding of Ms. Agnes Li and Summit Time in our Company will not be part of the public float under Rule 11.23 of the GEM Listing Rules.

OVERVIEW

We are a women's handbag company ranked first in the online middle-end women's handbag market in the PRC in terms of online retail sales revenue in 2016. We primarily design, promote and sell women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases, in the PRC. Our brand portfolio comprises two brands, namely (i) ELLE, our licensed brand; and (ii) Jessie & Jane, our own brand. Each brand is tailored to the preferences of consumers in varying age groups.

We develop and design our products and engage suppliers, who are manufacturers, to produce such products. We have internal measures governing our procedures in selecting and evaluating our suppliers and monitoring their on-going performance. We also have our own quality control measures to ensure that finished products produced by our suppliers are of high standard before they are delivered to our sales network (which covers both online and offline retail points).

Since the establishment of our office in the PRC in 2005, we have built our offline sales network in first and second tier cities in the PRC. In order to expand the geographic coverage of our sales network effectively in other PRC cities without incurring significant costs, we sell our products on a wholesale basis to third party retailers, who then sell them to end customers through their retail points, which include retail stores within shopping malls and sales counters in department stores. As at 30 June 2017, we had 8 self-operated offline retail points and 89 retailer-operated offline retail points for our products in four municipal cities, 17 provinces and four autonomous regions in the PRC.

Having considered the rapid development of technology and changes in consumer shopping habits of the young generation in the PRC, we launched our first online retail point in 2010. During the Track Record Period, our online presence was maintained through different e-commerce platforms, such as T-mall, JD.com and VIP.com. Our online sales network currently consists of (i) our self-operated online retail points on e-commerce platforms, such as T-mall, JD.com and VIP.com; and (ii) third party retailer-operated online retail points, which sell the products to end customers through online retail points operated by such third party retailers on e-commerce platforms. As at 30 June 2017, our products were sold through 14 self-operated online retail points and 18 retailer-operated online retail points.

For the two years ended 31 December 2016 and the six months ended 30 June 2017, we generated revenue of approximately RMB192.4 million, RMB210.5 million and RMB107.5 million, respectively. Our revenue derived from online sales channels was approximately RMB107.6 million, RMB136.6 million and RMB81.4 million for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively, representing approximately 55.9%, 64.9% and 75.7% of our total revenue, respectively.

Each of our Group's brands ELLE and Jessie & Jane targets different customer group, save for our strategic shift in business focus from offline to online sales channel in particular for ELLE products, our sales growth or development during the Track Record Period was attributed to the various factors pertaining to respective product lines.

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A. Product differentiation

According to the Frost & Sullivan Report, the suggested retail price range of middle-end women's handbag market in the PRC is between RMB500 and RMB1,999. Although both of our ELLE brand and Jessie & Jane brand fall within the middle-end women's handbag market in the PRC in terms of suggested retail price, these two brands exhibit some degree of product differentiation and are targeting different market segments in the middle-end market.

ELLE is positioned as a product line with higher selling price range and is an embodiment of French elegant style, while Jessie & Jane is a product line with lower selling price range and is an embodiment of chic and classic styles originated from a local designer in the PRC. With different brand positioning, target customers and range of suggested retail prices, our Group's two brands, ELLE and Jessie & Jane, do not incur competition among the same customer segment and their key features are summarised as follows:

	ELLE	Jessie & Jane
1. Brand positioning	<ul style="list-style-type: none">• ELLE is an internationally-renowned French brand and marketed as such	<ul style="list-style-type: none">• Jessie & Jane is a Chinese designer brand and marketed as such
2. Target customers		
Age group:	<ul style="list-style-type: none">• 25 to 45	<ul style="list-style-type: none">• 20 to 40
Spending power and other attributes:	<ul style="list-style-type: none">• Middle income and are responsive to trendy fashion with premium quality	<ul style="list-style-type: none">• Average income and seek fashion in touch with individuality
3. Suggested retail prices		
Handbags:	<ul style="list-style-type: none">• RMB500 to RMB2,500	<ul style="list-style-type: none">• RMB200 to RMB1,000
Small leather goods:	<ul style="list-style-type: none">• RMB100 to RMB600	<ul style="list-style-type: none">• RMB100 to RMB500
Travel goods:	<ul style="list-style-type: none">• RMB300 to RMB2,500	<ul style="list-style-type: none">• N/A

B. Brand history

Given ELLE brand has a longer history in our Group than Jessie & Jane brand (i.e our Group has launched ELLE products for more than 10 years since 2006 and has gone online for about 7 years since 2010), ELLE is a relatively well-established product line and has built up its brand reputation in the market and thus its sales growth is comparatively steady.

Jessie & Jane is a relatively new brand (i.e. our Group only launched Jessie & Jane products for about 3 years) with lower selling price range and targeting a younger customer group. Our Directors are of the view that this brand is at early development stage and has the potential to enlarge its market penetration and thus foster a higher sales growth under current situation.

C. Distribution strategy

Revenue attributable to ELLE products decreased slightly due to a change in our Group's sales channel mix in particular shifting more offline to online. The table below sets forth the revenue by brand and sales channels for the Track Record Period:

	For the year ended 31 December				For the six months ended 30 June											
	2015		2016		2016		2017									
	ELLE RMB'000	Total RMB'000	ELLE RMB'000	Total RMB'000	ELLE RMB'000	Total RMB'000	ELLE RMB'000	Total RMB'000								
Retail sales																
Online retail points	71,524	85,519	44.4	79,194	36,525	115,719	55.0	31,622	13,395	45,017	48.4	43,463	26,164	69,627	64.8	
Offline retail points	54,660	10,579	33.9	37,244	11,450	48,694	23.1	20,956	6,244	27,200	29.3	6,203	4,077	10,280	9.6	
Subtotal	126,184	24,574	78.3	116,438	47,975	164,413	78.1	52,578	19,639	72,217	77.7	49,666	30,241	79,907	74.4	
Wholesale																
Sales to online retailers (Note)	19,736	2,295	11.5	18,795	2,070	20,865	9.9	8,596	1,227	9,823	10.6	10,670	1,091	11,761	10.9	
Sales to offline retailers	18,847	812	10.2	14,654	10,549	25,203	12.0	7,105	3,792	10,897	11.7	7,619	8,198	15,817	14.7	
Subtotal	38,583	3,107	21.7	33,449	12,619	46,068	21.9	15,701	5,019	20,720	22.3	18,289	9,289	27,578	25.6	
Total	164,767	27,681	100.0	149,887	60,594	210,481	100.0	68,279	24,658	92,937	100.0	67,955	39,530	107,485	100.0	
Year-to-year/ Period-to-period growth rate																
Online retail points				10.7%	161.0%	35.3%						37.4%	95.3%	54.7%		
Offline retail points				(31.9%)	8.2%	(25.4%)						(70.4%)	(34.7%)	(62.2%)		
Sales to online retailers				(4.8%)	(9.8%)	(5.3%)						24.1%	(11.1%)	19.7%		
Sales to offline retailers				(22.2%)	1,199.1%	28.2%						7.2%	116.2%	45.2%		

Note: Out of the sales of our products to a number of online retailers, it included the sales of our products to a customer, which is an Independent Third Party, on a wholesale basis. Such customer then sold the products to corporates, such as banks, which may use the products as reward gifts to its clients. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our sales to such customer accounted for approximately RMB9.9 million, RMB5.9 million and RMB6.4 million, respectively, representing approximately 5.2%, 2.8% and 5.9% of our total revenue, respectively.

A. Retail sales

For online retail sales channel, it remained the primary revenue contributing driver throughout the Track Record Period, representing approximately 44.4%, 55.0%, 48.4% and 64.8% of our Group's total revenue for the two years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, respectively. Both ELLE and Jessie & Jane achieved sales growth during the Track Record Period. For ELLE brand, the online sales growth for the two years ended 31 December 2016 and the corresponding periods ended 30 June 2017 were approximately 10.7% and 37.4% respectively. For Jessie & Jane brand, sales growth for the two years ended 31 December 2016 and the corresponding periods ended 30 June 2017 were approximately 161.0% and 95.3% respectively. Our Directors believe that such difference in growth rate was mainly attributed to the effect of brand history as mentioned above.

ELLE brand exhibited a slight decline in overall sales performance of approximately 9.0% and 0.5% for the two years ended 31 December 2016 and the corresponding periods ended 30 June 2017. Such decline was primarily attributed to our Group's shift in business focus from offline to online by closing down and transferring out a number of self-operated stores, in particular for ELLE stores, during the Track Record Period in response to (i) the change in consumers' shopping habit from offline to online; and (ii) the increasing pressure from store operating costs such as rent and labour.

Going forward, our Group intends to use our self-operated retail points more as a showcase to promote our brands, ELLE and Jessie & Jane.

B. Wholesales

For sales to online retailers, ELLE products remained the dominant seller in this sales channel throughout the Track Record Period.

For sales to offline retailers, we also experienced a decline of approximately 22.2% in revenue for our ELLE brand for the two years ended 31 December 2016 due to the difficulty in physical retail market as mentioned in retail sales above. Following the commencement of the transfer of our ELLE retail points in the second half of 2016, we are able to maintain our wholesales revenue from offline retailers with a growth of approximately 7.2% for the comparative periods ended 30 June 2017.

For our Jessie & Jane brand, as we achieved good sales performance on online platforms, whereas retail outlet expansion was still at early stage in particular at the beginning of the Track Record Period. Based on the understanding of our management, our third party retailers considered that there would be market potential in physical retail market for local designers' brands and thus we were able to attract a number of new third party retailers for the opening of retail points and there was an expansion of retail points by existing third party retailers.

OUR COMPETITIVE STRENGTHS

Our Directors believe that we have the following competitive strengths which have contributed to our success and distinguished us as a reputable women's handbag company in the industry:

Our product design and development capabilities

We adapt to ever-changing market trends by offering products with fashionable designs. Our in-house product design and development department with two design teams located in both Hong Kong and Shanghai is responsible for product design. Our Hong Kong team is led by Mr. Fang Yan (方昕), our design team leader, who has over 20 years of experience in the design industry. He is responsible for the design and development of our ELLE products. Our Shanghai team is led by Ms. Jiang Ying (江英), our design director, who serves as the design director for our Jessie & Jane brand and has commenced design for products under the Jessie & Jane brand since 2008. In October 2011, Ms. Jiang was awarded the Outstanding Female Designer of Shanghai Award by the Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會), the Communist Party of the PRC Working Committee of Economy and Informatisation of the Shanghai Municipal* (中共上海市經濟和信息化工作委員會) and the Women's Society of Shanghai City* (上海市婦女聯合會). She is responsible for the design and development of our Jessie & Jane products. Both of our design director and design team leader possess in-depth understanding of the women's handbag industry in the PRC. Please refer to the section headed "Directors and senior management — Senior management" of this prospectus for further background information about Mr. Fang Yan and Ms. Jiang Ying. In order to keep abreast with the latest fashion trends and seasonal theme, our designers regularly visit local and international fashion centres, attend various trade and/or fashion exhibitions, and actively observe trends and seek inspiration through various channels, including fashion shows, exhibitions and magazines. As a result, our designs reflect the latest market trends, which, we believe, make them appealing to consumers, and enable us to remain competitive in the women's handbag industry in the PRC.

Extensive online and offline sales network

Leveraging on our significant experience in the operation of our self-operated offline retail points and management of our third party retailers accumulated over the years, we have developed an extensive offline sales network with 97 retail points in four municipal cities, 17 provinces and four autonomous regions in the PRC and more than half of such retail points are located in first and second tier cities in the PRC, as at 30 June 2017. Having considered the rapid development of technology and change of consumption habits of the young generation in the PRC, we diversified our sales channels and started our online business in 2010. As at 30 June 2017, our products were sold through 14 self-operated online retail points and 18 retailer-operated online retail points. For the two years ended 31 December 2016 and the six months ended 30 June 2017, we generated revenue of approximately RMB107.6 million, RMB136.6 million and RMB81.4 million, respectively, from our online sales channels, representing approximately 55.9%, 64.9% and 75.7% of our total revenue, respectively. Being able to capture business opportunities, we ranked first in the online

middle-end women's handbag market in the PRC in terms of online retail sales revenue in 2016, according to the Frost & Sullivan Report. We believe that the online and offline sales channels are supplementing each other and are effectively enhancing our brand recognition which brings us more business and increases our market share.

Close relationships with reliable suppliers

We have established close and stable business relationships with a number of quality manufacturers in the PRC. During the Track Record Period, we have maintained business relationships with over 30 suppliers. Up to the Latest Practicable Date, we had established approximately 2 to 11 years of business relationship with our five largest suppliers during the Track Record Period. We believe our ability to provide high quality products depends to some extent on our ability to select suitable suppliers which possess necessary skills, craftsmanship and production capacity. Our close relationships with our suppliers not only enable us to keep abreast of the latest production know-how and market information but also help us in meeting the needs of our consumers for high quality products.

Our quality assurance and control measures ensure that our products are of high quality to satisfy the needs of our customers

As we believe that our consumers generally demand high quality products, we have implemented our quality control measures to ensure that our products are of high quality. Our quality control staff participate throughout the production process. We examine the quality of raw materials procured by our suppliers, perform on-site production inspections and examine finished products before they are delivered to our sales network. We believe that our quality control measures, together with our product design and development capabilities, are the principal factors that enable us to attract and retain our consumers.

Our dedicated management team with extensive industry exposure ensures the successful development of our business

We have a dedicated management team which has extensive knowledge and strong operational expertise in the women's handbag industry. Two of our executive Directors, namely Mr. Fred Yau and Mr. Brian Lee, and each of non-executive Directors has more than 15 years of experience in the women's handbag industry in the PRC. In particular, the Yau Family and Mr. Brian Lee, the founders of our Group, have played an important role in establishing our market share in the women's handbag industry in the PRC. Please see the section headed "Directors and senior management" of this prospectus for the profile and background of our Directors and senior management. Under the leadership and supervision of our management team, we have built up our systemic research, design and development capabilities and have developed an extensive sales network in the PRC and achieved steady growth in our business during the Track Record Period. The combination of their in-depth knowledge and experience in the industry has enabled our Group to develop sustainable business strategies, anticipate changes in fashion trends, assess and manage risks and capture

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market opportunities. In view of the foregoing, we believe our management team is capable of managing our business properly and ensuring that our business can continue to develop and flourish.

STRATEGIES AND FUTURE PLANS

We aim at achieving sustainable growth in our business and creating long-term value to our Shareholders. We intend to achieve these by implementing the following business strategies:

Strengthen our market position in the women's handbag industry by expanding our marketing efforts

According to the Frost & Sullivan Report, the women's handbag market in the PRC took an upward trend from 2012 to 2016 at a CAGR of approximately 13.4% and the online women's handbag market in the PRC has developed quickly from 2012 to 2016 at a CAGR of approximately 44.9%. It is expected that the women's handbag market and the online women's handbag market in the PRC will grow at a CAGR of approximately 7.8% and 20.2%, respectively, from 2016 to 2021.

We intend to strengthen our market position in the women's handbag industry in the PRC and enhance our brand recognition and awareness in order to expand our market share and capture the benefit of market growth in the PRC. We plan to promote our brands by expanding our marketing efforts across a wide variety of media channels, such as placing advertisements on the social media and providing sponsorships to artists and television programmes in the PRC. To increase our market presence, we will also participate in fashion shows and trade exhibitions. We believe that with continuous marketing efforts, we will be able to consolidate our market position and expand our market share in the industry.

Further expand our product design and development capabilities

We believe that our product design and development capabilities are our key principal factors that enable us to attract consumers and remain competitive in the industry. We plan to expand our design and development capabilities by hiring additional designers who have the requisite experience, knowledge of fashion trends and consumer preferences and ability to develop products for our consumers in the PRC. Also, we plan to engage a overseas design consultant firm from Europe to provide fashion trends information and design ideas for our Jessie & Jane brand. Further, we plan to recruit a product development manager and a procurement executive to expand our product development capabilities. We believe that with the expanded product design and development capabilities, we can launch more products for our existing brands and/or develop a new brand for our Group and capture more business.

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Continue to expand our sales network

We believe our success in establishing an extensive and well-managed sales network provides us with a solid foundation to maintain our current market share, enhance our market presence and expand our customer base for future growth. We believe that the online and offline sales channels are supplementing each other and both of our online and offline sales channels can benefit from the expansion of our marketing efforts. We plan to enhance and expand our sales network to capture more sales opportunities in the women's handbag market by increasing the number of retailer-operated offline retail points in various cities in the PRC, including Shanghai, Shenzhen, Chongqing and Zhengzhou. We will continue to provide store decoration subsidies, on case by case basis, to our third party retailers when they open new retail points to expand our sales network. Moreover, we plan to set up a flagship store, which will be a self-operated offline retail point, for our ELLE brand in Shanghai for brand building and to strengthen our offline sales network. Further, we will renovate or refurbish our retail points from time to time in order to enhance our brand recognition. We believe that, with an expanded sales network, we will be able to reach more consumers and increase our market share.

Enhance our information management system and information technology support for our business expansion

We believe that a successful business expansion shall be supported by a well-established information management system. Thus, we plan to enhance our information management system by upgrading our finance system and other functions of our system. We will also purchase new software licences to add new functions, such as customer relationship system, to our system. Further, we plan to enhance our capacities to provide information technology support to our different departments to ensure we operate our business and expand our business in an efficient manner.

For further details regarding our future plans, please refer to the section headed "Future plans and use of proceeds — Future plans — Implementation plans" of this prospectus.

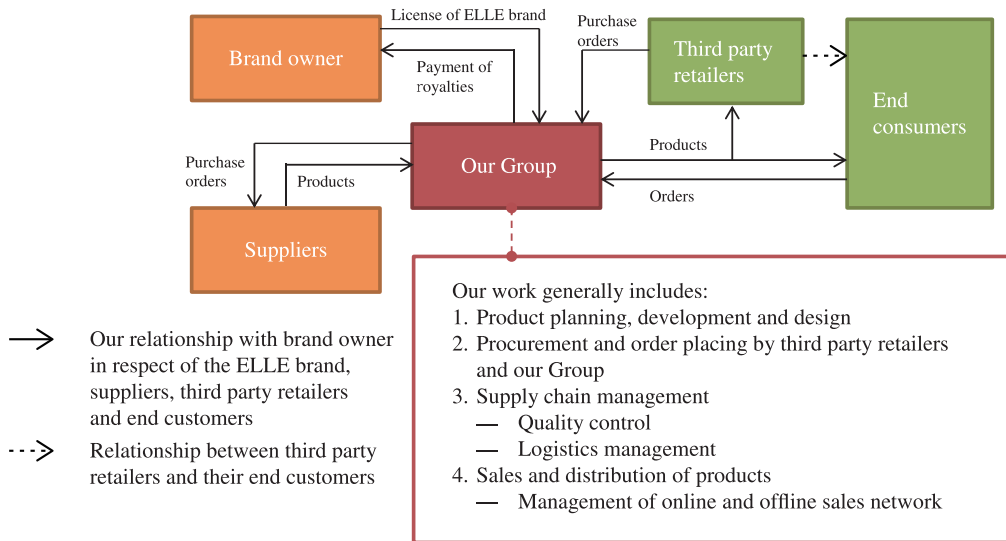
OUR BUSINESS

We primarily design, promote and sell women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases, in the PRC, under our licensed brand, ELLE, and our own brand, Jessie & Jane.

Generally, we develop and design our products and engage suppliers, who are manufacturers, to produce such products. We have our own quality control measures to ensure that finished products produced by our suppliers are of high standard before they are delivered to our sales network (which covers both online and offline retail points). We sell our products to end customers directly through online and offline retail points operated by us and sell our products on a wholesale basis to third party retailers, who then sell our products to end customers through online or offline retail points operated by them.

Business model

The simplified diagram below illustrates our existing business model:



Brand portfolio

Our brand portfolio covers recognised international and local brands with established reputation that, we believe, appeal to consumers in the middle income bracket in the PRC. We are the sole and exclusive licensee to use the ELLE brand on or in connection with the distribution and sale of women’s handbags, luggage and travel bags in the PRC. We entered into a licence agreement in connection with our sale of products (covering women’s handbags, luggage and travel bags) under the ELLE brand in the PRC. We also offer products under our own brand Jessie & Jane. Each brand has its own consumer sub-segment target within the middle-end market. As we can only sell our products under the ELLE brand in the PRC according to the licence agreement, we are restricted to expand our sales of ELLE products in overseas market in the future. Given that the Jessie & Jane brand is owned by us, we are not under any restriction to expand our sales of Jessie & Jane products in any overseas market in the future. Save for the restriction under the licence agreement for the ELLE brand, our Group is not under any restrictions to expand overseas.

ELLE

Brand description:

- It is the world’s largest fashion magazine with 46 editions around the world.
- It was founded in France in 1945.
- It is a fashionable, positive and contemporary brand which inspires women to explore and celebrate their own style.
- It is also an embodiment of the French elegant style.

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- A brand licensed by our Group.

Target customers:

- Female customers aged between 25 and 45 with middle income in the PRC and are responsive to trendy fashion with premium quality.

Products:

- Handbags (including handle bags, clutch bags and backpacks), small leather goods (including wallets, coin cases and card holders) and travel goods (including hard-side suitcases and soft-side suitcases).

Handbags



Wallets



Travel Goods



Suggested retail prices:

- The suggested retail price of our handbags generally set at a range between RMB500 and RMB2,500.
- The suggested retail price of our small leather goods generally set at a range between RMB100 and RMB600.
- The suggested retail price of our travel goods generally set at a range between RMB300 and RMB2,500.

Offline sales network as at
30 June 2017:

- 5 self-operated offline retail points.
- 49 retailer-operated offline retail points.

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- Online sales network as at 30 June 2017: — 6 self-operated online retail points.
— 10 retailer-operated online retail points.
- Licence details: — Please refer to the paragraph headed “Our licence agreement in relation to the use of ELLE brand” in this section.
- History with our Group: — We were first granted the exclusive right to use the ELLE brand in the PRC in January 2006. We were granted the rights to use the ELLE trademark and logo in connection with women’s handbags and small leather goods for a term of two years commenced on 1 January 2006 and ended on 31 December 2007 under the licence agreement entered into between our licensor and us. In December 2007, we successfully renewed our licence agreement with our licensor for a term of three years commenced on 31 December 2007 and ended on 31 December 2010 (renewable for an additional term of two years expired on 31 December 2012). Following the expiry of such term, we entered into a new licence agreement for a term commenced on 31 December 2010 and ended on 31 March 2016 (subsequently amended to expire on 31 December 2015). In December 2015, we further successfully renewed our licence agreement with our licensor for a term of five years commenced on 31 December 2015 and ending on 31 December 2020 (renewable for an additional term of five years commencing on 1 January 2021 and ending on 31 December 2025). There were no material changes to the major terms of the licence agreements each time when they were renewed. For further information on such agreement, please refer to the paragraphs below.

Our licence agreement in relation to the use of ELLE brand

We entered into a licence agreement with Hachette Filipacchi Presse, S.A. (as licensor), an Independent Third Party, in relation to the use of ELLE brand, on 31 December 2015. The salient terms of the licence agreement are as follows:

- **Licence rights:** Exclusive right and licence to use the ELLE brand, within the PRC, on or in connection with, among others, (i) the distribution and sale of women’s handbags, luggage and travel bags; (ii) the use of presentation and promotional materials; (iii) the operation of boutiques; and (iv) the marketing, promotion, distribution and e-commerce sale of the products. Non-exclusive right and licence to (i) manufacture the women’s handbags, luggage and travel bags within or outside the PRC and sourcing the women’s handbags, luggage and travel bags from other licensees of the licensor, as may be

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approved by the licensor in writing, and (ii) export products to Hong Kong and Macau. Moreover, pursuant to our licence agreement, we can only sell the ELLE products to importers or distributors which are approved by the licensor, in Hong Kong and Macau. During the Track Record Period, we had sold the ELLE products to Mercantile Group Limited, which was an associate corporation of our Company and an importer approved by the licensor. For further information, please refer to notes 13 and 27 to the Accountants' Report in Appendix I and the paragraph headed "Further information about our Group — 5. Associate corporations of our Company during the Track Record Period" in Appendix IV to this prospectus. Save for our sales of ELLE products to Mercantile Group Limited, we had no other transaction with other importer or distributor approved by the licensor during the Track Record Period and up to the Latest Practicable Date.

Further, we had not sourced any women's handbags, luggage and travel bags from other licensee of the licensor during the Track Record Period and up to the Latest Practicable Date. However, we purchased hats and scarves of approximately RMB24,000 from another licensee of our licensor during the year ended 31 December 2015. Such hats and scarves were used for display at our retail points and as our gift premiums. Save for the said purchase, we had not sourced or purchased any other ELLE products from other licensee of the licensor during the Track Record Period. Moreover, we shall be responsible for the design, manufacture, marketing, distribution, sale and use of the ELLE products. We can also engage manufacturers to produce the ELLE products.

— **Region covered:** the PRC.

We can only sell the ELLE products in the PRC and cannot sell the ELLE products to customers in other countries through our online sales channels. We operate our self-operated retail points on renowned e-commerce platforms which are operated by Independent Third Parties. Based on the understanding of our management, orders placed by customers from other countries cannot be completed successfully. Once we receive order from another country, our customer service representatives of the online store operators would contact and inform the customer that our ELLE products cannot be delivered outside the PRC and, thus, the customer will need to cancel the order. In order to ensure compliance with the licence agreement, we have placed a notice on our self-operated online retail points to inform our customers that we only sell and deliver the ELLE products within the territory of the PRC and the products will not be delivered to anywhere outside the PRC. We have also instructed our online store operators, who are responsible for delivery of our products, to only deliver the ELLE products to customers within the PRC. The customer service representatives of the online store operators would also inform our potential customers that the products will not be delivered outside PRC. Moreover, we have also informed the e-commerce platform operators of our self-operated online retail points that we can only deliver the ELLE products in the PRC. During the Track Record Period and up to the Latest Practicable Date, (i) we have not delivered any of our ELLE products overseas; and (ii) we did not promote our ELLE products overseas to attract any overseas business.

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- **Current term:** From 31 December 2015 to 31 December 2020 (renewable for an additional term of 5 years from 1 January 2021 to 31 December 2025). The licence agreement shall be automatically renewed on its expiration on 31 December 2020 subject to, among others, fulfillment of sales turnover commitments and our payment and reporting obligations under the licence agreement. Based on our sales performance, our Directors believe that we are able to renew the licence agreement upon its expiry.
- **Minimum sales turnover:** We shall meet an agreed minimum sales turnover for each contract year. The licensor is entitled to terminate the licence agreement by serving a 30 days' notice if the agreed minimum sales turnover for any contract year is not reached.

Having considered the sales performance of our ELLE products up to 31 October 2017, our Directors are of the view that we can meet the minimum sales turnover requirement in 2017.

- **Reporting obligations:** We shall submit reports relating to our sales performance and our financial information to the licensor on a regular basis.
- **Royalties:** We shall pay to the licensor royalty fees based on the aggregate net sales turnover for wholesale and retail sales of our products; however, the royalty fees shall, in no event, be lower than the agreed minimum amount of royalty fee.
- **Payment term:** The royalties shall be paid on specified dates on quarterly basis in RMB.
- **Prior written approvals:** We shall obtain prior written approval from the licensor in connection with, among others, (i) the manufacture, distribution, advertising and promotion or selling of any ELLE products; (ii) the opening, closing or use of any retail point; (iii) the production and use of any presentation and promotional materials; (iv) organising any general public advertising and promotional campaign; (v) the opening or making of any material alteration to the website for e-commerce sales; and (vi) the use of any trademarks, trade names, designs and logos.
- **Other rights:** We shall have the rights to sell our products to third party retailers but the products cannot be sold to our third party retailers on an exclusive basis.
- **Termination:** The licence can be terminated immediately by written notice to the other party, (i) in the event of force majeure (including acts of God, acts or regulations of any governmental or supra-national authority, war or national emergency); or (ii) if the other party commits a material breach of any provision of the agreement, and such breach, if capable of being cured, is not cured within 30 days following receipt of written notice. Further, the licensor shall have the right to terminate the agreement immediately if there is occurrence of any of, among others, the following events:

- (i) we undergo a change in control without the licensor's consent;

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- (ii) we fail to make punctual payment of royalties and/or submit reports required by the licensor pursuant to the agreement;
- (iii) we commit a breach of a material provision of the agreement that cannot be cured;
- (iv) we suffer liquidation or are subject to any petition for declaration of liquidation;
- (v) we breach a material term of any trademark user;
- (vi) we continue to manufacture, use, distribute or sell product or marketing materials after receiving written notice denying or withdrawing approval of such product or marketing materials from the licensor;
- (vii) we change our selling structure to wholesale sales only, without the prior written consent of the licensor; or
- (viii) we challenge the licensor's ownership of or the validity of any registration of and/or application for the ELLE brand.

— **Governing law:** The licence agreement is governed by the laws of the PRC.

Regarding the change in control we underwent due to our Reorganisation, we have obtained our licensor's consent. During the Track Record Period and up to the Latest Practicable Date, we have fully complied with the terms of the licence agreement in all material respects and are not aware of any material breaches in relation to the licence agreement. As advised by our PRC Legal Advisers, the licence agreement is legally binding.

Reliance on the ELLE brand

For the two years ended 31 December 2016 and the six months ended 30 June 2017, the percentage of our aggregate revenue attributable to sales of ELLE products was approximately 85.6%, 71.2% and 63.2%, respectively. Our Group recognises that reducing our reliance on a single brand is key to achieving sustainable long-term growth.

Our Directors are of the view that our Group's reliance on the ELLE brand is not an extreme case and we are able to reduce our reliance on the same for the following reasons:

- (i) *Ability to reduce the level of reliance on the ELLE brand:* In 2014, our Group acquired the Jessie & Jane brand. Leveraging on our Group's product design and development capabilities, our extensive sales network and in-depth knowledge and industry experience of our management team, our Group has been able to develop the Jessie & Jane brand and capture business opportunities during the Track Record Period. For the two years ended 31 December 2016, our Group generated revenue of approximately RMB27.7 million and RMB60.6 million from the sales of Jessie & Jane products, respectively, representing a growth in revenue of approximately 118.9% from 2015 to 2016. Due to the successful development of the Jessie & Jane brand after the acquisition, our Group

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has been able to reduce our reliance on a single brand resulting in approximately 85.6%, 71.2% and 63.2% of our revenue being attributable to the sales of ELLE products for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively.

- (ii) *Our Group's levels of reliance is likely to decrease in the future:* Given that our Group intends to further develop the Jessie & Jane brand and expand our sales network by increasing the number of retailer-operated offline retail points in various cities in the PRC in the foreseeable future, it is expected that our Group will further reduce our reliance on a single brand in the future.
- (iii) *Industry landscape:* According to the Frost & Sullivan Report, the China women's handbag market is highly dispersed, with hundreds of different brands, and no single or cluster of dominant players exist in the market. Having considered the industry landscape, our Directors are of the view that it would not be difficult for our Group to break off our reliance on a single brand and our Group is and has been able to acquire and develop a new brand for women's handbags in the PRC.
- (iv) *Reliance is mutual and complementary:* Our Directors understand that it is our licensor's usual business practice to enter into licence agreements for use of the ELLE brand in connection with the distribution and sale of different categories of goods in different countries and jurisdictions. Therefore, our Directors are of the view that the reliance between our licensor and our Group is mutual and complementary.

Based on the understanding of Frost & Sullivan from other brand licensors in the PRC in respect of brand management affairs, although the licensor can contractually replace our Group with another PRC licensee at comparable terms and conditions, Frost & Sullivan is of the view that it is commercially beneficial for the licensor and our Group to maintain a close, mature, stable and long-term business relationship with each other, for the following reasons:

- (a) *Proven track record of our Group:* The mature and stable relationship between the licensor and our Group for over a decade was mainly due to our extensive knowledge and experience in the PRC middle-end women's handbag market (particularly, our market experience in promoting ELLE branded women's handbags in the PRC), our Group's ability to meet the licensor's minimum sales and royalty target as well as our Group's high product quality. However, a potential new licensee might not have a proven sales track record or similar experience in the industry and there is no guarantee as to the level of sales performance that a new licensee would be able to achieve. As such, the licensor would risk losing stable financial returns through royalty income and a mature and stable business relationship if a new licensee is engaged.

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- (b) *Our Group has a team of experienced designers:* Our Hong Kong team of designers, led by Mr. Fang Yan, has been following ELLE's brand image for over 10 years and has an extensive grasp of local consumer taste and in-depth understanding of the ELLE's brand image and design requirements. This would take a significant period of time for any new licensee to replicate, and could lead to the loss of the existing customer base.
- (c) *Extensive experience with manufacturers:* Our Group has stable business relationship with our suppliers, together with the fact that our Hong Kong design team has good understanding of the individual skills, craftsmanship and production capacity of our suppliers, gained through years of collaboration with these suppliers, allowing us to maintain high quality of products. However, any potential licensee may not be able to match our current standard of product quality control, or have the required business connection with manufacturers to maintain the level of steady supply of products.
- (d) *Extensive distribution channels:* Over the years, we have been able to maintain business relationships with offline retailers in different cities within the PRC, enabling our Group to expand our offline sales network in four municipal cities, 17 provinces and four autonomous regions in the PRC whilst experiencing steady growth in terms of our sales to offline retailers. A new licensee may not be able to establish such extensive offline distribution network or may need a significant period of time before being able to reach our current sales. The licensor may also suffer a loss in royalty fee income as the new licence takes time and effort to re-establishing its market share/position in the competitive middle-end woman's handbag retail market.

In addition, our Group has established a cooperation relationship with our licensor for over 10 years since 2006. Given that our Group has satisfactorily fulfilled the sales targets for the last two 5-year licence periods and paid a significant amount of royalty fees for use of the ELLE brand each year, our Directors consider that such cooperation arrangement derives mutual benefit for both parties. In the absence of any material breach of the existing ELLE licence agreement, the licence arrangement with ELLE will continue until it expires in 2025. Having considered the above, our Directors consider that the chance of loss of the ELLE brand resulting in adverse impact on our Group's operations, business performance and financial conditions is low. For further details on our cooperation history with ELLE, please also refer to the paragraph headed "ELLE — History with our Group" in this section above.

- (v) *Capability to maintain revenue in the future in light of the reliance:* According to the Frost & Sullivan Report, it is expected that the women's handbag market in the PRC will grow at a CAGR of approximately 7.8% from 2016 to 2021 and the middle-end women's handbag market will experience the fastest growth with a CAGR of approximately 10.6% from 2016 to 2021. During the Track Record Period, our Group has been able to capture

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business opportunities, recorded growth in our business and ranked first in the online middle-end women's handbag market in the PRC in terms of online retail sales revenue in 2016. Having considered that our Group will strengthen our market position in the women's handbag industry by expanding marketing efforts and bolstering our product design and development capabilities and sales network and it is expected that there will be a growth in the market from 2016 to 2021, our Directors are of the view that our Group will be able to maintain our revenue in the future in light of the reliance.

Development cycle of ELLE brand

We have launched ELLE products for more than 10 years since 2006 and our Directors consider that our development on the ELLE brand can be categorised into three phases of development as follows:

Probing phase — 1st five-year licence period (2006–2010): The first 5-year licence period covered the initial two-year licence term and an additional three-year renewal period ended 31 December 2010. This is our probing phase in the Chinese's middle-end women's handbag segment. In this phase, we developed the ELLE brand women's handbag business in the PRC market from scratch. Our management had explored and developed our business in the PRC and accumulated the design and marketing experience by trial and error. We also gave significant effort to establish and build the ELLE brand in the Chinese's middle-end women's handbag market, including setting up self-operated retail stores and investing in promoting the products and increasing the market awareness of the brand. With continuous efforts, we were able to develop our business gradually and extended our retail network to different geographical areas across the PRC. Our revenue increased from approximately RMB6.0 million in 2006 to approximately RMB38.7 million in 2010.

According to the Frost & Sullivan Report, the revenue of China online retail market increased from approximately RMB25.8 billion in 2006 to approximately RMB523.1 billion in 2010, at a CAGR of approximately 112.2%. In view of the changing consumer spending habit, we made our first trial in establishing the first online presence for our ELLE products in 2010, thereby broadening the sales of our ELLE brand products, while not having to spend significant sums on expenses required if the business had remained solely offline, such as rental expenses and salaries and commissions for sales personnel.

High growth phase — 2nd five-year licence period (2011–2015): This is the second 5-year licence period up to 31 December 2015. Following the first 5-year of probing period, we have developed our market experience and insight, enabling our Group to enter into the high growth phase.

While physical shopping remained customers' primary choice in early 2010s, we continued to expand our offline network as well as increase our online presence. With proliferation of certain e-commerce platforms including T-mall and JD.com, we achieved high growth of our ELLE brand products for this period.

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Starting from 2014, online sales contribution took over our Group's offline channel and in 2015, online retail sales and sales to online retailers in aggregate accounted for approximately 55.9% of our total revenue. Revenue for ELLE products reached approximately RMB78.5 million in 2011 and approximately RMB164.8 million in 2015. Since 2012, we have become profit making.

Mature and consolidation phase — 3rd five-year licence period (2016–present): This is the third 5-year licence period ending 31 December 2020. In recognition of increasing operating costs for offline stores and established consumer's online shopping habit, we began to adjust our distribution strategy by commencing the transfer out and close down of more of our self-operated offline retail stores mainly for ELLE brand in 2016. Such transfer and closedown scheme substantially took place during the second half of 2016 and the first half of 2017. In the third and fourth quarter of 2016, we (i) closed down 4 and 4 self-operated offline retail points, respectively, and (ii) transferred 2 and 2 self-operated offline retail points to our third party retailers, respectively. They represented more than half of the self-operated offline retail points which were closed down or transferred to third party retailers in 2016. In the first and second quarter of 2017, we (i) closed down 7 and 4 self-operated offline retail points, respectively, and (ii) transferred 7 and 1 self-operated offline retail point(s) to our third party retailers, respectively. Under our transfer and closedown scheme commenced in the second half of 2016, we closed down and transferred more of our self-operated offline retail points and, as at the Latest Practicable Date, we only retained self-operated retail points which are located in Shanghai. Prior to the commencement of such scheme, we closed down 11 self-operated offline retail points in 2015 after having considered the performance and financial results of our self-operated offline retail points mainly in Shanghai and in order to avoid potential competition between our self-operated offline retail points and offline retail points operated by our third party retailers in Sichuan, Hubei and Shaanxi.

The objective of transfer and closedown scheme is to reduce our operating cost pressure, in particular for slack season in first quarter of 2017, and thus at the same time allow management resources to be deployed in other channels, i.e. online distribution channel, in a more efficient manner.

In 2016, we generated revenue of approximately RMB149.9 million from the sales of ELLE products, representing a decrease in revenue for ELLE products of approximately 9.0% as compared to that in 2015. Following the commencement of our transfer and closedown scheme, we experienced further moderate decline in total revenue derived from sales of ELLE products for comparative period ended 30 June 2017 (i.e. 0.5% decline in revenue); however, operating contribution was improved by cutting down offline store related overhead. Due to the commencement of the retail point transfer plan, the revenue from self-operated retail points of our Group, which traditionally yield higher revenue due to products being sold at suggested retail price net of any consumer discounts (but by no means resulting in a higher operating contribution), decreased as a result; with revenue generated from wholesale to third party retailers, which yields a relatively lower revenue due to products being sold at a certain discount of the suggested retail price (but by no means resulting in a lower operating contribution), increased. For details on our

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operating margin, please refer to the section headed “Financial information — Discussion on major items of the combined statements of profit or loss and other comprehensive income — Operating margin” in this prospectus.

Our Directors believe that although the total revenue derived from its ELLE products is experiencing a moderate decline as mentioned above, the lower cost incurred by fewer self-operated retail points offset the effect caused by the decrease in revenue, and it, in fact, improves the operating contribution, and thus the overall profitability of our Group. After having considered (i) the growth momentum for ELLE products generated from our self-operated online retail points has continued to sustain during the Track Record Period, i.e. increase in our revenue of approximately 10.7% for the year ended 31 December 2016 as compared to that for the year ended 31 December 2015 and approximately 37.4% for the six months ended 30 June 2017 as compared to that for the six months ended 30 June 2016; (ii) the scale down of self-operated offline retail points was completed and its downward effect on our revenue for ELLE products was fully materialised in 2017, and the self-operated offline points will be used more as a marketing tool to showcase our products going forward; thus the revenue contribution for ELLE products generated from our self-operated retail points is expected to be stable at current level; (iii) our Group’s ability to allocate more resources to manage and promote the ELLE brand after having implemented the transfer and closedown scheme; (iv) the use of our proceeds from the Share Offer would increase our investment in marketing investment in addition to our on-going marketing activities and to refurbish our ELLE brand offline retail points and open our ELLE flagship store; and (v) the future growth of the China women’s handbag market at a CAGR of approximately 7.8% from 2016 to 2021 as estimated by Frost & Sullivan, our Directors are of the view that our sales for ELLE products will be stable in 2018 and our prospects remain positive in the future.

Jessie & Jane

- | | |
|--------------------|---|
| Brand description: | — Jessie & Jane is an embodiment of chic and classic styles. |
| | — A brand which is developed by a local designer, Ms. Jiang Ying, in the PRC in 2008. |
| | — A brand acquired and owned by our Group from 2014 onwards. |
| Target customers: | — Female customers aged between 20 and 40 with average income and seek fashion in touch with individuality. |

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- Products:
- Handbags (including handle bags, clutch bags and backpacks) and small leather goods (including wallets, coin cases and card holders).

Handbags



Wallets



- Suggested retail prices:
- The suggested retail price of our handbags generally set at a range between RMB200 and RMB1,000.
 - The suggested retail price of our small leather goods generally set at a range between RMB100 and RMB500.
- Offline sales network as at 30 June 2017:
- 3 self-operated offline retail points.
 - 40 retailer-operated offline retail points.
- Online sales network as at 30 June 2017:
- 8 self-operated online retail points.
 - 8 retailer-operated online retail points.
- History with our Group:
- We entered into an agreement to acquire the Jessie & Jane brand and products from an Independent Third Party in April 2014 with the trademark transfer procedure being completed in November 2014.

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Development cycle of Jessie & Jane brand

We entered into an agreement to acquire Jessie & Jane brand and products in April 2014 and our Directors consider that the Jessie & Jane brand can be categorised into three phases of development as follows:

Pre-acquisition phase (prior to April 2014): Leveraging on the successful operating experience of our management on developing the ELLE brand, we started to explore the expansion of our product portfolio to broaden our revenue source.

In late 2013, our Directors identified Jessie & Jane in market and commenced the study of whether it was suitable to add Jessie & Jane brand to complement our existing brand. Jessie & Jane brand was developed by a local designer, Ms. Jiang Ying (who is now a senior management of our Group) in 2008. For further background information of Ms. Jiang Ying, please refer to the section headed “Directors and senior management” in this prospectus. Before our acquisition of the brand, the Jessie & Jane products were sold only through the e-commerce platform. However, it was a popular brand and has established its brand awareness in the online women’s handbag market in the PRC.

Following evaluation and negotiation, our Group confirmed the acquisition plan of the brand in April 2014.

Integration phase (May 2014 – December 2014): Following the successful acquisition, our Directors began the integration of the brand to our Group’s operations by (i) taking over the online store operations right and remaining inventory from previous owner; and (ii) setting up design and development team, offline and online business operation teams. In addition to the Jessie & Jane online retail store on T-mall, our Group subsequently opened two offline specialty stores in August and September 2014 to promote the brand. During such integration phase, our Group generated revenue from sales of Jessie & Jane products of approximately RMB6.7 million for the year ended 31 December 2014.

Post-acquisition development phase (January 2015 – present): With considerable experience in distributing ELLE brand products and complemented by the marketing and technical know-how of building up a brand, our Group adopted the same online focus distribution strategy with the support of offline retail points in order to further develop the brand awareness. With our marketing effort in promoting our Jessie & Jane brand and successful expansion of our revenue source, we achieved significant growth in the sales of our Jessie & Jane products during the Track Record Period. We recognised revenue of approximately RMB27.7 million and approximately RMB60.6 million for the two years ended 31 December 2016, respectively, representing a growth of approximately 118.9%. As part of the brand building plan, we further opened 5 offline stores in Shanghai, Chongqing and Chengdu in 2015, resulting in total revenue of approximately RMB10.6 million generated through our self-operated retail stores for the year ended 31 December 2015.

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Our Group's initial success in brand building in 2015 also attracted the attention of offline retailers. In 2016, along with the increase in online sales, we added 14 new Jessie & Jane retailers with 27 new Jessie & Jane offline retailer-operated points in various cities in the PRC.

The following table sets forth our revenue by brand for the years/period indicated.

	Year ended 31 December				Six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
ELLE	164,767	85.6	149,887	71.2	67,955	63.2
Jessie & Jane	<u>27,681</u>	<u>14.4</u>	<u>60,594</u>	<u>28.8</u>	<u>39,530</u>	<u>36.8</u>
Total	<u><u>192,448</u></u>	<u><u>100.0</u></u>	<u><u>210,481</u></u>	<u><u>100.0</u></u>	<u><u>107,485</u></u>	<u><u>100.0</u></u>

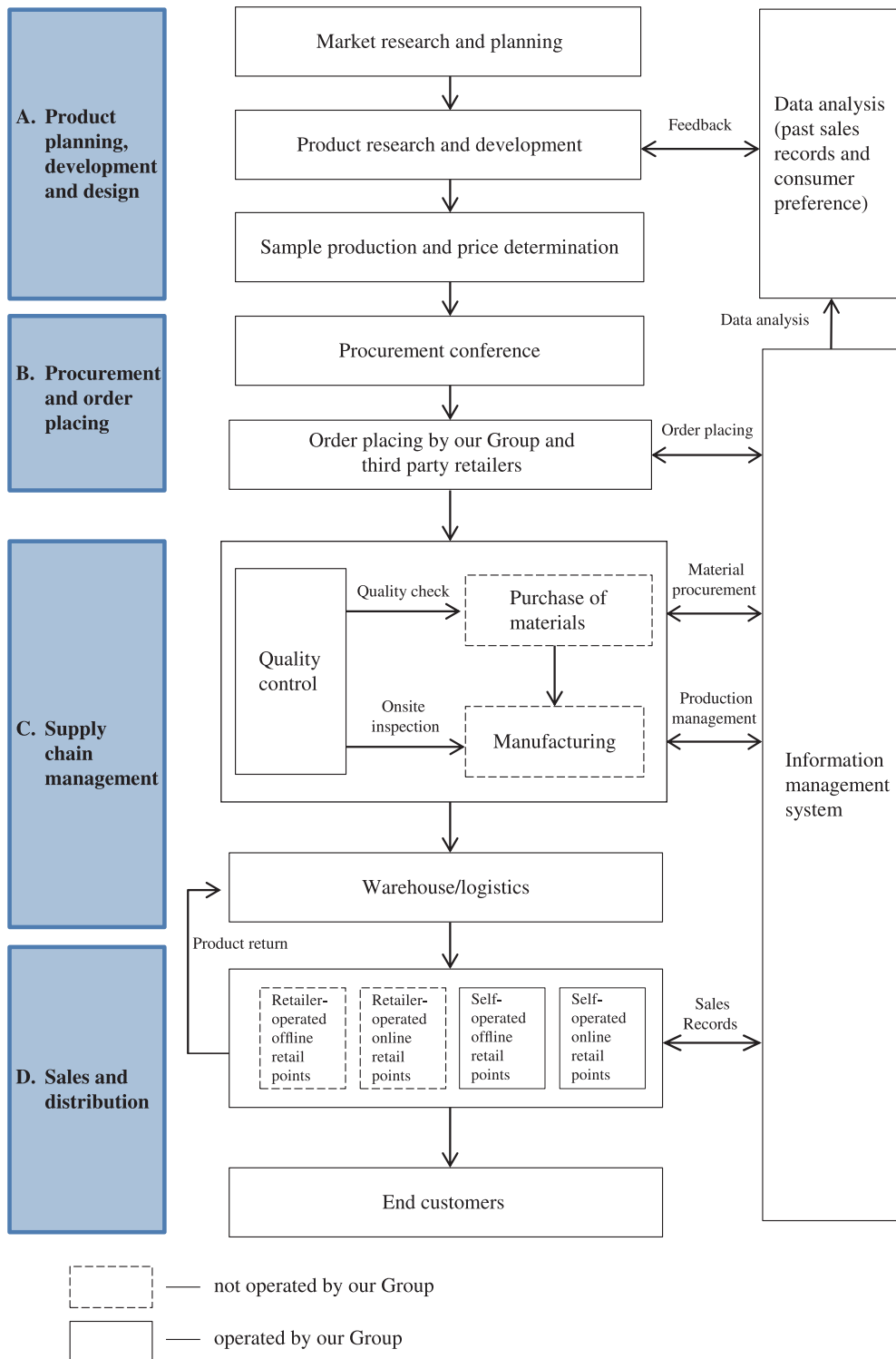
The following table sets forth a breakdown of our revenue by product category for the years/period indicated.

	Year ended 31 December				Six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Handbags	173,500	90.1	191,726	91.1	96,889	90.1
Others ^(Note)	<u>18,948</u>	<u>9.9</u>	<u>18,755</u>	<u>8.9</u>	<u>10,596</u>	<u>9.9</u>
Total	<u><u>192,448</u></u>	<u><u>100.0</u></u>	<u><u>210,481</u></u>	<u><u>100.0</u></u>	<u><u>107,485</u></u>	<u><u>100.0</u></u>

Note: It primarily includes wallets, travel goods, small leathers goods and cardholders, etc..

Our operation process

The following simplified diagram illustrates the flow of our operations:



A. PRODUCT PLANNING, DEVELOPMENT AND DESIGN

We believe that our product design has been one of the keys to our growth and success. We differentiate our products from those of our competitors by designing women’s handbags with image and style that are tailored for the taste of consumers of the PRC and consistent with the unique image and philosophy of our brands.

Product design and development department

We have established an in-house product design and development department that is dedicated to the design and development of each of our brands. As at the Latest Practicable Date, the design teams of our product design and development department comprised seven designers and assistants, of whom (i) three designers stationed in Hong Kong are responsible for the design and development our ELLE products; and (ii) four designers and assistants stationed in Shanghai are responsible for the design and development of our Jessie & Jane products.

The design and development of our ELLE products are led by Mr. Fang Yan (方昕), our design team leader, who has over 20 years of experience in the design industry and possesses in-depth understanding of handbag production. And, the design and development of our Jessie & Jane products are led by Ms. Jiang Ying (江英), our design director, who served as the design director of our Jessie & Jane brand and has commenced design for products under the Jessie & Jane brand since 2008. Ms. Jiang is a local designer in the PRC and has approximately nine years of experience in the design industry and possesses extensive knowledge about market trend and consumers’ demands for handbags in the PRC. Please refer to the section headed “Directors and senior management — Senior management” of this prospectus for further background information about Mr. Fang Yan and Ms. Jiang Ying.

Our product design and development process

Our products are generally divided into two collections, namely spring/summer collection and fall/winter collection. We usually commence our product design and development work six months before a new collection is launched. Based on the experience and best knowledge of our management, the life cycle of our handbags generally lasts for a period ranging from six months to two years.

Market research and planning

Generally, our in-house product design and development department conducts market research and our product department conducts sales analysis before the launch of each new collection. We collect market data on past sales performance of our products, analyse the latest fashion trends to identify the materials for quality products employed by the industry and collect the latest production information from our suppliers. Our designers regularly visit local and international fashion centres, attend various domestic and international trade and/or fashion exhibitions, and actively observe trends and seek inspiration through various channels,

including fashion shows, exhibitions and magazines to keep abreast with the latest fashion trends and seasonal theme. The design, research and development of our ELLE products are also supported by our ELLE licensor, which provides us with latest market trend information and design guide from time to time. During the Track Record Period, we also obtain fashion trend information from an Italian design house, which is an Independent Third Party.

Product research and development

After market research and planning, each design team presents its ideas and concepts including proposed product themes, colours and materials to our management, marketing department and product and logistics department for discussion and formation of a product plan. Afterwards, our design team of the product design and development department will create product designs according to the product plan. Our designers will select raw materials and instruct our suppliers to produce product prototypes. Our management, marketing department and product and logistics department will then review and comment on the prototypes. For ELLE products, our licensor will review, modify and/or approve our designs for our ELLE products before our products are launched. We will then formulate and finalise the specifications of our products.

Sample production and price determination

At the time when we finalise our product designs, we select suppliers (which are our manufacturers) and request for their cost breakdown for mass production based on our product specifications. Our management, marketing department and product and logistics department will determine the retail price of our products. We adopt a market-oriented pricing approach. We determine price of our products based on a number of key factors, such as market research and analysis, historical sales data, production costs, complexity of designs and production, proposed profit margins and market positions of our products.

We determine our suggested retail prices by the following steps: (i) our marketing department draws up initial pricing plans for each product by referencing product prices of our competitors and our product positioning; (ii) our product design and development department takes production costs and potential profits margins into consideration during product design and development; and (iii) our product and logistics department calculates the production costs and sets our profit objectives in accordance with the initial pricing plans to arrive at the retail price for each product.

B. PROCUREMENT AND ORDER PLACING

We normally hold two procurement conferences for our products to showcase to our third party retailers on our spring/summer and fall/winter collections. After the procurement conference, our third party retailers will generally confirm their purchase orders with us.

Subsequently, we will place our purchase orders to our suppliers. We also confirm detailed production plans with our suppliers before production is commenced.

Inventory control

We believe that maintaining an appropriate inventory level is critical to our cash flow and overall profitability. We have the following measures to manage our inventory with a view to reducing excess inventory and the age of inventory held:

- Our product and logistics department is primarily responsible for our sales and procurement planning and our inventory control. We formulate our sales and procurement planning annually and for each season based on, among others, our past sales performance and sales targets. We also purchase more products in preparation for different marketing and promotion activities. For example, we purchase more products and increase our inventories level for the Double 11 shopping festival.
- We distribute inventory to our self-operated retail points based on our sales and procurement plan and according to seasonal demand of the market and actual sales performance of products.
- We normally hold procurement conferences for our products to our third party retailers for purchase of our products. We believe that such procurement conferences assist us to plan our purchases from our suppliers and maintain our inventory level effectively.
- We have installed our information management system to manage our self-operated offline and online retail points and monitor the level of our inventory. The offline retailers are also requested to install our information management system and provide us with their sales data.
- We conduct product sales and inventory analysis from time to time and we can adjust our sales and marketing policies accordingly and determine whether any promotion activities are needed. We replenish inventory for and allocate inventory among our self-operated retail points regularly based on our sales data.
- We organise clearance sales from time to time as a promotional event before the offering of new season's products. At our clearance sales, we usually sell our out of season goods at a bigger discount. We generally sell the out of season goods: (i) on an outlet platform of T-mall, which is built exclusively for selected brands,

including some international brands, to sell products at a bigger discount to consumers, where we can sell the products at a bigger discount at approximately 15% to 20% of the suggested retail price; (ii) to third party offline retailers which specialise in managing discount outlet stores, and our out of season goods are sold to the retailers at approximately 15% to 20% of the suggested retail price; and/or (iii) through another e-commerce platform, namely VIP.com, which enables our Group to do short term discount sales of our products at approximately 20% to 60% of the suggested retail price.

As at 31 December 2015, 31 December 2016 and 30 June 2017, our inventory turnover days were approximately 115.4 days, 110.1 days and 104.1 days, respectively. As at 31 December 2015, 31 December 2016 and 30 June 2017, our inventories amounted to approximately RMB28.3 million, RMB28.7 million and RMB26.7 million, respectively.

C. SUPPLY CHAIN MANAGEMENT

Suppliers

We strategically focus our resources on the design and development of our products, promotion of our brands and management of our sales network. Having considered the capital investment in establishing and running a factory for production of our products, we choose to engage suppliers, who are manufacturers, to produce our products. The suppliers are generally responsible for procurement of raw materials for the production of our products. Over the years of our operations, we have built our network of reliable suppliers whom we have good understanding of their individual skills, craftsmanship and production capacity. During the Track Record Period, we had established business relationships with over 30 suppliers. Up to the Latest Practicable Date, we had established approximately 2 years to 11 years of business relationships with our five largest suppliers for the Track Record Period.

We select suppliers from our existing network based on various requirements, including product price, order size, complexity of product design, their experience, level of craftsmanship, production capacity, human resources and effectiveness of quality control. In order to ensure that our products can be delivered to our sales network, we estimate the time required for production based on our past experience and discuss with our suppliers to fix a production schedule.

In the event of engaging a new supplier, our quality control team of the product design and development department will conduct on-site examinations of the potential supplier's facilities to assess its production and technical capabilities and working conditions of the manufacturing facilities in order to ensure compliance with our manufacturing standards. We also request the potential suppliers to produce sample products for examination. We only select those suppliers who pass our examinations.

For further details regarding our suppliers, please refer to the paragraph headed "Suppliers" in this section below.

Quality control

We place strong emphasis on product quality to ensure that finished products produced by our suppliers are of high standard. As such, we have implemented our own quality control measures.

The quality control team of our product design and development department is responsible for (i) examining raw materials procured by our suppliers on a sampling basis; (ii) performing on-site inspections throughout the production process; and (iii) examining finished products before delivery.

Generally, raw materials of our products are sourced by our suppliers in the PRC. As part of our quality management process, we would examine the quality of raw materials purchased by our suppliers on a sample basis, perform our testing and have the raw materials tested by third party laboratories as designated by us.

Our quality control staff of the product design and development department visits the production facilities of our suppliers when they start manufacturing our products in order to ensure that the raw materials are up to our quality control standard. Our on-site quality control staff works closely with our suppliers to monitor the production process and give advice on production details and product quality so that finished products are of good and consistent quality. Examination of semi-finished products and finished products are carried out by our quality control staff on a sampling basis. We also perform testing, on a sampling basis, on the finished products.

When our quality control staff undertakes production inspections, they will report their findings of any defects or irregularities to our management and make necessary internal records. We will review such findings and follow up with our suppliers. At the same time, we monitor and manage the production schedule to ensure that production of our products will be completed according to the agreed schedule as set out in our purchase order.

After the manufacturing process is completed, our suppliers will pack finished products according to our instructions. Our quality control staff will inspect the packaging on a sampling basis to ensure that the packaging of finished products meets our requirements and specifications.

Quality issue

In the last quarter in 2014, the product quality authority of Yangpu District, Shanghai, the PRC, carried out its product quality testing on travel goods then sold on the market and noted that some of the travel goods sold by our Group did not meet the required standards. As a result, our Group was ordered to pay a penalty of approximately RMB346,000 in March 2016 and such penalty has been settled in March 2016.

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In order to further enhance our internal controls to prevent product quality incident, we have implemented the following measures:

- (i) we request our product suppliers to conduct on-site testing of raw materials before the use of such materials in the production process;
- (ii) our quality control team regularly visits and performs on-site testing at the suppliers' factories for monitoring the production process;
- (iii) we deliver some of our finished products to the local product quality authority for testing to ensure the required standard being met; and
- (iv) we also deliver some of our finished products to a qualified independent product quality tester for testing.

Logistics

Our product and logistics department is responsible for logistics management of our finished products. In order to ensure that finished products are delivered to our warehouse and our sales network on time, we keep close communication with our suppliers, our third party retailers and our third party logistics companies on timing of delivery.

D. SALES AND DISTRIBUTION

Since the establishment of our office in the PRC in 2005, we have built our offline sales network in first and second tier cities in the PRC. In order to expand the geographic coverage of our sales network effectively without incurring significant costs, we sell our products on a wholesale basis to third party retailers, who then sell them to end customers through their retail points. Having considered the rapid development of technology and change of consumption habits of the young generation in the PRC, we launched our first online retail point in 2010.

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The following table sets forth a breakdown of our revenue generated from online and offline sales channels for the years/period indicated.

	For the year ended 31 December				For the six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Online sales channels						
Self-operated online retail points	85,519	44.4	115,719	55.0	69,627	64.8
Sales to online retailers ^(Note)	<u>22,031</u>	<u>11.5</u>	<u>20,865</u>	<u>9.9</u>	<u>11,761</u>	<u>10.9</u>
Subtotal	<u>107,550</u>	<u>55.9</u>	<u>136,584</u>	<u>64.9</u>	<u>81,388</u>	<u>75.7</u>
Offline sales channels						
Self-operated offline retail points	65,239	33.9	48,694	23.1	10,280	9.6
Sales to offline retailers	<u>19,659</u>	<u>10.2</u>	<u>25,203</u>	<u>12.0</u>	<u>15,817</u>	<u>14.7</u>
Subtotal	<u>84,898</u>	<u>44.1</u>	<u>73,897</u>	<u>35.1</u>	<u>26,097</u>	<u>24.3</u>
Total	<u><u>192,448</u></u>	<u><u>100.0</u></u>	<u><u>210,481</u></u>	<u><u>100.0</u></u>	<u><u>107,485</u></u>	<u><u>100.0</u></u>

Note: Out of the sales of our products to a number of online retailers, it included the sales of our products to a customer, which is an Independent Third Party, on a wholesale basis. Such customer then sold the products to corporates, such as banks, which may use the products as reward gifts to its clients. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our sales to such customer accounted for approximately RMB9.9 million, RMB5.9 million and RMB6.4 million, respectively, representing approximately 5.2%, 2.8% and 5.9% of our total revenue, respectively.

Online sales network

We launched our first online retail point on one of the renowned e-commerce platforms in the PRC in 2010 after having considered the rapid development of technology and change of consumption habits of the young generation in the PRC. According to the Frost & Sullivan Report, the Chinese online retail market size has grown from approximately RMB1,311.0 billion in 2012 to approximately RMB5,155.6 billion in 2016, at a CAGR of approximately 40.8%. During the Track Record Period, our online presence was maintained through different third party e-commerce platforms, such as T-mall, JD.com and VIP.com, and we did not have our own e-commerce platform. Such e-commerce platforms hold various marketing and promotion activities from time to time. For example, they hold promotions for the Double 11 shopping festival in November and the 618 shopping festival in June. We generally benefit from their marketing efforts and experience higher sales. A significant portion of our revenue was generated from our self-operated online retail points operated on third party e-commerce platforms during the Track Record Period. For the two years ended 31 December 2016 and the

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six months ended 30 June 2017, the revenue generated from our self-operated online retail points accounted for approximately RMB85.5 million, RMB115.7 million and RMB69.6 million, representing approximately 44.4%, 55.0% and 64.8% of our total revenue, respectively. According to the Frost & Sullivan Report, we ranked first in the online middle-end women's handbag market in the PRC in terms of retail sales revenue in 2016.

Our online sales network currently mainly consists of:

- (a) our self-operated online retail points on e-commerce platforms, such as T-mall, JD.com and VIP.com; and
- (b) third-party retailer-operated online retail points, which sell the products to end consumers through online retail points operated by such third party retailers on e-commerce platforms.

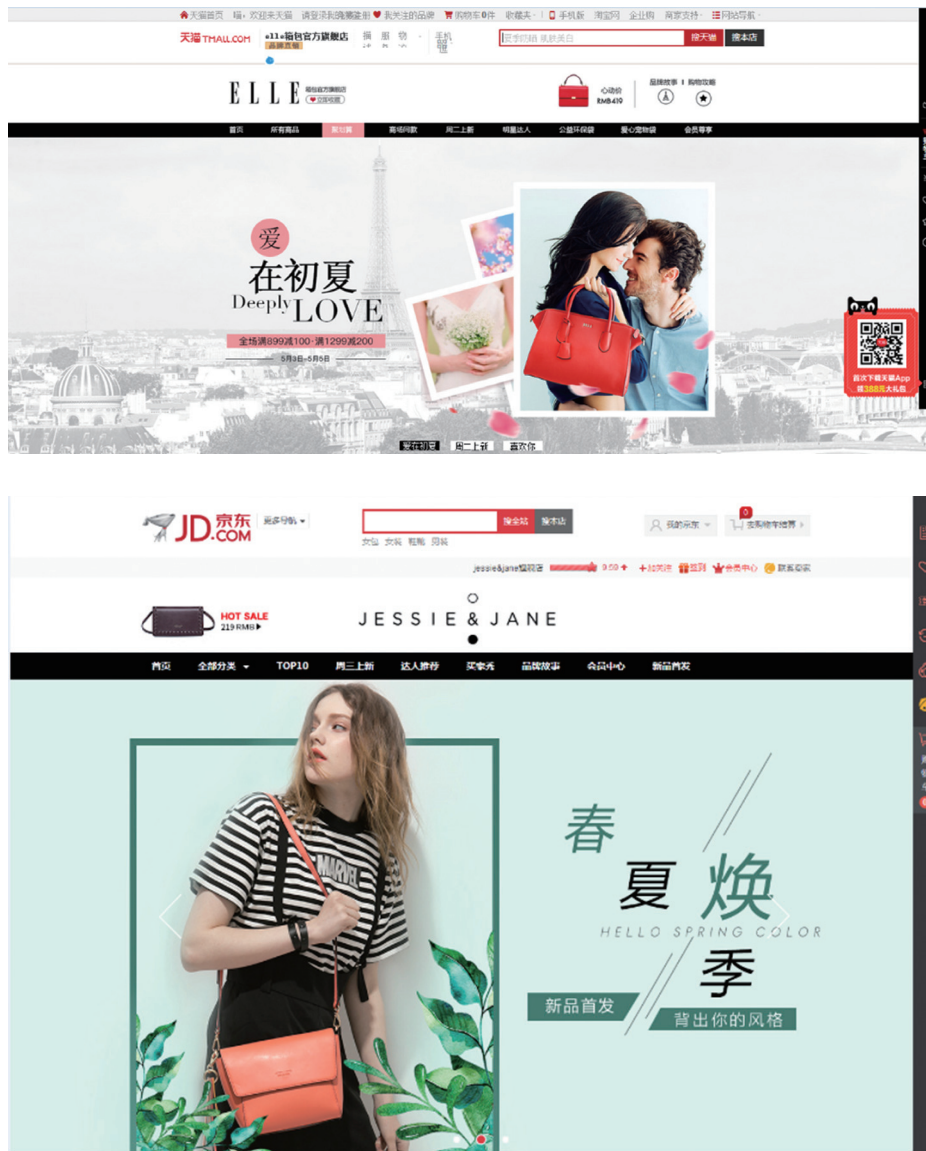
As at 30 June 2017, our products were sold through 14 self-operated online retail points and 18 retailer-operated online retail points. For the six months ended 30 June 2017, 5 retailer-operated online retail points were operated on 3 online platforms where we also have our self-operated online retail points. We generated revenue of approximately RMB3.9 million from the sales of our products to retailers who operated such retail points, representing approximately 3.6% of our total revenue. In order to mitigate the risk of cannibalisation between our Group and the online retailers who operate retail points on the same online platforms, we launch the majority of our products exclusively both on our self-operated retail points and retailer-operated online retail points; the products available for sale at our self-operated retail points and retailer-operated retail points are generally non-overlapping. The self-operated online retail points and the retailer-operated online retail points provide detailed product descriptions, consumer reviews and multi-angle graphic illustrations to assist end consumers in product selections and improve their shopping experience.

Self-operated online retail points

Our online business operation department is responsible for the operation of our online business on various e-commerce platforms. We generally entered service agreements with the e-commerce platform operators and required the e-commerce platform operators to provide us with necessary technical support that enable us to conduct business on their platforms. Our online retail points are operated in accordance with the general administration policies set out by each e-commerce platform operator. For example, we are required to provide fair and accurate information for our products sold on the e-commerce platforms. We typically pay annual fees and commissions to each e-commerce platform operator. Commissions are generally calculated at a fixed percentage of proceeds from sales transacted through the e-commerce platform. We generally design the webpage layout of our online retail points and present our product information and brand story on our online retail points.

Our product and logistics department and our online business operation department monitor the sales performance of our products sold through our self-operated online retail points and analyse preferences of our customers who purchase our products online. We design some of our products with a view to attract online customers and launch such products only on our self-operated online retail points. We also launch some of our products which are only available at the offline retail points which are operated by our Group and our third party retailers. We believe that these measures can also prevent potential conflicts between our third party retailers and our Group and keep our interests aligned.

Below are examples of the interface of our self-operated online retail points:



In order to facilitate the operation of our self-operated online retail points, we engaged two online store operators for their IT support, customer service and delivery service during the Track Record Period. They assist us to upload information and decorate our online stores

websites and/or the third party operated e-commerce platforms and reply our end customers' queries about our products and services on a daily basis on our behalf. When our end customer purchases products from our self-operated online retail points, they arrange delivery of our products. One of our online store operators is an Independent Third Party, while another online store operator is a related party. Please refer to the section headed "Directors and senior management — Directors — Chief executive officer and executive Director" for further information.

As advised by our PRC Legal Advisers, pursuant to (i) the Administrative Measures for Internet Information Services (《互聯網信息服務管理辦法》), (ii) the Administrative Measures for Filing of Non-operational Internet Information Services (《非經營性互聯網信息服務備案管理辦法》) and (iii) the Circular of the General Office of the Ministry of Commerce on Some Issues Concerning the Approval and Administration of Foreign Investment Projects of Sale through Internet And Automation (《商務部辦公廳關於外商投資互聯網、自動售貨方式銷售項目審批管理問題的通知》), we are not required to apply for a business licence given that we sell our products only on e-commerce platforms operated by third parties. We are also not required to register the aforesaid e-commerce platforms with the relevant authorities in the PRC. As advised by our PRC Legal Advisers, our e-commerce sales channels are in compliance with the relevant PRC laws and regulations and we are not required to apply for any business licence or register with any authority in this regard.

Retailer-operated online retail points

Our online business operation department is also responsible for handling our sales with third party retailers, which sell the products to end customers through online retail points operated by such third party retailers on e-commerce platforms. We have a consignment arrangement with one of these third party retailers. During the Track Record Period, we generally entered into cooperation agreements or product purchase agreement with these third party retailers and the salient terms of these agreements are as follows:

- **Duration:** typically one year.
- **Online sales platforms:** the third party retailers shall be responsible for the design, operation and management of the online retail points.
- **Sale of products:** our Group shall provide product lists to the third party retailers at their request and the sales shall then be confirmed between our Group and the third party retailers after purchase orders are placed to us.
- **Return of products:** we generally accept return of products due to product defect or any other reason. As part of our policy and in order to maintain good working relationship with our online retailer, we may also accept return of unsold products from online retailer within three months after the goods are delivered provided that the products are in saleable conditions. For the two years ended 31 December 2016 and the six months ended 30 June 2017, the amount of products returned by our

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online retailers amounted to approximately RMB1.1 million, RMB0.7 million and RMB0.3 million, respectively, representing approximately 4.9%, 3.2% and 2.1% of the total amount of products we sold to our online retailers.

Further, it is the business practice of one of our major online retailers to have a consignment arrangement in which such online retailers would issue sales record to us after their sales to the end customers and the unsold products would be returned to us from such online retailer.

- **Transportation:** we shall arrange delivery of our products to the third party retailers' designated locations.
- **Payment and credit terms:** the third party retailers shall settle the payments within 30 days after we deliver our products to them or after they sell our products and payments are generally settled by way of bank transfer. Under the consignment arrangement with our online retailer, we offer a credit period of 30 days after products are sold by the online retailer, and invoices are generally issued on monthly basis.
- **Termination:** the agreement shall be terminated by one month's notice in writing served by either party to the agreement.

Our cooperation agreements generally do not provide for minimum purchase commitments nor sales targets. However, we review and evaluate our third party retailers' performance from time to time. We also obtain and review information on sales of our products from our major online retailers to evaluate sales volumes and prices of our products in order to avoid channel stuffing from time to time. Moreover, we review and record the selling prices of our products from their online selling points that are operated by our online retailers. During the Track Record Period, there was no termination of our cooperation agreement with our online retailers.

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Offline sales network

As at 30 June 2017, our sales network comprised 97 offline retail points in four municipal cities, 17 provinces and four autonomous regions in the PRC and more than half of such retail points were located in first and second tier cities in the PRC. The following table shows the geographic distribution of our retail points as at 30 June 2017:

	Number of retail points	
	Self-operated	Retailer-operated
Municipal cities		
Shanghai	5	4
Beijing	—	4
Others (<i>Note 1</i>)	—	4
	5	4
Subtotal	5	12
Provinces		
Sichuan	—	24
Jiangsu	3	7
Hebei	—	5
Guangdong	—	4
Fujian	—	4
Others (<i>Note 2</i>)	—	27
	3	71
Subtotal	3	71
Autonomous regions		
Xinjiang	—	3
Others (<i>Note 3</i>)	—	3
	—	6
Subtotal	—	6
Total	8	89

Notes:

1. Includes Chongqing and Tianjin.
2. Includes Hubei, Anhui, Shanxi, Gansu, Liaoning, Shaanxi, Yunnan, Shandong, Henan, Hunan, Qinghai and Heilongjiang.
3. Includes Ningxia, Guangxi and Inner Mongolia.

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The retail points are either operated by our Group or by our third party retailers. We manage our sales network prudently to ensure that it grows in a manner commensurate with our business expansion. We oversee and control our retail outlets through a comprehensive set of measures ranging from prudent site selection, standardised store decoration and product display, uniformed suggested retail prices, daily operation control and supervision to inventory monitoring and control. The following table sets forth certain key features and arrangements of our self-operated retail points and our retailer-operated retail points:

	<u>Self-operated retail points</u>	<u>Retailer-operated retail points</u>
Brands	<ul style="list-style-type: none"> — ELLE — Jessie & Jane 	<ul style="list-style-type: none"> — ELLE — Jessie & Jane
Operation	<ul style="list-style-type: none"> — Directly operated by our Group. — Operation costs of the retail points are borne by us. 	<ul style="list-style-type: none"> — Operated by our retailers. — Operation costs of the retail points are borne by our retailers. — Our retailers can only open new retail points or change the location of the retail points after obtaining our approval. And, our third party retailers shall submit retail point opening application, which contains information of the retail point location, to us for review and assessment.
Title and ownership of products	<ul style="list-style-type: none"> — Title and ownership belong to us. 	<ul style="list-style-type: none"> — Title and ownership belong to our retailers.
Store decoration and product display	<ul style="list-style-type: none"> — Adopt standard store decoration and product display at all retail points. 	<ul style="list-style-type: none"> — Adopt standard store decoration and product display at all retail points. Please refer to the paragraph headed “Supports and services to our third party retailers” in this section below for information about our store decoration incentive.
Retail price	<ul style="list-style-type: none"> — Suggested retail prices applicable to all retail points. 	<ul style="list-style-type: none"> — Suggested retail prices applicable to all retail points.

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	<u>Self-operated retail points</u>	<u>Retailer-operated retail points</u>
Product return	<ul style="list-style-type: none">— End customers are generally allowed to return the products within seven days without giving a reason provided that the products are in saleable condition according to our policy. If there is any product quality issue, we would allow return of our products within 90 days after purchase.	<ul style="list-style-type: none">— End customers are generally allowed to return the products within seven days without giving a reason provided that the products are in saleable condition according to our policy. If there is any product quality issue, we would allow return of our products within 90 days after purchase.— Third party retailers may return products of an aggregate value of not more than 30% of the purchase costs to our Group in exchange for other products. For further information, please refer to paragraphs headed “Supports and services to our third party retailers” below.
Logistics distribution	<ul style="list-style-type: none">— Products are delivered to our retail points under our centralised distribution system.	<ul style="list-style-type: none">— Products are delivered to our retailers according to our purchase orders from our centralised distribution system.
Employees	<ul style="list-style-type: none">— Our sales representatives are hired by our Group.	<ul style="list-style-type: none">— Retailers are responsible for hiring sales representatives. Please refer to the paragraph headed “Supports and services to our third party retailers” in this section for information about staff training service.
Information management	<ul style="list-style-type: none">— Our information management system is directly connected to the system of our office in Shanghai.	<ul style="list-style-type: none">— Retailers are requested to install our information management system and sales data are supplied to us on a regular basis.

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As at 30 June 2017, we had (i) 5 self-operated offline retail points and 49 retailer-operated offline retail points for our ELLE products; and (ii) 3 self-operated offline retail points and 40 retailer-operated offline retail points for our Jessie & Jane products. The following table sets forth information about the movements of each category of our retail points by brand and our offline third party retailers for the years/period indicated:

	ELLE brand			Jessie & Jane brand		
	31 December		30 June	31 December		30 June
	2015	2016	2017	2015	2016	2017
Self-operated offline retail points						
At the beginning of the year/period	51	44	24	2	6	5
<i>Add: newly opened retail points</i>	5	—	—	5	1	—
<i>Less: closed retail points</i>	(11)	(14)	(11)	—	(1)	(1)
<i>Less: transfer of retail points to third party retailers</i>	(1)	(6)	(8)	(1)	(1)	(1)
At the end of the year/period	<u>44</u>	<u>24</u>	<u>5</u>	<u>6</u>	<u>5</u>	<u>3</u>
Retailer-operated offline retail points						
At the beginning of the year/period	64	59	53	—	5	32
<i>Add: newly opened retail points</i>	19	13	2	4	26	11
<i>Add: transfer of retail points from our Group</i>	1	6	8	1	1	1
<i>Less: closed retail points</i>	(25)	(25)	(14)	—	—	(4)
At the end of the year/period	<u>59</u>	<u>53</u>	<u>49</u>	<u>5</u>	<u>32</u>	<u>40</u>
Number of third party retailers						
At the beginning of the year/period	28	28	21	—	4	18
<i>Add: new third party retailers</i>	7	5	2	4	14	3
<i>Less: discontinued third party retailers</i>	(7)	(12)	(4)	—	—	(1)
At the end of the year/period	<u>28</u>	<u>21</u>	<u>19</u>	<u>4</u>	<u>18</u>	<u>20</u>

Note: As at 31 December 2015, 31 December 2016 and 30 June 2017, there were 2, 5 and 6 third party offline retailers who were operating retail points under our ELLE brand and our Jessie & Jane brand at the same time.

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The following table sets forth information about the nature of location of our retail points closed during the years/period indicated:

	ELLE brand			Jessie & Jane brand		
	31 December		30 June	31 December		30 June
	2015	2016	2017	2015	2016	2017
Number of offline retail points closed						
<i>Self-operated retail points</i>						
Department store counters	9	12	11	—	—	—
Shopping malls	<u>2</u>	<u>2</u>	<u>—</u>	<u>—</u>	<u>1</u>	<u>1</u>
Subtotal	<u>11</u>	<u>14</u>	<u>11</u>	<u>—</u>	<u>1</u>	<u>1</u>
<i>Retailer-operated retail points</i>						
Department store counters	25	21	11	—	—	—
Shopping malls	<u>—</u>	<u>4</u>	<u>3</u>	<u>—</u>	<u>—</u>	<u>4</u>
Subtotal	<u>25</u>	<u>25</u>	<u>14</u>	<u>—</u>	<u>—</u>	<u>4</u>
Total	<u><u>36</u></u>	<u><u>39</u></u>	<u><u>25</u></u>	<u><u>—</u></u>	<u><u>1</u></u>	<u><u>5</u></u>

During the Track Record Period, the number of discontinued third party offline retailers were 7, 12 and 5 and the amount of inventories held by these retailers at the time of discontinuation were approximately RMB1.5 million, RMB52,000 and nil for the two years ended 31 December 2016 and six months ended 30 June 2017, respectively. No inventory was held by the discontinued offline retailers during the six months ended 30 June 2017 as the retailers had sold all the products on hand before the discontinuation.

As we generally do not accept product returns from our third party retailers except for quality issues and exchanges for other products according to our Group's policies, we would usually seek for a new retailer to replace a discontinuing retailer, and the products held by the discontinuing retailer would be transferred to the new retailer for selling to end customers.

Reasons for change of retailer-operated stores and decrease in number of third party retailers

a. ELLE brand

For the Track Record Period, our Group decreased the number of self-operated retail points in response to (i) the increasing cost pressure from store operating retail points in various cities in the PRC; and (ii) the change in consumers' shopping habits from offline to online. Our Group's closedown and transfer plan (which commenced in the second half of 2016) is to reallocate more of our management resources to our online business, while retained our physical presence in Shanghai

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as at the Latest Practicable Date. Such decrease was mainly attributed to (i) the closedown of 11, 14 and 11 self-operated stores mainly in Shanghai, Beijing, Chongqing and Sichuan areas for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively; and (ii) the transfer of 1, 6 and 8 self-operated stores mainly in Chongqing and Sichuan areas to our Group's third-party retailers for the two years ended 31 December 2016 and the six months ended 30 June 2017 respectively.

For the year ended 31 December 2015, the total number of third party retailers for ELLE remained unchanged as 7 new third party retailers were added, and 7 existing third party retailers discontinued business with our Group. For the same year, our Group added 19 new retailer-operated retail points, transferred 1 self-operated retail point to a third party retailer and closed down 25 retailer-operated retail points, resulting in a net decrease of 5 retailer-operated retail points. Among the 20 newly added and transferred retailer-operated retail points, 6 retail points were added for relocation of original retail points; and the remaining retail points were added by our new and existing third party retailers mainly in various department store sales counters. For the 25 closed retailer-operated retail points, save for the 6 relocated retail points as mentioned above, the close-down was mainly due to cessation of business with our Group by (a) 2 discontinued retailers with a total of 9 retail points being replaced by 2 new ones; (b) 2 retailers' decision with a total of 5 retail points to change their business strategy in focusing on shoes, jeans and outdoor brands instead of women's handbags; (c) non-renewals by the lessors of the respective retail points operated by 2 retailers with a total of 2 retail points; and (d) 1 retailer closed down the retail point operated by them at the time, but re-opened in June 2017. Two remaining retail points were closed down by our retailers to scale down their operations.

For the year ended 31 December 2016, our Group added 5 third party retailers and 12 existing third party retailers discontinued business with our Group with a net decrease of 7 third party retailers for ELLE brand. For the same year, our Group added 13 new retailer-operated retail points, transferred 6 self-operated retail points to our third party retailers and closed down 25 retailer-operated retail points, resulting in a net decrease of 6 retailer-operated retail points. Among the 19 newly added and transferred retailer-operated retail points, 5 retail points were added and transferred for relocation of original retail points; 4 retail points were added by new third party retailers and the remaining retail points were mainly added by and transferred to an existing third party retailers in various department store counters in Sichuan area. For the 25 closed retailer-operated retail points, save for the 5 relocated retail points as mentioned above, 15 retail points were closed down due to cessation of business with our Group by our retailers due to (a) 2 retailers with a total of 3 retail points in Henan and Hunan province being replaced by a major retailer in the year 2017; (b) 3 retailers with a total of 5 retail points in Shandong province to be replaced by a major retailer in the year 2018; (c) 2 retailers with a total of 2 retail points discontinuing due to renovation and relocation plans by the local department store; (d) a retailer with 1 retail point closing down its department store counter and to open a new stand-alone shop in shopping mall in the year 2018; and (e) 4 retailers with a total of 4 retail points discontinuing due to declining traffic in local department stores; and the remaining 5 retail points were closed down by our retailers to scale down their operations.

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For the six months ended 30 June 2017, our Group added 2 third party retailers and 4 existing third party retailers discontinued business with our Group with net decrease of 2 third party retailers for ELLE brand. For the same period, our Group added 2 new retailer-operated retail points, transferred 8 self-operated retail points to our third party retailers and closed down 14 retailer-operated retail points, resulting in a net decrease of 4 retailer-operated retail points. For the 14 closed retail points, 6 retail points were closed down due to cessation of business with our Group by our retailers due to (a) 2 retailers with a total of 2 retail points discontinuing due to renovation and relocation plans by the local department stores; and (b) 2 retailers with a total of 4 retail points closing down their department store counters and to open new stand-alone shops in shopping malls in the year 2018; and the remaining 8 retail points were closed down by our retailers to scale down their operations.

For the two years ended 31 December 2016 and the six months ended 30 June 2017, a total number of 36, 39 and 25 ELLE brand retail points, including both self-operated and retailer-operated retail points, were closed respectively, of which (i) 34, 33 and 22 were located in department store counters respectively; and (ii) 2, 6 and 3 were located in shopping malls respectively.

Following completion of such change, although the overall sales for ELLE products slightly declined by 0.5% for the comparative periods ended 30 June 2017, we maintain a near breakeven position for our self-operated offline retail points, in terms of operating contribution, with an immaterial profit (i.e. RMB249,000) for our ELLE brand for the six months ended 30 June 2017. As a result of such change, we can allocate more of our resources in the management of other distribution channels, resulting in an improvement of our ELLE brand's operating performance from approximately RMB18.1 million (or 26.5%) to RMB22.1 million (or 32.5%).

b. *Jessie & Jane brand*

For the year ended 31 December 2015, our Group added 5 self-operated retail points and transferred 1 self-operated retail point to our third party retailer with a net increase of 4 self-operated retail points. Such increase was to enhance our Group's brand awareness and open market for our own brand. For the year ended 31 December 2016 and the six months ended 30 June 2017, due to physical retail market condition, our Group closed down and transferred some stores for the sake of resource reallocation as mentioned above.

As our Jessie & Jane brand attracted the attention of third party retailers, the number of third party retailers and retailer-operated retail stores increased throughout the Track Record Period.

For the year ended 31 December 2015, our Group added 4 third party retailers for Jessie & Jane brand, added 4 new retailer-operated retail points and transferred 1 self-operated retail point to our third party retailers, resulting in a net increase of 5 retailer-operated retail points as third party retailers started to become aware of the new brand and tried to market the brand.

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For the year ended 31 December 2016, our Group added 14 third party retailers for Jessie & Jane brand, added 26 new retailer-operated retail points and transferred 1 self-operated retail point to our third party retailers, resulting in a net increase of 27 retailer-operated retail points. Our Directors believe that as our Jessie & Jane achieved good sales performance on online platform, whereas retail outlet expansion was still at early stage. Based on the understanding of our management, our third party retailers from time to time would explore new potential sites such as newly built shopping malls for business expansion. They then will make new shop opening application to us. We will review and consider their applications and conduct our own site inspection for evaluation of the new shop opening. With positive feedback on sales performance from both self-operated and retailer-operated Jessie & Jane offline retail points, we consider there is market potential, in terms of future sales growth and profitability, in physical retail market for local designers' brands and thus we were able to attract a number of new third party retailers for the opening of retail points and there was an expansion of retail points by existing third party retailers.

For the six months ended 30 June 2017, our Group added 3 third party retailers for Jessie & Jane brand, 11 new retailer-operated retail points have been set up, transferred 1 self-operated retail point to our third party retailers and closed down 4 retailer-operated retail points, resulting in a net increase of 8 retailer-operated retail points. One retailer with 1 retail point discontinued business with our Group due to the change of leasing plans by the local shopping mall. As the growth in number of physical retail stores was high for the year ended 31 December 2016, our Group's third party retailers preferred to realise the profit for their existing stores before launching new stores. Thus, the pace of their expansion was slowed down as our Directors and our third party retailers took a more conservative approach in further expansion of the offline sales network in 2017 due to the robust growth experienced in 2016.

For the two years ended 31 December 2016 and the six months ended 30 June 2017, the total number of closed Jessie & Jane brand retail points, including both self-operated and retailer-operated retail points, was nil, 1 and 5 respectively, which were all located in shopping malls.

During the Track Record Period, we conducted periodic performance review on our third party retailers. We have the rights to terminate certain cooperation agreements with our third party retailers that were in breach of the agreements or do not meet our financial or operational requirements due to poor performance. Please refer to the paragraph headed "Customers — Cooperation agreements with our offline third party retailers" in this section for further information about the salient terms of our cooperation agreements.

Site selection

We believe site selection is critical to the success of our sales network operation. Our management has accumulated valuable experience in evaluating and selecting potential sites for our sales network. Our retail points are typically located in shopping malls and department stores with high volume of pedestrians in the main commercial districts of regions and cities in the PRC. We believe our ability to identify and secure attractive sites for our retail points are one of the key factors contributing to our success.

Our offline business operation department is responsible for the management of our offline sales network. They prepare reports after they have identified a potential site for a future retail point. Based on this report, we analyse factors such as population density, purchasing power of consumers, location of the shopping malls and floors by comparing with retail points opened by our competitors and their respective sales data, competitive landscape and projected sales revenue.

We generally consider and evaluate the following factors during site selection process:

- geographic location;
- competitive landscape of the major brands within the region; and
- estimated operating costs and expected sales performance.

We plan to seek attractive sites to expand our distribution network in a prudent manner. Going forward, we plan to focus on expansion of retailer-operated retail points to further develop our existing market presence.

Self-operated offline retail points

As at 30 June 2017, we had a total of 8 self-operated offline retail points, which are directly managed by offline business operation department. We operate retail points in order to enhance our brand recognition, attract potential third party retailers to expand our distribution network and penetrate into strategic market. Self-operated retail points also offer us the opportunities to obtain first-hand market information to keep ourselves informed of the latest market trends, consumer demands and preferences, and offer better operational support to our third party retailers.

Our self-operated offline retail points include both department store sales counters and standalone shops in various shopping malls. Although sales proceeds from customers for our Group's retail points in department stores are first collected by the department stores and then subsequently reconciled and paid back to our Group after deducting commission, our Group does not sell our products on a consignment basis as the retail points and products are under the direct control of our Group, and the sales staff at the respective retail points are employees of our Group.

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The following table sets forth the number of our self-operated retail points by brand as at the years/period end indicated:

	31 December		30 June
	2015	2016	2017
ELLE	44	24	5
Jessie & Jane	6	5	3
Total	50	29	8

Self-operated retail points operated under the name of our staff

As at 31 December 2015, 31 December 2016 and 30 June 2017, six, two and none of the self-operated offline retail points outside Shanghai were operated under the name of our staff (個體戶) instead of our subsidiaries. Such arrangement was adopted as a temporary measure to secure certain strategic retail point location in a short period of time and it is not a common industry practice to run self-operated retail points under the name of staff in the PRC. Our Directors are of the view that, in the PRC, retailers often compete on prime locations for new retail point opening but time consuming registration process for setting up a branch company in other PRC provinces is required. Given this dilemma, we assigned and instructed our staff to set up and operate the retail points on behalf of us. The following table sets forth information about the movements of such self-operated retail points during the Track Record Period:

	31 December		30 June
	2015	2016	2017
At the beginning of the year/period	2	6	2
Add: new self-operated retail points operated under staff's name	4	—	—
Less: transfer of retail points to third party retailers	—	3	1
Less: closed self-operated retail points operated under staff's name	—	1	1
At the end of the year/period	6	2	—

For the two years ended 31 December 2016 and the six months ended 30 June 2017, the revenue attributed by these self-operated retail points amounted to approximately RMB5.6 million, RMB4.6 million and RMB0.4 million, respectively, representing approximately 2.9%, 2.2% and 0.4% of our revenue, respectively. The cost of sales of these retail stores amounted to approximately RMB1.9 million, RMB1.4 million and RMB0.1 million for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. In connection

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with the arrangement, we recorded net profits of approximately RMB0.8 million and RMB0.4 million for the two years ended 31 December 2016, respectively, and a net loss of approximately RMB49,000 for the six months ended 30 June 2017.

Internal control measures

We have implemented the following internal control measures in respect of the daily management of retail points, books and records keeping and cash management:

- (a) we had entered into authorisation letter with our staff in relation to the opening of self-operated retail points under staff's name. Pursuant to the terms of the authorisation letters, it was agreed and confirmed that (i) we granted our staff the right to open and operate a retail point for the sale of our products; (ii) the products delivered by us to the retail points were properties of our Group; (iii) we enjoyed the full benefit of the revenue earned from the sale of products; and (iv) after the sale of products, the revenue earned shall be fully paid to our Group according to our instructions;
- (b) a staff-operated retail point policy (個體戶店舖財務管理手冊) has been established to control the processing of sales receipts, inventory management, accounting, bank accounts and debit cards by the staff;
- (c) all passwords of staff's bank accounts, as applicable, were kept and safeguarded by our Company's designated personnel i.e. cashier and general ledger accountant;
- (d) sales staff of self-operated offline retail points would enter the receipt information into the Point of Sales ("POS") system. Monthly reconciliation between the sales receipts from the POS system and bank statements/cash ledgers would be performed by the Shanghai finance team, and our Group's information management system, which are directly connected to the system of our office in Shanghai, was installed at each of these retail points and sales records of these retail points were recorded in a timely manner;
- (e) staff and supervisor of self-operated offline retail points would perform monthly inventory count and reconcile the counting results with the inventory records in the accounting system;
- (f) the relevant staff's personal bank account for sales through staff-operated retail points was solely designated for our Group's business operation including the receipts of the relevant sales proceeds. The bank statements from such personal bank account were sent to Hong Kong finance team for checking on a monthly basis;

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- (g) at the end of each month, Shanghai finance team would be responsible for performing monthly reconciliation by checking the bank statements of the staff's bank accounts against our Group's accounting records. In addition, the Shanghai finance team would also prepare the bank reconciliation and submit to Hong Kong finance team for review; and
- (h) our finance team would prepare a revenue report, which included the amount of revenue and the cost of sales automatically generated from the POS system.

Our Directors believe that the internal control measures adopted and implemented by our Group were effective and they confirm that no incident of fraud, misappropriation of funds, loss of cash, money laundering or tax evasion has occurred. As stipulated in the Contract Law of the PRC (中華人民共和國合同法), a commission contract is a contract entered into between a principal and an agent, where the agent shall handle the entrusted affairs of the principal, and any contract, including the commission contract, violating the mandatory provisions of the PRC laws and administrative regulations, would be deemed invalid. As advised by our PRC Legal Advisers, there are no PRC laws and administrative regulations prohibiting a principal entrusting an agent in establishing points of sales for the businesses of selling women's handbag currently and at the time of entering the authorisation letter between our Group and the staff. Our PRC Legal Advisers are therefore of the view that each of the content and form of the authorisation letters as the commission contracts entered into between our Group and the staff complies with the Contract Law of the PRC, and such arrangement does not violate any mandatory provision of the PRC laws and administrative regulations, and the authorisation letters are therefore legal and valid.

Use of funds in the staff's bank accounts

The funds held on trust by staff has been gradually utilised and remitted back to our Group according to our Group's instructions. Our Directors believed that although the bank account was under the staff's name, it was in effect under the control of our Group as our Group had internal control measures in place for monitoring movements in the bank account and that the bank account was established for the sole purpose of the purchase and sale of our Group's products. Our Directors were of the view that the staff did not have the intention, and they are also not able to misuse the relevant funds. Moreover, our Group had been able to utilise the funds on expenses incurred by our Group, and, thus, the funds in the bank account under the staff's name were not remitted back to our Group straight away. As at 28 July 2017, the relevant funds have all been utilised by and remitted to our Group. The bank account operated under the staff's name was under the process of being closed as at 31 July 2017.

Transfer of the staff-operated retail points to our third-party retailers

As advised by our PRC Legal Advisers, according to the relevant PRC laws and regulations and the relevant authority service guidelines at the time and based on their understanding of legal practice, (i) it normally takes approximately 8 to 10 weeks to complete and obtain all necessary applications and approvals to establish a branch company for a foreign investment commercial enterprise, like Senhao Shanghai, in a particular province in the PRC; and (ii) it normally takes approximately 3 to 4 weeks for an individual to set up an individually-owned business pursuant to the PRC laws and regulations. In respect of the transfer of the staff-operated retail points to our third party retailers, it generally took approximately five to six weeks after relevant terms had been agreed between our Group and the third-party retailer, to fully complete the transfer procedures, such as the change of tenant for the rental of such retail points, the termination of authorisation letter from our Group to the staff for operating such retail points and the completion of the necessary applications and approvals by the third-party retailers to establish a branch company in that particular province in the PRC etc..

Our Group engaged an independent internal control consultant (the “**Internal Control Consultant**”), to assess both the overall internal control systems of our Group and further engage them to perform an assessment over the controls of the self-operated offline retail points under the name of staff.

As a result of the Internal Control Consultant’s review of our Group’s self-operated offline retail points under the name of staff, other than the inadvertent oversight by our Group’s staff, the Internal Control Consultant did not identify other major deficiencies related to the arrangement.

Moreover, our Group has implemented the following preventive controls to ensure such arrangement will not occur in the future:

- (i) the Shanghai finance team is responsible for scrutinising the accounting records and bank statements to search for any non-corporate bank accounts. Any irregularities identified will be immediately reported to the financial controller of our Group;
- (ii) our Group’s offline business operation department and finance team are responsible for imposing independent verification on the POS system input and revenue calculation; and
- (iii) our Group’s management has strengthened its accounting policies and enhanced on staff training to prevent reoccurrence of similar incidents in the future.

Our Directors confirm that, during the Track Record Period and up to the cessation of the arrangement, there was no incident of fraud, loss of cash, misappropriation of funds, money laundering or tax evasions as a result of the arrangement. In addition, our Directors confirm that our Group will continuously monitor and the Internal Control Consultant will

review the efficiency of our Group's control periodically after Listing. Our Directors are of the view that, as there has been no incidents relating to the arrangement as mentioned above, the internal control measures put in place were effective.

Retailer-operated retail points

In order to expand the geographic coverage of our sales network effectively without incurring significant costs, we sell our products on a wholesale basis to third party retailers, who then sell them to end consumers through their retail points. These retail points are operated according to the same brand formats as our self-operated retail points so that consistent brand image is delivered across our sales network and that consumers are provided with the same shopping experiences at both our self-operated and retailer-operated retail points.

We believe this business model is an effective way to expand the geographic coverage of our sales network without incurring significant costs. This business also helps us provide a standardised shopping experience to consumers under a uniform brand image. We believe our business model is in line with the market practices in the women's handbag industry in the PRC.

Selection criteria for third party retailers

We have developed a process for our retailer-operated retail points expansion. We select our third party retailers based on a number of criteria, including, among others, their background, industry experience, scale of operation, financial condition, reputation and retail point location.

Supports and services to our third party retailers

Leveraging on our significant experience in operation of retail points accumulated over the years, we have developed an extensive sales network in four municipal cities, 17 provinces and four autonomous regions in the PRC and more than half of such retail points were located in first and second tier cities in the PRC as at 30 June 2017. We offer ongoing supports to our third party retailers, enabling them to seamlessly integrate into our sales network and accomplish their business objectives. The supports and services we offer to our third party retailers cover key aspects of retail point management, including the following:

- **Assessment of retail points locations:** our offline business operation department assesses and evaluates the site selection of the retail points based on criteria as if the retail points were operated by us.

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- **Store decoration and product display:** we provide store decoration design and product display services to our third party retailers to ensure that the retail points operated by our third party retailers adopt uniform design, appearance, decoration, layout, colour and lighting schemes. The decoration work shall be performed by interior design companies designated by our Group and the decoration costs are generally borne by our third party retailers. Our Group may, on a case by case basis, provide store decoration subsidy of an amount equivalent to 50% of the decoration costs, as a new shop opening incentive, to our third party retailers.
- **On-site supervision:** we conduct visits to our retailer-operated retail points from time to time to ensure they are operated in accordance with our policies and operational procedures.
- **Staff training:** we place great emphasis on the training of staff at retail points and provide in-house training on various retail operation matters for our third party retailers. Such training is conducted when the staff joins our third party retailers or before they commence their work at our retailer-operated retail points.
- **Pricing:** suggested retail prices are applicable to all retail points operated by our third party retailers. However, third party retailers can offer discounts to end customers only after prior approval from our Group.
- **Product returns in exchange for other products:** Third party retailers may return products of an aggregate value of not more than 30% of the purchase costs to our Group in exchange for other products within 45 to 90 days from the date of receipts of the products. For the two years ended 31 December 2016 and the six months ended 30 June 2017, the aggregate amount of products exchanged by our third party retailers amounted to approximately RMB3.7 million, RMB4.2 million and RMB1.6 million, respectively, representing approximately 18.9%, 16.6% and 9.9% of the total amount of products we sold to our third party retailers, respectively. We have subsequently sold approximately RMB2.6 million, RMB4.2 million and RMB0.8 million of these returned products at profit with additional profit of approximately RMB49,000, RMB108,000 and reduction in profit earned of RMB31,000 being recorded for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. As at the Latest Practicable Date, our third party retailers may return products of an aggregate value of up to approximately RMB2.5 million to us.

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The following table sets forth a breakdown of our revenue generated from our self-operated retail points (retail sales) and our sales to third party retailers (wholesale) for the years/period indicated:

	For the year ended 31 December				For the six months ended 30 June	
	2015		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%
Retail sales						
Online retail points	85,519	44.4	115,719	55.0	69,627	64.8
Offline retail points	<u>65,239</u>	<u>33.9</u>	<u>48,694</u>	<u>23.1</u>	<u>10,280</u>	<u>9.6</u>
Subtotal	<u>150,758</u>	<u>78.3</u>	<u>164,413</u>	<u>78.1</u>	<u>79,907</u>	<u>74.4</u>
Wholesale						
Sales to online retailers ^(Note)	22,031	11.5	20,865	9.9	11,761	10.9
Sales to offline retailers	<u>19,659</u>	<u>10.2</u>	<u>25,203</u>	<u>12.0</u>	<u>15,817</u>	<u>14.7</u>
Subtotal	<u>41,690</u>	<u>21.7</u>	<u>46,068</u>	<u>21.9</u>	<u>27,578</u>	<u>25.6</u>
Total	<u><u>192,448</u></u>	<u><u>100.0</u></u>	<u><u>210,481</u></u>	<u><u>100.0</u></u>	<u><u>107,485</u></u>	<u><u>100.0</u></u>

Note: Out of the sales of our products to a number of online retailers, it included the sales of our products to a customer, which is an Independent Third Party, on a wholesale basis. Such customer then sold the products to corporates, such as banks, which may use the products as reward gifts to its clients. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our sales to such customer accounted for approximately RMB9.9 million, RMB5.9 million and RMB6.4 million, respectively, representing approximately 5.2%, 2.8% and 5.9% of our total revenue, respectively.

Measures to mitigate the risk of cannibalisation between our online retailers and offline retailers

We believe that there may be potential cannibalisation between our online retailers and offline retailers. Thus, we have the following measures to mitigate such risk:

- (a) in our product design and development process, we collect market data on past sales performance of products and analyse preferences of online and offline consumers;
- (b) the majority of our products are launched for online or offline distribution exclusively;
- (c) the suggested retail prices of our products which are available on our online and offline distribution channels are the same;

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- (d) we review and monitor the selling prices of our products of our online and offline retailers from time to time; and
- (e) we evaluate and review the sales performance and feedbacks of our online retailers and offline retailers from time to time and provide them with different supports and services.

We believe that, with the above measures, we can mitigate the risk of cannibalisation between our online and offline retailers and we can also maintain good working relationship with them.

MARKETING AND PROMOTION

Our marketing and promotion strategy has played an important role in the enhancement of our brand recognition and contributed to the increase in our sales. We market our brands across a wide variety of media channels, such as magazines, and through social media to increase our brand awareness and enhance our corporate image. Moreover, in order to ensure a consistent brand image, we pursue a direct in-store marketing strategy that focuses on in-store product presentation in a stylish, attractive and consistent manner in order to increase consumer awareness of our brands. We also hold sales promotion events, in particular on our e-commerce platforms, to boost our sales performance from time to time. To further promote our products and our brand image, we also provide sponsorships to artists, in which we provide our products to them for use in our marketing activities, such as new store opening ceremony and/or product-launch event. The artists would also wear our products for photo-shooting and the photos would be used for promotion of our products as advertisements. We also provide sponsorships to television programmes, in which we provide our products to artists for use in TV series as product placement advertisements. To further increase our brand awareness and promote our products, we participated in the Shanghai Fashion Week, which was organised to promote fashion and trade, in 2016 and had our products showcased in one of the catwalk shows. Further, in order to develop consumer loyalty, we have established a membership program for our consumers. Members can redeem our membership credits accumulated from their purchases online or offline for discounts on their next purchase.

For the two years ended 31 December 2016 and the six months ended 30 June 2017, our marketing expenses amounted to approximately RMB8.5 million, RMB11.6 million, and RMB6.4 million, respectively, representing approximately 4.4%, 5.5% and 6.0% of our revenue, respectively.

AFTER SALES SERVICES AND PRODUCTS RETURN

For our products sold through third party e-commerce platforms, our customers are given the rights to return the products within seven days of receipt without giving a reason. For our products sold through the offline retail points operated by our Group or our third party retailers, the end customers are generally allowed to return the products within seven days without giving a reason provided that the products are in saleable condition when returned. If there is any product quality issue, we would allow return of our products within 90 days after purchase. For our ELLE

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products, in order to further enhance our customer satisfaction, we also provide life-long maintenance service for our leather products to our customers and we only charge our customers for the material costs. Our marketing department is responsible for handling complaints from our customers or third party retailers. In respect of obsolete products, our product and logistics department would inspect the conditions of such products and would arrange product repair, as and when necessary. If the products are in good and resalable conditions after repair but out of season, such products would be sold as normal products to our customers at a discount through e-commerce platforms or to our third party retailers who operate outlets. If the returned products are not in good or resalable condition, we would sell such products at our staff and family sales which are opened to our staff, their families and friends. If there is any product defect issue within the product warranty period which is six months after delivery of products by our suppliers to us, we would arrange return of products to our suppliers. During the Track Record Period and up to the Latest Practicable Date, we had not received any material product return requests from our customers or third party retailers or receive any material complaints from our customers or third party retailers. Having considered the above, our Group has not made any material provision for obsolete stock and returned products during the Track Record Period.

SEASONALITY

Our business and operating results are subject to certain degree of seasonal fluctuations. Our sales generally increase steadily in the first three quarters of each year. We generally experience higher sales in the fourth quarter of each year due to the national-wide marketing events of e-commerce platform operators in the PRC for the Double 11 shopping festival in each November. Moreover, we generally experience lower sales in October as consumers defer their purchase and anticipate the special offer for the Double 11 shopping festival in November. Our Directors believe that seasonality will continue to bring effect on our results of operations as a whole.

CUSTOMERS

During the Track Record Period, we primarily sold our products to end customers through our self-operated online and offline retail points in the PRC and wholesaled our products to our online and offline retailers in the PRC. As at 31 December 2015, 31 December 2016 and 30 June 2017, we had a total of 40, 46 and 47 online and offline retailers, respectively. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest customers accounted for approximately 12.9%, 11.4% and 14.0% of our revenue, respectively, and our largest customer accounted for approximately 5.2%, 3.9% and 5.9% of our revenue, respectively. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest customers are our online and offline retailers, which are engaged in the retail business in the PRC.

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We have maintained good business relationships with our five largest customers. All of our five largest customers during the Track Record Period are Independent Third Parties. As at the Latest Practicable Date, we had established approximately two to six years of business relationship with our five largest customers for the Track Record Period. None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest customers.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced, anticipated or foreseen any major conflicts, disagreements or write-off between our Group and our five largest customers.

Cooperation agreements with our offline third party retailers

During the Track Record Period, we entered into cooperation agreements with our third party retailers and the salient terms of the cooperation agreements are as follows:

- **Duration:** typically one to three years.
- **Geographical territory and exclusivity:** each of our third party retailers is authorised to operate retail points within a designated geographical territory on an exclusive basis under the cooperation agreement. They need to file with us for approval when they open a new retail point in their respective territory.
- **Point of sales:** each of our third party retailers is only allowed to operate and sell the products in retail points that had been assessed, evaluated and agreed to by our offline business operation department.
- **Sales performance:** we regularly review and assess our third party retailers' sales, financial and operational performance and will monitor their performance. We request our third party retailers to install our information management system and supply us sales data on a weekly or monthly basis.
- **Procurement conference:** our third party retailers shall attend our procurement conferences twice a year.
- **Return of products:** we accept return of products due to product defect and we also allow third party retailers to return products of aggregate value not more than 30% of the purchase costs in exchange for other products.
- **Transportation:** we engage third party logistics service providers to deliver our products to our third party retailers. The transportation costs shall be borne by our third party retailers.

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- **Payment and credit terms:** our third party retailers are generally required to pay us a non-refundable deposit which equals to 20% of the value of a purchase order within five days after the purchase order is confirmed, and are required to settle the remaining balances according to production schedule of our products. Our third party retailers shall settle the remaining balance within five days after we issue our notice.
- **Termination:** we are entitled to terminate the cooperation agreement if there is occurrence of any of, among others, the following events: (i) any unauthorised sale of our products by the third party retailers; (ii) performance of any illegal act by the third party retailers in the retail points; (iii) the third party retailers refuse to participate in our procurement conferences; (iv) no purchase order has been placed by the third party retailers within three months after the entry of the cooperation agreement; (v) any unauthorised change of the suggested retail price by the third party retailers; (vi) any sub-license of licence right to any third party; and (vii) any infringement of our trademarks or any of our intellectual property rights.

Our cooperation agreements generally do not provide for minimum purchase commitments, sales targets and targeted inventory levels. However, we review and evaluate our third party retailers' performance from time to time. During the Track Record Period, there was no termination of our cooperation agreement with our offline retailers.

SUPPLIERS

During the Track Record Period, we engaged suppliers, which are manufacturers, to produce our products in the PRC. As at 31 December 2015, 31 December 2016 and 30 June 2017, we had a total of 20, 22 and 12 suppliers, respectively. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest suppliers accounted for approximately 86.6%, 88.4% and 86.9% of our cost of sales, respectively, and our largest supplier accounted for approximately 25.4%, 24.3% and 35.9% of our cost of sales, respectively. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our five largest suppliers are handbag and small leather goods manufacturers and most of them are handbag manufacturers located in Guangdong province, the PRC. During the Track Record period and up to the Latest Practicable Date, we had not experienced any shortage or delay in the supply of products by our suppliers which was material to our business and operation.

We have maintained good business relationships with our five largest suppliers. Except for Dongguan Taiheng, all of our five largest suppliers during the Track Record Period are Independent Third Parties. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, the transaction amount with Dongguan Taiheng accounted for approximately 23.3%, 20.2% and 10.5% of our cost of sales, respectively. Dongguan Taiheng was our second largest supplier for the two years ended 31 December 2016 and the fourth largest supplier for the six months ended 30 June 2017. For further information about our transactions with Dongguan Taiheng, please refer to the section headed "Continuing connected transactions — Non-exempt continuing connected transactions" in this prospectus. As at the Latest Practicable Date, we had established approximately 2 years to 11 years of business relationship with our five largest

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suppliers for the Track Record Period. None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest suppliers except Dongguan Taiheng as mentioned above.

During the Track Record Period, we placed purchase orders with our suppliers for each of our purchases. However, we also generally entered into purchase agreements, as framework agreements, with our suppliers and the salient terms of the purchase agreement are as follows:

- **Duration:** typically one year.
- **Product warranty period:** our suppliers shall give us a product warranty period of six months after delivery of products. During the product warranty period, our suppliers shall be responsible for repair, maintenance or replacement of any defective products.
- **Transportation:** our suppliers shall be responsible for delivery of the finished products to the place designated by our Group.
- **Payment:** we generally settle the production costs on a monthly basis. Our suppliers would issue their invoices to us after we confirm the quantities of finished products we received from them. Moreover, we are generally offered credit terms of approximately 0 to 90 days.

Under the purchase agreements, we are not subject to any minimum purchase commitment.

OUR OPERATIONS IN HONG KONG

We have our main operation based in Shanghai with most of our departments stationed in the PRC. We operate our business in the PRC through our subsidiary, Senhao Shanghai. Our Hong Kong office provides necessary management support to our Group and we have our design team responsible for the design and development of our ELLE products stationed in Hong Kong. We operate our business in Hong Kong through Sling Incorp. For the two years ended 31 December 2016 and the six months ended 30 June 2017, Sling Incorp recorded profit before income tax of approximately RMB3.5 million, loss of approximately RMB0.7 million and loss of approximately RMB0.9 million, respectively, with provision for Hong Kong's profits tax of approximately RMB0.9 million, RMB0.3 million and RMB0.5 million, respectively. The difference between the effective tax rates and the prevailing income tax rates in Hong Kong mainly arise from the adjustments for non-deductible items such as listing fees and provision for impairment on investments, etc.. The assessable profits of Sling Incorp during the Track Record Period also included design fees of approximately RMB11.9 million, RMB9.6 million and RMB5.2 million charged to Senhao Shanghai for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively, in connection with design works performed by Sling Incorp's design team, which was based on 7% of Senhao Shanghai's net sales. This rate was determined after benchmarking with industry practice. These design fees are taxable for Hong Kong tax purposes. In connection with the design fee, our Group has engaged an independent tax adviser (the "**Tax Adviser**"), to review the relevant basis and tax treatment. The Tax Adviser has reviewed the nature

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of this transaction and necessary information and concluded the business substance is solid for this charge. The Tax Adviser has also conducted benchmarking analysis by using RoyaltyStat (a subscription database of royalty rates and licence agreements compiled from the US Securities and Exchange Commission and is commonly endorsed by competent China authorities for the benchmarking analysis) to identify the appropriate comparable agreements and concluded the rate of charge (i.e. 7% on net sales) was in line with the arm's length principle. Based on the above review and analysis, in the opinion of the Tax Adviser, it is a common basis adopted in the PRC and in compliance with the PRC tax and transfer pricing ruling.

We had significant bank borrowings denominated in Hong Kong dollars during the Track Record Period. These bank borrowings, which were drawn down by Sling Incorp, were guaranteed by Mr. Sammy Yau and Mr. Sonny Yau, our Controlling Shareholders and non-executive Directors, and Mr. Brian Lee, our chief executive officer and executive Director. Upon drawdown, the funds were provided to Senhao Shanghai and were used as working capital through inter-company loan and capital injection. For further details about our bank borrowings, please refer to the section headed "Financial information — Discussion on major items of the combined statements of financial position — Bank borrowings" of this prospectus.

Our Directors confirm that, save for the design fee and inter-company loan as mentioned above, there had been no other material intra-group transactions during the Track Record Period and up to the Latest Practicable Date.

INFORMATION TECHNOLOGY SYSTEMS

Our online stores are set up on independent third parties' e-commerce platforms such as T-mall, JD.com and VIP.com and sales administrative function for our online stores are provided by independent third party service provider(s) at an agreed fee. We also deploy certain standard accounting, information management system and other software package in our physical store and back-end office operations for planning and management of product design, production outsourcing, budgeting, human resources, inventory control, retail management and financial reporting. Our existing system also enable us to monitor the sales performance of most of our self-operated and retailer-operated retail points as well as being able to search and analyse their operational and financial data and information on a regular basis.

In view of our strategic focus on our online sales channel and our positioning as a leading online middle-end women's handbag company in the PRC, we value the importance of an integrated information management system in support of our efficient supply chain management. As such, we plan to carry out a comprehensive upgrade of our hardware and software in near future to achieve a greater degree of integration among our IT modules and details of which is set out in the section headed "Future plans and use of proceeds" of this prospectus. The objective of our IT upgrade plan is to enable us to promptly retrieve and analyse key operational data and information, including figures on procurement, sales, inventory and logistics on a real-time basis.

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COMPETITION

We operate in a highly competitive and fragmented industry. We compete with a broad range of women's handbag companies. According to the Frost & Sullivan Report, the top five participants of women's handbag market in the PRC account for approximately 1.87% sales revenue in 2016. According to the Frost & Sullivan Report, the key barriers to entry in the women's handbag market in the PRC include, among others, brand recognition, product quality and design, and advanced sales networks. We believe the principal competitive factors in the PRC women's handbag market involve brand image, design capability, sales network, retail outlet management, retention of skilled personnel, capital resources and customer loyalty.

Our brands face competition from a number of international and domestic brands of women's handbags. Nevertheless, we believe our design capabilities, sales network with extensive coverage, leading brand name and management will allow us to differentiate ourselves from our competitors and continue to compete effectively in the market.

PROPERTY

Owned property

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

Leased properties

Hong Kong

As at the Latest Practicable Date, we leased one property in Hong Kong from Unigrade. The following table set forth a summary of such property:

<u>No.</u>	<u>Lessee</u>	<u>Location</u>	<u>Gross floor area</u>	<u>Existing use</u>	<u>Term of current lease</u>	<u>Rental</u>
1.	Sling Incorp	Unit 1 on 21st Floor of Yen Sheng Centre, No. 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong	1,335 square feet	Office	From 1 January 2016 to 31 December 2018	Monthly fixed rent

For further information about our leasing arrangement with Unigrade, please refer to the section headed "Continuing connected transactions — Exempted continuing connected transactions" of this prospectus.

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The PRC

As at the Latest Practicable Date, we leased seven properties in the PRC with a total gross floor area of approximately 1,032.34 sq.m. from Independent Third Parties. The following table set forth a summary of such properties:

<u>No.</u>	<u>Lessee</u>	<u>Location</u>	<u>Gross floor area</u>	<u>Existing use</u>	<u>Term of current lease</u>	<u>Rental</u>
1.	Senhao Shanghai	Shop 07-3, Basement Level 1, Chamtime Plaza, No. 1239-7 Zuchongzhi Road, Pudong New District, Shanghai, the PRC	47.85 sq.m.	Retail store	From 15 April 2016 to 14 April 2018	Higher of the monthly base rent or a specified percentage of the gross turnover of that retail store
2.	Senhao Shanghai	Shop 42B, 2nd floor, CapitaLand Hongkou Plaza, No. 388 Xijiangwan Road, Hongkou District, Shanghai, the PRC	84 sq.m.	Retail store	From 9 April 2015 to 8 April 2018	Higher of the monthly base rent or a specified percentage of the gross turnover of that retail store
3.	Senhao Shanghai	Shop 2203C, 2nd Floor, Cloud Nine Shopping Mall, No. 1018 Changning Road, Changning District, Shanghai, the PRC	58 sq.m.	Retail store	From 1 April 2017 to 31 March 2019	Higher of the monthly base rent or a specified percentage of the gross turnover of that retail store
4.	Senhao Shanghai	Room 102, Shijiu Commercial Building, No. 100 Yejiashai Road, Shanghai, the PRC	346 sq.m.	Office	From 21 January 2017 to 20 January 2019	Monthly fixed rent
5.	Senhao Shanghai	Room 202, Shijiu Commercial Building, No. 100 Yejiashai Road, Shanghai, the PRC	400 sq.m.	Office	From 21 January 2017 to 20 January 2019	Monthly fixed rent
6.	Senhao Shanghai	Room 205, Shijiu Commercial Building, No. 100 Yejiashai Road, Shanghai, the PRC	66 sq.m.	Office	From 21 January 2017 to 20 January 2019	Monthly fixed rent
7.	Senxuan Shanghai	Room 203-13, Block 1, No. 38 Debao Road, Free Trade Zone, Shanghai, the PRC	30.49 sq.m.	Office	From 7 April 2017 to 6 April 2018	Monthly fixed rent

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In respect of the three shops leased by Senhao Shanghai for use as our self-operated retail points and the office leased by Senxuan Shanghai, the lease agreements have not been duly registered with the relevant PRC authorities. Our PRC Legal Advisers have advised us that we may be subject to a maximum penalty of RMB10,000 for each failure to register a relevant lease agreement with the relevant land and real estate administration bureau. As at the Latest Practicable Date, the operation of our self-operated retail points located at the aforesaid properties had not been disrupted due to the failure of the registration of the relevant lease agreement. Given the relatively insignificant amount of such penalties, our Directors believe that it would not have any material adverse effect on our Group's business, financial condition and results of operation.

In respect of the properties leased by Senhao Shanghai for use as our office, as advised by our PRC Legal Advisers, the properties are owned by the army of the PRC and the relevant permit to lease the properties shall be obtained from the property management department of the army. As at the Latest Practicable Date, the lessor had not provided us with the aforesaid permit nor its tenancy agreement with the army of the PRC. As advised by our PRC Legal Advisers, we may encounter difficulties in continuing to lease such properties. If we cannot continue to lease such properties, we will relocate our office to another premises. Our Directors estimate that the time required for our Group to relocate to another premises shall be approximately one month, and the related costs would be approximately RMB500,000. As at the Latest Practicable Date, we were not aware of any challenge being made by a third party or government authority that might affect our current occupation. In addition, our Directors do not anticipate any material practical difficulty in identifying comparable alternatives premises for our office. Save for the relocation costs disclosed above, our Directors believe that relocation of our office will not have any material adverse effect on our Group's business, financial condition and results of operation.

Please see the section headed "Risk factors — Our business and our industry — We face certain risks relating to the properties leased by us in the PRC" of this prospectus.

INTELLECTUAL PROPERTY

We rely on a combination of trademarks, trade secrets and other intellectual property laws as well as intellectual property protection and confidentiality clauses in agreements with our suppliers, third party retailers and others to protect our trademarks, trade secrets and other intellectual property rights. As at the Latest Practicable Date, we had the rights to use various trademarks on a perpetual, exclusive and/or royalty basis, of which 15 trademarks we considered material to our business and operation. Among such material trademarks, 13 were registered in the PRC and two trademarks were registered in Hong Kong. Meanwhile, we had two domain names. For details of our registered trademarks and domain names, please see "Further information about the business of our Company — 13. Intellectual property rights of our Group" in Appendix IV to this prospectus.

As at the Latest Practicable Date, we were not involved in any material legal proceedings for infringement on intellectual property rights of any third party, and we were not aware of any pending or threatened material proceedings or claims relating to intellectual property rights against us.

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INSURANCE

We maintain adequate insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our fixed and liquid assets.

For our Hong Kong operations, we maintain labour insurance for our staff. Depending on the terms of the relevant contracts, we may be required to take out insurance to cover risks of injuries suffered by personnel and damages to properties and equipment at our work site. Our Directors are of the view that our insurance coverage is sufficient for our operations.

For our PRC operations, we maintain social insurance for our employee according to the relevant laws and regulations in the PRC. Our Directors are of the view that our insurance coverage is sufficient for our operations.

We believe that our insurance coverage is adequate for our operations. As at the Latest Practicable Date, we had not made, nor been the subject of, any material insurance claim.

EMPLOYEES

As at the Latest Practicable Date, we employed 9 full-time employees in Hong Kong and 85 full-time employee in the PRC. The functional distribution of our full-time employees as at the Latest Practicable Date is as follows:

<u>Department</u>	<u>Number of employees</u>	
	<u>Hong Kong</u>	<u>The PRC</u>
Product design and development	5	8
Offline business operation	—	23
Online business operation	—	11
Marketing	—	15
Product and logistics	—	14
Finance	1	6
Management and administration	3	3
Information technology	—	5
Total	<u>9</u>	<u>85</u>

In our product design and development department, we have three designers, one product development director and one procurement staff stationed in Hong Kong who are responsible for the design and development of our ELLE products. In our product design and development department in our PRC office, we have four designers and assistants and one procurement staff stationed in Shanghai who are responsible for the design and development of our Jessie & Jane products.

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In our product design and development department in our PRC office, we have three quality control staff to ensure that our ELLE and Jessie & Jane products can meet our required standard.

We believe that the quality of our staff plays an important role in maintaining our operation efficiency, as well as our product development. In order to recruit, develop and retain talented employees, we offer competitive remuneration packages to our staff, including internal promotion opportunities. We also provide training to our employees, including technical training on topics such as sales skills and colour analysis.

We maintain good working relationships with our staff and we had not experienced any significant problems with our staff nor had there been any disruptions to our business operations as a result of strikes or other labour disputes during the Track Record Period.

In addition to direct employment, we also entered into a labour despatch contract with an employment agent, which is an Independent Third Party. The contract became effective in June 2014 and either party to the contract may terminate the contract at any time by giving 30 days' notice in writing. Pursuant to the labour despatch contract, we paid service fees to the employment agent, and the employment agent provided suitable workers to work for our Group based on our job requirements. The employment agent shall bear the social insurance and housing funds and other welfare benefits of the workers in accordance with relevant PRC laws and regulations. The despatched workers were employed by the employment agent, and hence our Group was not their employer.

ENVIRONMENTAL MATTERS

Due to the nature of our business, our operational activities do not directly generate industrial pollutants, and we did not directly incur any cost of compliance with applicable environmental protection rules and regulations during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, we had not received any complaints from our customers or any other parties concerning any environmental protection issues. Neither had we experienced any material environmental incidents arising from our operations.

OCCUPATIONAL HEALTH AND SAFETY

Our operations are subject to regulation and may be subject to periodic monitoring by local work safety authorities. If we fail to comply with present or future laws and regulations, we would be subject to fines, suspension of business or cessation of operations. We have established work safety policies and procedures to ensure that our operations are in compliance with the applicable work safety laws and regulations.

During the Track Record Period, we did not experience any material accidents in the course of our operations that involved personal or property damages or health or safety related compensation.

LICENCES AND PERMITS

Our Directors, as advised by our Hong Kong Legal Adviser, confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained all necessary licences, approvals and permits from the relevant governmental authorities for our business operations in Hong Kong.

Our Directors, as advised by our PRC Legal Advisers, confirm that during the Track Record Period and up to the Latest Practicable Date, we had obtained necessary licences, approvals and permits from the relevant governmental authorities for our business operations in material aspects in the PRC.

LEGAL PROCEEDINGS AND COMPLIANCE

As at the Latest Practicable Date, we were not engaged in any litigation, arbitration, administrative proceedings or claim of material importance pending or threatened by or against us, which could have a material adverse effect on our financial position and results of operation. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had no material non-compliance with applicable laws, rules and regulations in the PRC and Hong Kong.

RISK MANAGEMENT

Our management has established and implemented risk management procedures to address potential risks associated with our business operations, including strategic risk, operational risk, financial risk and legal compliance risk. We have in place procedures which aim to identify, analyse, categorise, mitigate and monitor various risks. Our management is responsible for the oversight of the overall risk management as well as the assessment and update of our risk management procedures on an annual basis.

CONTINUING CONNECTED TRANSACTIONS

SUMMARY

During the Track Record Period and prior to Listing, we entered into various transactions with certain parties which are/were or which we consider to be connected persons as defined under the GEM Listing Rules after the Listing Date and which are expected to continue after the Listing Date. We set out below details of these connected transactions.

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

Property Lease Agreement

During the year ended 31 December 2015, Sling Incorp leased the office at Unit 1 on the 21st floor of Yen Sheng Centre, No. 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (the “**Property**”) from Yen Sheng Factory. The total rent paid by our Group to Yen Sheng Factory was approximately RMB113,000 for the year ended 31 December 2015. We ceased leasing the Property from Yen Sheng Factory in 2016. On 1 January 2016, Sling Incorp and Unigrade entered into a lease agreement (the “**Property Lease Agreement**”) pursuant to which Sling Incorp leased the Property from Unigrade for a term of three years, from 1 January 2016 to 31 December 2018.

As at the Latest Practicable Date, Unigrade was wholly beneficially owned by Lee Sang. Lee Sang was owned by Mr. Sonny Yau, Mr. Sammy Yau, Mr. Fred Yau, Mr. Nicholas Yau and Atbest as to approximately 17.6711%, 17.6711%, 1.1342%, 1.1342% and 62.3894%, respectively, and Atbest was in turn beneficially owned by each of Mr. Sonny Yau and Mr. Sammy Yau as to 50% as at the Latest Practicable Date. Further, each of Mr. Sonny Yau and Mr. Sammy Yau is one of our non-executive Directors, a director of Sling Incorp and is one of our Controlling Shareholders. Pursuant to the GEM Listing Rules, Unigrade is an associate of Mr. Sonny Yau and Mr. Sammy Yau, and is therefore a connected person.

Since the lease pursuant to the Property Lease Agreement is expected to continue after Listing, the lease will constitute continuing connected transactions for our Group under Chapter 20 of the GEM Listing Rules upon Listing.

The total rent paid by our Group to Unigrade for leasing of the Property for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 were nil, RMB247,000 and RMB128,000, respectively. The total rent payable for each of the two years ending 31 December 2017 and 31 December 2018 will be RMB255,722. On such basis, each of the applicable percentage ratios of the transaction value on an annual basis is less than 5% and will not exceed HK\$3,000,000. Accordingly, the Property Lease Agreement and the transactions contemplated thereunder will fall within the exemption from the reporting, announcement, annual review, circular and independent Shareholders’ approval requirements pursuant to Rule 20.74 of the GEM Listing Rules.

Based on an independent professional valuer’s opinion that (i) the terms and conditions of the Property Lease Agreement are in the usual course of business of our Group, on normal commercial terms, and fair and reasonable; and (ii) the rentals paid by our Group under the Property Lease

CONTINUING CONNECTED TRANSACTIONS

Agreement are within the range of rental rates that an Independent Third Party would charge us for similar premises at similar locations in Hong Kong, our Directors are of the view that the Property Lease Agreement and the continuing connected transactions contemplated thereunder were arrived at after arm's length negotiations, are in usual and ordinary course of business of our Group, are on normal commercial terms or better to our Group and are fair and reasonable and in the interests of our Group and the Shareholders as a whole.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Manufacturing Services

Further, during the Track Record Period, Dongguan Taiheng had provided the services of producing samples and manufacturing of women's handbags, small leather goods and travel goods (the "**Manufacturing Services**") to our Group. We select our suppliers, whether or not they are connected persons or independent third parties to our Group, from our existing business network based on various requirements, including product price, order size, complexity of product design, their experience, level of craftsmanship, production capacity, human resources and effectiveness of quality control.

As at the Latest Practicable Date, Dongguan Taiheng was wholly owned by Tai Heng Factory, which was in turn owned by Macia (Hong Kong) and Ms. Cecilia Hiang as to approximately 99.99% and 0.01%, respectively. Macia (Hong Kong) was owned by Ms. Cecilia Hiang, Mr. Sammy Yau and Mr. Sonny Yau as to 50.0%, 49.0% and 1.0%, respectively, as at the Latest Practicable Date. Further, (i) Mr. Sammy Yau is our non-executive Director; (ii) each of Mr. Sammy Yau and Ms. Cecilia Hiang is one of our Controlling Shareholders; and (iii) Mr. Sammy Yau is a director of Sling Incorp. Pursuant to the GEM Listing Rules, Dongguan Taiheng is an associate of each of Mr. Sammy Yau and Ms. Cecilia Hiang and is therefore a connected person of our Company.

Since the transactions in relation to the Manufacturing Services are expected to continue after Listing, such transactions will constitute continuing connected transactions of our Group under Chapter 20 of the GEM Listing Rules upon Listing.

On 15 December 2017, Dongguan Taiheng and Sling BVI (on its own behalf and as trustee for the benefit of other members of our Group) entered into a manufacturing agreement (the "**Manufacturing Agreement**") pursuant to which Dongguan Taiheng will produce samples and manufacture women's handbags, small leather goods and travel goods for our Group upon receipt of placing orders from us, for a term commencing from 15 December 2017 and ending on 31 December 2019.

Principal terms

Date

15 December 2017

CONTINUING CONNECTED TRANSACTIONS

Parties

Sling BVI (on its own behalf and as trustee for the benefit of other members of our Group), as purchaser

Dongguan Taiheng, as manufacturer

Subject matter and term

Dongguan Taiheng will produce samples and manufacture women's handbags, small leather goods and travel goods for our Group for a term commencing from 15 December 2017 and ending on 31 December 2019.

During the term of the Manufacturing Agreement, it is envisaged that from time to time, members of our Group may place individual purchase orders ("**Individual Orders**") with Dongguan Taiheng in respect of the Manufacturing Agreement subject to terms and conditions in compliance with those of the Manufacturing Agreement.

Sling BVI has an option to renew the Manufacturing Agreement for a further period of three years, and for each exercise of a renewal option by Sling BVI, Dongguan Taiheng will be deemed to have granted a new option to Sling BVI for a further extension of three years on terms to be negotiated between the parties on a fair and reasonable basis and on the condition that all applicable disclosure and/or Shareholders' approval requirements under the GEM Listing Rules shall have been complied with by our Company.

Pricing

The prices payable by our Group under the Manufacturing Agreement will be determined based on the ordinary course of business, on commercial terms and a fair and reasonable basis, taking into account the general market conditions. Our Group will pay Dongguan Taiheng a purchase price per Individual Order in accordance with the quantity of order placed, the raw materials required for the relevant goods to be produced and the level of workmanship required. We will obtain quotations from three potential suppliers, of which one would be Dongguan Taiheng and the other two would be Independent Third Parties, and will compare and negotiate terms of quotations with the suppliers. We require our suppliers to provide detailed cost breakdown of producing our products, which enables us to assess the prices and consumption of material required for production of our women's handbags. We will determine whether or not the purchase price per Individual Order is reasonable with reference to the pricing information from other suppliers, who are Independent Third Parties, in relation to the manufacturing and production of similar quantity and type of products.

Reasons for the transactions

Our Group is principally engaged in designing, promoting and selling women's handbags, small leather goods and travel goods. We require a reliable and efficient manufacturer for making samples of products that reflect our intended design and quality. We have been engaging Dongguan

CONTINUING CONNECTED TRANSACTIONS

Taiheng for their Manufacturing Services for over 10 years, and based on the long-term business relationship with Dongguan Taiheng, our Directors consider that the quality of finished goods produced by Dongguan Taiheng was in line with the design, product specifications and our expectations. Given that the income of our Group derives from the retail of women's handbags, small leather goods and travel goods, our Directors consider that the Manufacturing Services provided by Dongguan Taiheng is reliable and is beneficial to our Group and allow us to maintain the quality of the products that we are selling to customers.

Our Directors consider that the terms of the Manufacturing Agreement are fair and reasonable and are on normal commercial terms, and are entered into in the ordinary and usual course of business of our Group which are in the interests of our Group and our Shareholders as a whole.

Historical figures

The total annual fee paid by our Group to Dongguan Taiheng for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 were approximately RMB18,630,000, RMB19,057,000 and RMB5,062,000, respectively. For each of the two years ended 31 December 2016 and the six months ended 30 June 2017, the transaction amount with Dongguan Taiheng accounted for approximately 23.3%, 20.2% and 10.5% of our cost of sales, respectively. Dongguan Taiheng was our second largest supplier for the two years ended 31 December 2016 and the fourth largest supplier for the six months ended 30 June 2017.

The total fee paid by our Group to Dongguan Taiheng for the six months ended 30 June 2017 was relatively lower as manufacturers in the PRC, including Dongguan Taiheng, due to the Chinese New Year holiday in January 2017, lowered the amount of purchase made by our Group.

Our Group did not enjoy any material tax benefit or exemption for subcontracting our manufacturing process to Dongguan Taiheng during the Track Record Period.

Annual caps

The annual caps are determined based on the historical transaction amounts of our Group and the total amount paid by our Group to Dongguan Taiheng for the Manufacturing Services for the two years ended 31 December 2016 and the six months ended 30 June 2017, and our estimation of the amount of transactions required by our Group after Listing. It is expected that the annual fee paid to Dongguan Taiheng by our Group for the three years ending 31 December 2019 will not be more than RMB14,200,000, RMB15,500,000 and RMB16,900,000, respectively.

GEM Listing Rules implications

The transactions in relation to the Manufacturing Agreement constitute continuing connected transactions for our Company. As our Directors expect that the applicable percentage ratios under Rule 19.07 of the GEM Listing Rules for the Manufacturing Agreement on an annual basis will be

CONTINUING CONNECTED TRANSACTIONS

more than 25% but less than 75%, the Manufacturing Agreement and transactions contemplated thereunder are subject to annual review, reporting, announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

Application for waiver from strict compliance with the GEM Listing Rules

As the above non-exempt continuing connected transactions (i) are expected to continue on a recurring basis; (ii) are expected to extend over a period of time after Listing; (iii) have been entered into prior to the Listing Date; and (iv) have been fully disclosed in this prospectus such that potential investors will participate in the Share Offer on the basis of such disclosure, our Directors (including our independent non-executive Directors) consider that compliance with the announcement, circular and independent Shareholders' approval requirements would be impractical and in particular, would add unnecessary administrative costs to our Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to our Company under Rule 20.103 of the GEM Listing Rules from strict compliance with the announcement, circular and independent Shareholders' approval requirements under Chapter 20 of the GEM Listing Rules, subject to the confirmations from our Directors and the Sole Sponsor stated below. We will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules, including, but not limited to, the proposed annual caps set out above, and will comply with the relevant rules of Chapter 20 of the GEM Listing Rules (including shareholders' approval requirement as appropriate) if the waiver from the Stock Exchange expires or the annual caps set out above are exceeded, or when the relevant agreement expires or is renewed or when any terms of the non-exempt continuing connected transactions are altered or our Company entered into new agreements with any such connected persons.

Confirmation from our Directors

Our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described above are fair and reasonable and in the interests of our Group and our Shareholders as a whole and the non-exempt continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of business of our Company on normal commercial terms. In addition, our Directors (including our independent non-executive Directors) consider that the annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Our Directors confirmed that we will comply with the applicable requirements under Chapter 20 of the GEM Listing Rules as amended from time to time, and will immediately inform the Stock Exchange if there are any material changes to the aforesaid transactions.

CONTINUING CONNECTED TRANSACTIONS

Confirmation from the Sole Sponsor

The Sole Sponsor is of the view that (i) the non-exempt continuing connected transactions described above have been entered into and will be carried out in the ordinary and usual course of business of our Company and on normal commercial terms, and that the terms of such transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and (ii) the proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of eight Directors, including three executive Directors, two non-executive Directors and three independent non-executive Directors. The table below sets out certain information in respect of the members of our Board:

Name	Age	Date of joining our Group	Date of appointment as Director	Position	Roles and responsibilities	Relationship with other Director(s)
Mr. Yau Frederick Heng Chung (邱亨中) (i.e. Mr. Fred Yau)	43	1 March 2002	22 June 2017	Chairman and executive Director	Overall business corporate strategic planning and development of our Group	Son of Mr. Sonny Yau and nephew of Mr. Sammy Yau
Mr. Lee Tat Fai Brian (李達輝) (i.e. Mr. Brian Lee)	44	18 May 1999	22 June 2017	Chief executive officer and executive Director	Operation and management of our Group	N/A
Mr. Yip Chun Wai (葉振威)	51	1 December 2015	20 October 2017	Chief financial officer and executive Director	Overall financial planning and management, as well as developing and maintaining relationship with banks in Hong Kong and the PRC	N/A
Mr. Yau Sonny Tai Nin (邱泰年) (i.e. Mr. Sonny Yau)	70	18 May 1999	6 January 2017	Non-executive Director	Supervising and providing strategic guidance to our Board	Father of Mr. Fred Yau, elder brother of Mr. Sammy Yau
Mr. Yau Tai Leung Sammy (邱泰樑) (i.e. Mr. Sammy Yau)	64	18 May 1999	22 June 2017	Non-executive Director	Supervising and providing strategic guidance to our Board	Younger brother of Mr. Sonny Yau, uncle of Mr. Fred Yau
Mr. Tong Raymond Kwok Kong (湯國江)	43	15 December 2017	15 December 2017	Independent non-executive Director	Chairman of our nomination committee, a member of our audit committee and a member of our remuneration committee	N/A
Mr. Won Chik Kee (溫捷基)	48	15 December 2017	15 December 2017	Independent non-executive Director	Chairman of our audit committee, a member of our nomination committee and a member of our remuneration committee	N/A
Mr. Feng Dai (馮岱)	42	15 December 2017	15 December 2017	Independent non-executive Director	Chairman of our remuneration committee, a member of our audit committee and a member of our nomination committee	N/A

DIRECTORS AND SENIOR MANAGEMENT

Chairman and executive Director

Mr. Fred Yau, aged 43, son of Mr. Sonny Yau, nephew of Mr. Sammy Yau, is our Chairman, executive Director and one of our Controlling Shareholders. Mr. Fred Yau is also a director of Sling BVI, Sling Incorp, Elite Grand and Shenzhen Yaying. He is primarily responsible for the overall business corporate strategic planning and development of our Group. He obtained a bachelor's degree in chemistry from Harvard University in the United States in June 1997.

Mr. Fred Yau has over 15 years of experience in the women's handbag industry. Since March 2002, Mr. Fred Yau has become a director of Sling Incorp and has been responsible for our Group's strategic and development planning. Since March 2002, Mr. Fred Yau has also become an executive director of Yen Sheng Factory and has been responsible for coordinating the operation of Yen Sheng Factory, including marketing, sales and distribution, managing merchandising and production operation. Through his industry-related working experience, Mr. Fred Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

Chief executive officer and executive Director

Mr. Brian Lee, aged 44, is our chief executive officer and executive Director. He is primarily responsible for the operation and management of our Group. Mr. Brian Lee is also a director of Sling Incorp, Elite Grand, Senhao Shanghai and Senxuan Shanghai. He obtained a bachelor's degree in arts and a degree of bachelor of science in economics both from the University of Pennsylvania in the United States in May 1995.

Mr. Brian Lee has over 18 years of experience in the women's handbag industry. In 1999, Mr. Brian Lee and his then business partners, together with the Yau Family, founded our Group with a view to develop women's handbags business. Mr. Brian Lee has been a director of Sling Incorp since May 1999, and has been responsible for the operation and management of our Group, including the implementation and execution of our business plans. Through his industry-related working experience, Mr. Brian Lee has accumulated industry knowledge and market understanding for the women's handbag industry.

As at the Latest Practicable Date, Mr. Brian Lee held approximately 23.3% of the shareholding interest in China Logistics Company Limited, a company incorporated in the BVI, 75.0% of which was owned by Independent Third Parties and approximately 1.7% of which was owned by Unigrade International Development Limited, which was owned by Unigrade and Atbest as to 90% and 10%, respectively. As at the Latest Practicable Date, Unigrade was wholly beneficially owned by Lee Sang, and Lee Sang was owned by Mr. Sonny Yau, Mr. Sammy Yau, Mr. Fred Yau, Mr. Nicholas Yau and Atbest as to approximately 17.6711%, 17.6711%, 1.1342%, 1.1342% and 62.3894%, respectively. Atbest is beneficially owned by each of Mr. Sammy Yau and Mr. Sonny Yau as to 50% respectively. As at the Latest Practicable Date, China Logistics Company Limited wholly owned Shanghai Liangfeng Logistics Company Limited* (上海亮鋒物流有限公司), which in turn wholly owned Shanghai Xuandi Trading Company Limited* (上海軒帝貿易有限公司) (“**Shanghai Xuandi**”). During the Track Record Period, our Group had financial, and

DIRECTORS AND SENIOR MANAGEMENT

operational and administrative transactions with Mr. Brian Lee or Shanghai Xuandi, the details of which are as follows:

(i) *Storage and logistics services*

During the Track Record Period, our Group had paid Shanghai Xuandi for storage, transport and delivery of our products within the PRC for an aggregate fee of approximately RMB2,581,000, RMB2,537,000 and RMB952,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Such transactions will continue after Listing.

(ii) *Commission paid for online store operation services*

During the Track Record Period, our Group had paid commission to Shanghai Xuandi for online store operation services for our online retail points for an aggregate fee of approximately RMB408,000, RMB781,000 and RMB828,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Such transactions will continue after Listing.

(iii) *Operating leases*

During the Track Record Period, our Group had paid leasing fees for our warehouse in the PRC to Shanghai Xuandi for an aggregate fee of approximately RMB972,000, RMB1,200,000 and RMB702,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Such transactions will continue after Listing. Our Group has engaged an independent valuer to review the relevant lease agreement, and such valuer is of the opinion that the terms and conditions of the lease agreement was in the usual course of business of our Group, on normal commercial terms, fair and reasonable, and are within the ranges of rents that would be offered by independent third parties for similar premises at similar locations in the PRC.

(iv) *Amount due to Mr. Brian Lee*

During the Track Record Period, our Group has paid interest expenses to Mr. Brian Lee for the amount of approximately RMB45,000 for the year ended 31 December 2015, for the amount due to Mr. Brian Lee of approximately RMB1,070,000. Such advancement was a one-off transaction and the amount due to Mr. Brian Lee had been fully settled as at the Latest Practicable Date.

Our Directors are of the opinion that all of the above transactions were conducted in the ordinary course of business of our Group as well as on normal commercial terms with reference to the prevailing market rates (if applicable) which are fair and reasonable and in the interests of the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yip Chun Wai (葉振威), aged 51, is our chief financial officer and executive Director. He is also a director of Senhao Shanghai. Mr. Yip joined our Group in December 2015 as chief financial officer. He is primarily responsible for the overall financial planning and management, as well as developing and maintaining relationship with banks in Hong Kong and the PRC.

Mr. Yip obtained a bachelor's degree in commerce from Dalhousie University in Canada in May 1992 and a degree of master of science in finance from the City University of Hong Kong in November 1998. He has obtained membership in the Hong Kong Securities and Investment Institute since November 2012.

Mr. Yip has over 20 years of experience in the banking and finance industry in Hong Kong. Prior to joining our Group, between June 2004 and September 2013, Mr. Yip worked in Hang Seng Bank Limited, a licensed bank in Hong Kong, with his last position as deputy head of relationship management department (team head) in the CMB relationship management department, where he was responsible for supervising the relationship management team regarding corporate and commercial clients and conducting financial forecast and analysis for corporate and commercial clients.

Non-executive Directors

Mr. Sonny Yau, aged 70, father of Mr. Fred Yau and elder brother of Mr. Sammy Yau, is our non-executive Director and one of our Controlling Shareholders. Mr. Sonny Yau is also a director of Sling BVI and Sling Incorp. He is primarily responsible for supervising and providing strategic guidance to our Board. He obtained a bachelor's degree in science from Cornell University in the United States in May 1972.

Mr. Sonny Yau has over 42 years of experience in the handbag industry. Mr. Sonny Yau and the Yau Family founded Yen Sheng Group and Tai Heng Group, which are principally engaged in the provision of manufacturing services and sale of handbags, leather goods and travel goods as an original equipment manufacturer to customers both in and outside the PRC. Since February 1975, Mr. Sonny Yau has been leading Yen Sheng Factory as the chief executive officer and the director of operation. He was mainly responsible for the business development of Yen Sheng Group, including strategic planning, setting the company's values, culture and behaviour, building the senior executive team and allocating resources of the company. Through his industry-related working experience, Mr. Sonny Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

In 1999, the Yau Family (including Mr. Sonny Yau), together with Mr. Brian Lee and his then business partners, founded our Group with a view to develop the women's handbags business. Mr. Sonny Yau has been a director of Sling Incorp since May 1999, and has been responsible for providing strategic guidance to our Group in relation to the development and expansion of our business.

DIRECTORS AND SENIOR MANAGEMENT

Immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme, Mr. Sonny Yau will be interested in 291,838,960 Shares (representing approximately 52.1141% of the issued share capital of our Company) within the meaning of Part XV of the SFO, all of which will be held by Yen Sheng BVI.

Mr. Sammy Yau, aged 64, younger brother of Mr. Sonny Yau and uncle of Mr. Fred Yau, is our non-executive Director and one of our Controlling Shareholders. Mr. Sammy Yau is also a director of Sling Incorp and Elite Grand. He is primarily responsible for supervising and providing strategic guidance to our Board.

Mr. Sammy Yau has over 40 years of experience in the handbag industry. The Yau Family, including Mr. Sammy Yau, founded Yen Sheng Group and Tai Heng Group, which are engaged in the provision of manufacturing services and sale of handbags, leather goods and travel goods as an original equipment manufacturer to customers both in and outside the PRC. Since February 1977, Mr. Sammy Yau has been leading Yen Sheng Factory as the director of sales and an executive director. He was mainly responsible for the business development of Yen Sheng Group, including strategic planning, sales and operation, and building the senior executive team. Through his industry-related working experience, Mr. Sammy Yau has accumulated industry knowledge and market understanding for the women's handbag industry.

In 1999, the Yau Family (including Mr. Sammy Yau), together with Mr. Brian Lee and his then business partners, founded our Group with a view to develop the women's handbags business. Mr. Sammy Yau has been a director of Sling Incorp since May 1999, and has been responsible for providing strategic guidance to our Group in relation to the development and expansion of our business.

Immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme, Mr. Sammy Yau will be interested in 291,838,960 Shares (representing approximately 52.1141% of the issued share capital of our Company) within the meaning of Part XV of the SFO, all of which will be held by Yen Sheng BVI.

Independent non-executive Directors

Mr. Tong Raymond Kwok Kong (湯國江), aged 43, was appointed as our independent non-executive Director on 15 December 2017. He obtained a degree of bachelor of science in engineering and a degree of bachelor of science in economics both from the University of Pennsylvania in the United States in December 1997.

Mr. Tong has over 19 years of experience in operations and marketing. Between February 2007 and August 2010, Mr. Tong joined Sumitomo Corporation Equity Asia Limited, a company principally engaged in venture capital and private equity investment in the PRC and South-east Asia, as the vice president, responsible for overseeing private equity investments. From September 2010 to January 2013, Mr. Tong joined Pacific Coffee Company, a subsidiary of China Resources

DIRECTORS AND SENIOR MANAGEMENT

Enterprise, Limited, which is a company principally engaged in food and beverage businesses, as the chief executive officer, being responsible for the overall development of the brand in Asia. From February 2013 to June 2014, Mr. Tong was internally transferred to China Resources Enterprise, Limited, a company principally engaged in consumer goods and retail services business, as the head of corporate development department, being responsible for merger and acquisition of companies.

Between June 2014 and December 2014, Mr. Tong worked in Maxim's Caterers Limited, a company principally engaged in food and beverage businesses, as the chief operating officer (headquarters), being responsible for the development of retail outlets, information technology, human resources and marketing. In January 2015, Mr. Tong was transferred to Hongkong Caterers Limited, the holding company of Maxim's Caterers Limited which was principally engaged in food and beverage businesses, with the same position and has been working as the chief operating officer (headquarters & branded products) since January 2016, being responsible for various headquarters functions and the branded products division.

Mr. Won Chik Kee (溫捷基), aged 48, was appointed as our independent non-executive Director on 15 December 2017. He obtained a diploma of accountancy from Lingnan College in January 1993, and a bachelor's degree of business from the Monash University in Australia in July 1996. Mr. Won has become an associate in (i) The Chartered Association of Certified Accountants since February 1995; (ii) the Hong Kong Society of Accountants (currently known as the Hong Kong Institute of Certified Public Accountants) since October 1995; and (iii) The Australian Society of Certified Practising Accountants since February 1996. He also has become a fellow of The Association of Chartered Certified Accountants since February 2000.

Mr. Won has been the sole proprietor of C K Won & Co, an accounting firm in Hong Kong, since February 1999. He is also the founder of Concord Asia Secretaries Limited, a company engaging in secretarial, consulting and accounting services since March 1998. Mr. Won worked as a junior accountant in the audit department of Kwan Wong Tan & Fong (a company which had merged with Deloitte Touche Tohmatsu Limited in 1997) from August 1992 to February 1994. He joined Deloitte Touche Tohmatsu Limited as a staff accountant II in February 1994, and was promoted to semi-senior accountant in January 1995, where he was responsible for overall control of small to medium sized audit assignments and to supervise junior audit staff. He left the firm in February 1996, and worked as a financial controller and the assistant of a director of Mae Holdings Limited (now known as Sheng Yuan Holdings Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 851)) from July 1996 to February 2001.

Mr. Feng Dai (馮岱), aged 42, was appointed as our independent non-executive Director on 15 December 2017. He obtained a degree of bachelor of arts in engineering sciences from Harvard University in the United States in June 1997.

Between April 2004 and December 2014, Mr. Feng joined Warburg Pincus Asia LLC, a company principally engaged in investment advisory, where he had worked at various positions, including associate, principal and managing director. He was responsible for advising on private equity investments and post-investment management. Since March 2015, Mr. Feng has been

DIRECTORS AND SENIOR MANAGEMENT

working as the managing director of CareCapital Advisors Limited, a company principally engaged in management advisory. He was responsible for advising on business development and organisational management, with focus on the healthcare industry.

From June 2013 to March 2015, Mr. Feng served as a non-executive director of PW Medtech Group Limited (stock code: 1358), a company listed on the Main Board of the Stock Exchange and principally engaged in the development, manufacturing of medical devices in the PRC.

Save as disclosed in this prospectus, each of our Directors confirms with respect to himself that: (i) he did not hold any directorships in the last three years prior to the Latest Practicable Date in any public companies, the securities of which are listed on any securities market in Hong Kong or overseas; (ii) he does not have any relationship with any other Directors, senior management, substantial or Controlling Shareholders of our Company; (iii) he does not hold any other positions in our Company or other members of our Group; (iv) he does not have any interests in our Shares within the meaning of Part XV of the SFO.

Save as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there were no other matters with respect to the appointment of our Directors that need to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

<u>Name</u>	<u>Age</u>	<u>Date of joining our Group</u>	<u>Position</u>	<u>Roles and responsibilities</u>
Ms. Jiang Ying (江英)	36	29 April 2014	Design director	Creation of product design theme, style and development in accordance with our brands' characteristics
Mr. Fang Yan (方昕)	45	1 March 2006	Design team leader	Coordinate product development within different departments of our Group and create designs of our products
Ms. Shen Min (沈民)	49	15 February 2016	Merchandising director	Implementation of product development strategies, product budgeting and inventory control in accordance with our sales target
Ms. Xu Yijie (徐宜捷)	35	1 January 2017	Financial controller	Preparation of financial statements, tax report, financial analysis, budgeting and internal control
Mr. Li Zhaoqing (厲兆清)	38	21 March 2017	IT senior manager	Managing our information technology system and developing technologies applicable to our operations

DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang Ying (江英), aged 36, is the design director of the product design and development department of our Group. Ms. Jiang joined our Group in April 2014. She is primarily responsible for creation of product design theme, style and development in accordance with the brands' characteristics of our Group.

Ms. Jiang obtained a bachelor's degree in industrial design from University of Science and Technology Beijing (北京科技大學) in the PRC in July 2004. In October 2011, Ms. Jiang was awarded the Outstanding Female Designer of Shanghai Award by the Shanghai Municipal Commission of Economy and Informatisation* (上海市經濟和信息化委員會), the Communist Party of the PRC Working Committee of Economy and Informatisation of the Shanghai Municipal* (中共上海市經濟和信息化工作委員會) and the Women's Society of Shanghai City* (上海市婦女聯合會).

Ms. Jiang has approximately nine years of experience in the design industry in the PRC. Prior to joining our Group, between August 2008 and April 2014, Ms. Jiang served as the design director for the "Jessie & Jane" brand in Shanghai Xintianlong Network Technology Limited* (上海新天龍網絡科技有限公司), a company principally engaged in e-commerce involving the sale of clothings and accessories designed mainly by PRC designers, where she was responsible for product design. Ms. Jiang commenced design for products under the "Jessie & Jane" brand in 2008.

Mr. Fang Yan (方昕), aged 45, is the design team leader of our Group. Mr. Fang joined our Group in March 2006 as the design team leader of our Group. He is primarily responsible for coordinating product development within different departments of our Group and creating designs of our products.

Mr. Fang obtained a diploma in fashion design from the First Institute of Art and Design in Hong Kong in August 1999.

Mr. Fang has over 20 years of experience in the design industry. Prior to joining our Group, between January 1994 and February 2006, Mr. Fang served as a senior designer in Yen Sheng Factory and he was responsible for designing and presenting products for clients.

Ms. Shen Min (沈民), aged 49, is the merchandising director of the product and logistics department of our Group. Ms. Shen joined our Group in February 2016. She is primarily responsible for the implementation of product development strategies, product budgeting and inventory control in accordance with the sales target of our Group.

Ms. Shen obtained a bachelor's degree in applied electronic technology from Shanghai Polytechnic University (上海第二工業大學) in the PRC in July 1991.

Ms. Shen has over five years of experience in the merchandising industry in the PRC. Prior to joining our Group, between April 2012 and February 2016, Ms. Shen served as the product director of various brands of Baroque (Shanghai) Garment Co., Ltd. (巴羅克(上海)企業發展有限公司), a company which is engaged in the wholesale of garments and accessories and is a subsidiary of Belle International Holdings Limited, a company listed on the Main Board of the Stock Exchange

DIRECTORS AND SENIOR MANAGEMENT

between May 2007 and July 2017 (former stock code: 1880). Belle International Holdings Limited has withdrawn the listing of its shares from the Stock Exchange since 27 July 2017. She was primarily responsible for managing merchandising of the products.

Ms. Xu Yijie (徐宜捷), aged 35, is the financial controller of our Group and a director of Senhao Shanghai. Ms. Xu joined our Group in January 2017 as the financial controller of Senhao Shanghai. She is primarily responsible for preparation of financial statements, tax report, financial analysis, budgeting and internal control of our Group.

Ms. Xu obtained a bachelor's degree in English language from Shanghai International Studies University (上海外國語大學) in the PRC in July 2004. She was admitted as a certified public accountant by CPA Australia in December 2016. She also obtained membership in Shanghai Institute of Certified Public Accountants in August 2010 and became an internal auditor approved by the China Institute of Internal Audit with the authorisation from the Institute of Internal Auditors in November 2008.

Ms. Xu has over 10 years of experience in the finance and accounting industry in the PRC. Prior to joining our Group, between December 2013 and December 2016, Ms. Xu served as a finance manager in Perceptron Metrology Technology (Shanghai) Co., Ltd. (伯賽計量科技(上海)有限公司), a company which is engaged in software design, production and sales, where she was responsible for internal financial consulting.

Mr. Li Zhaoqing (厲兆清), aged 38, is the IT senior manager of our Group. Mr. Li joined our Group in March 2017. He is primarily responsible for managing our Group's information technology system and developing technologies applicable to the operations of our Group.

Mr. Li obtained a diploma in business administration from Shanghai Jiao Tong University in the PRC in July 2011 by completing online courses.

Mr. Li has over 15 years of experience in the information technology industry in the PRC. Prior to joining our Group, between September 2008 and March 2017, Mr. Li joined Belle Footwear (Shanghai) Company Limited* (百麗鞋業(上海)有限公司), a company principally engaged in the trading of shoes, footwear products, sport shoes and apparel in the PRC and is a subsidiary of Belle International Holdings Limited, a company listed on the Main Board of the Stock Exchange between May 2007 and July 2017 (former stock code: 1880), as a manager of the information technology department where he was responsible for management of information technology system and information system planning.

To best of the knowledge, information and belief of our Directors having made all reasonable enquiries, our senior management has not been a director of any public company the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Ms. Leung Sau Fong (梁秀芳) was appointed as our company secretary on 22 June 2017. Ms. Leung has been an associate member of The Hong Kong Institute of Chartered Secretaries since March 1996. Ms. Leung obtained a bachelor's degree in laws from the University of London, in the United Kingdom as an external student in August 2000 and a diploma in Chinese professional laws jointly offered by the Chinese University of Political Science and Law in the PRC and Bolin Institute in Hong Kong in November 1996. Ms. Leung is also the company secretary of various companies listed on the Main Board of the Stock Exchange.

BOARD COMMITTEES

We have established the following three committees: an audit committee, a remuneration committee and a nomination committee. The committees operate in accordance with their terms of reference established by our Board.

Audit committee

We have established an audit committee on 15 December 2017 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules.

Our audit committee has three members, namely Mr. Won Chik Kee, Mr. Tong Raymond Kwok Kong and Mr. Feng Dai, all of whom are our independent non-executive Directors. The chairman of our audit committee is Mr. Won Chik Kee.

The primary responsibilities of our audit committee include, among others, (i) providing an independent view of the effectiveness of the financial reporting process, internal control, compliance and risk management systems of our Group; (ii) overseeing the audit process and performing other duties and responsibilities as assigned by our Board; (iii) developing and reviewing our policies and practices on corporate governance, compliance with legal and regulatory requirements and requirements under the GEM Listing Rules; and (iv) developing, reviewing and monitoring the code of conduct applicable to our employees and Directors.

Remuneration committee

We have established a remuneration committee on 15 December 2017 with written terms of reference in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 15 to the GEM Listing Rules.

Our remuneration committee has three members, namely Mr. Feng Dai, Mr. Tong Raymond Kwok Kong and Mr. Won Chik Kee, all of whom are our independent non-executive Directors. The chairman of our remuneration committee is Mr. Feng Dai.

DIRECTORS AND SENIOR MANAGEMENT

The primary responsibilities of our remuneration committee include, among others, (i) making recommendations to our Board on our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) reviewing and approving the management's remuneration proposals with reference to our Board's corporate goals and objectives; and (iii) making recommendations to our Board on the remuneration packages of Directors and senior management.

Nomination committee

We have established a nomination committee on 15 December 2017 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules.

Our nomination committee has three members, namely Mr. Tong Raymond Kwok Kong, Mr. Feng Dai and Mr. Won Chik Kee, all of whom are our independent non-executive Directors. The chairman of our nomination committee is Mr. Tong, Raymond Kwok Kong.

The primary responsibility of our nomination committee is to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Corporate governance functions

The terms of reference of our Board include, among others, (i) developing and reviewing our Company's policies and practices on corporate governance and making recommendations to our Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring our Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing our Company's compliance with the code and disclosure in the corporate governance report.

COMPLIANCE ADVISER

Our Company has appointed Kingsway Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. According to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (i) with respect to publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where our Company proposes to use the proceeds from the Share Offer in a manner different from that detailed in this prospectus or where its business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and

DIRECTORS AND SENIOR MANAGEMENT

- (iv) where the Stock Exchange makes an inquiry regarding unusual movements in the price or trading volume of our Shares.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date or until the agreement is terminated, whichever is the earlier.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of remuneration paid by us to our Directors, including salaries, allowances and benefits in kind, discretionary bonuses, and contributions to retirement benefit scheme was approximately RMB1,269,000, RMB1,180,000 and RMB965,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. Details of the arrangement for remuneration are set out in Note 9 to the Accountants' Report in Appendix I to this prospectus.

During the Track Record Period, the five individuals whose emoluments were the highest in our Group included one, two and two Directors. The aggregate amount of emoluments payable to the five highest paid individuals (including the one, two and two Directors), including salaries, allowances and benefits in kind, discretionary bonuses, and contributions to retirement benefit scheme, during the Track Record Period was approximately RMB2,897,000, RMB2,652,000 and RMB1,666,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively.

We have not paid any remuneration to our Directors or the five highest paid individuals as an inducement to join or upon joining us or as a compensation for loss of office during the Track Record Period. None of our Directors has waived any remuneration during the same period.

Save as disclosed above, no other payments have been made or are payable by us or any of our subsidiaries to our Directors during the Track Record Period. We estimate that we will pay an aggregate amount of approximately RMB2,106,000 to our Directors as remuneration in respect of the year ending 31 December 2017, excluding any discretionary bonuses which may be paid to our Directors.

STAFF

In the PRC, in accordance with relevant national and local labour and social welfare laws and regulations, we are required to pay in respect of our employees in the PRC various social insurance (including basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance, and insurance for maternity leave) and housing provident fund.

DIRECTORS AND SENIOR MANAGEMENT

As required by employment law in Hong Kong, we participate in a provident fund scheme registered under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all our eligible employees in Hong Kong. We contribute 5% of our employees' relevant income per month as required under the ordinance subject to a maximum of HK\$1,500 per employee. Contributions from us are 100% vested in each employee immediately but, subject to limited exceptions, all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 or ceases employment and the employee declares not to become employed or self-employed within the foreseeable future. We also provide employee compensation insurance for each of our Hong Kong staff.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware of, immediately upon Listing (and without taking into account any Shares which may be issued and allotted pursuant to the exercise of any options that may be granted under the Share Option Scheme), the following persons/entities will have the following interests or short positions in our Shares and the underlying Shares which would fall to be disclosed to us and the Stock Exchange (as the case may be) under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group:

Name of Substantial Shareholder	Nature of interest and capacity	Number of Shares (Note 1)	Approximate percentage of shareholding immediately upon Listing (%)
Yen Sheng BVI	Beneficial owner	291,838,960 (L)	52.1141
Mr. Sammy Yau (Note 2)	Interest in controlled corporation	291,838,960 (L)	52.1141
Ms. Chan Yee Ling Elaine (Note 3)	Interest of spouse	291,838,960 (L)	52.1141
Mr. Sonny Yau (Note 2)	Interest in controlled corporation	291,838,960 (L)	52.1141
Ms. Cecilia Hiang (Note 4)	Interest of spouse	291,838,960 (L)	52.1141
Summit Time	Beneficial owner	128,161,040 (L)	22.8859
Ms. Agnes Li (Note 5)	Interest in controlled corporation	128,161,040 (L)	22.8859
Mr. Lee Shui Kwai Victor (Note 6)	Interest of spouse	128,161,040 (L)	22.8859

Notes:

1. The letter “L” denotes long position in our Shares.
2. Yen Sheng BVI was beneficially owned by Mr. Sammy Yau and Mr. Sonny Yau as to approximately 49.3120% and 49.2321%, respectively, as at the Latest Practicable Date. By virtue of the SFO, Mr. Sammy Yau and Mr. Sonny Yau are deemed to be interested in all the Shares held by Yen Sheng BVI.
3. Ms. Chan Yee Ling Elaine is the spouse of Mr. Sammy Yau. By virtue of the SFO, Ms. Chan Yee Ling Elaine is deemed to be interested in all the Shares held by Mr. Sammy Yau.

SUBSTANTIAL SHAREHOLDERS

4. Ms. Cecilia Hiang is the spouse of Mr. Sonny Yau. By virtue of the SFO, Ms. Cecilia Hiang is deemed to be interested in all the Shares held by Mr. Sonny Yau.
5. Summit Time was beneficially wholly owned by Ms. Agnes Li as at the Latest Practicable Date. By virtue of the SFO, Ms. Agnes Li is deemed to be interested in all the Shares held by Summit Time.
6. Mr. Lee Shui Kwai Victor is the spouse of Ms. Agnes Li. By virtue of the SFO, Mr. Lee Shui Kwai Victor is deemed to be interested in all the Shares held by Ms. Agnes Li.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Share Offer and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us and the Stock Exchange (as the case may be) under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of our subsidiaries.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Upon completion of our Reorganisation but immediately prior to completion of the Share Offer, Yen Sheng BVI and Summit Time owned approximately 69.4855% and 30.5145% of the issued share capital of our Company, respectively. Immediately following completion of the Share Offer (without taking into account any Shares which may be issued and allotted pursuant to the exercise of any options that may be granted under the Share Option Scheme), each of Yen Sheng BVI and Summit Time will own approximately 52.1141% and 22.8859% of the issued share capital of our Company respectively. Each of Yen Sheng BVI and Summit Time was an investment holding company as at the Latest Practicable Date.

As at the Latest Practicable Date, Yen Sheng BVI was owned as to approximately 49.3120%, 49.2321%, 0.6863%, 0.6863% and 0.0833% by Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Ms. Cecilia Hiang, respectively; and Summit Time was wholly-owned by Ms. Agnes Li. By virtue of their interests in Yen Sheng BVI, apart from Yen Sheng BVI, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Ms. Cecilia Hiang are also considered as our Controlling Shareholders under the guidance letter GL89-16 issued by the Stock Exchange.

As Summit Time owned approximately 30.5145% of the issued share capital of our Company upon completion of our Reorganisation but immediately prior to completion of the Share Offer, Summit Time shall be considered as our Controlling Shareholder immediately prior to completion of the Share Offer. As Summit Time will own approximately 22.8859% of the issued share capital of our Company immediately following completion of the Share Offer (without taking into account any Shares which may be issued and allotted pursuant to the exercise of any options that may be granted under the Share Option Scheme), it will cease to be a controlling shareholder as defined under Rule 1.01 of the GEM Listing Rules. In addition, by virtue of Ms. Agnes Li's interests in Summit Time, she shall be considered as our Controlling Shareholder immediately prior to completion of the Share Offer. Each of Ms. Agnes Li and Summit Time will cease to be our Controlling Shareholders upon Listing.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

The Yau Family, through the Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group (as defined below), and other companies in which it is interested, is currently operating other businesses outside of our Group, namely the provision of manufacturing services and sale of handbags, leather goods and travel goods, as an original equipment manufacturer in the PRC and outside the PRC (the “**Excluded Business**”), as well as property investment and property management.

Our Directors believe that the Excluded Business does not compete, and is not likely to compete, either directly or indirectly, with the business of our Group because there is a clear delineation, from business positioning, business model, to actual day-to-day management, between the Excluded Business and the business of our Group, details of which are disclosed in this section below.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In order to focus on our business in the design and sale of women's handbags, shoes, small leather goods, luggage and travel goods, which is in essence an asset-light business model focusing on (i) online-to-offline commerce; and (ii) brand-building and brand management without the manufacturing arm, and in line with our strategic direction and development plan to continue to focus on (i) online-to-offline commerce; and (ii) brand-building and brand management, our Directors do not consider it appropriate or suitable to include the Excluded Business, which is essentially a group of factories providing manufacturing function, as part of our Group.

Apart from the delineation between the Excluded Business and the business of our Group which makes it not suitable or appropriate for the Excluded Business to form part of our Group, the Excluded Business is exclusively owned and run by the Yau Family, whilst our Group is a business venture between the Yau Family and Summit Time, which was wholly-owned by Ms. Agnes Li, mother of Mr. Brian Lee, our executive Director and chief executive officer as at the Latest Practicable Date. The ownership structure, size and scale of operation and related risks involved in the Excluded Business and our Group are also entirely different. We also do not have the financial resources to acquire the Excluded Business held by the Yau Family.

During the Track Record Period, Dongguan Taiheng has provided manufacturing services to our Group and produced samples and women's handbags, small leather goods and travel goods for us according to the design provided by us. It is expected that after Listing, Dongguan Taiheng will continue to provide such services to us. Further information in relation to the ongoing transaction(s) between our Group and Dongguan Taiheng, please refer to the section headed "Continuing connected transactions — Non-exempt continuing connected transactions" of this prospectus.

EXCLUDED BUSINESS

Prior to founding of our Group, the Yau Family has been engaging in the business of manufacturing of handbags, small leather goods and travel goods according to the design and product specifications provided by its customers outside the PRC through Yen Sheng Group as an original equipment manufacturer. So far as our Directors are aware, for the two years ended 31 December 2016, the revenue derived from the Excluded Business operated by the Yen Sheng Group was a double and approximately 1.2 times of our revenue.

The Tai Heng Group is also an original equipment manufacturer, with its customers mainly from the PRC. It also provides manufacturing services to customers and manufacture handbags based on the design and specifications provided by its customers. So far as our Directors are aware, for the two years ended 31 December 2016, the revenue derived from the Excluded Business operated by the Tai Heng Group was of approximately one tenth of our revenue.

The Yen Sheng Group consists of Yen Sheng Factory and its subsidiaries, including Yen Hing and Dongguan Yuanheng. As at the Latest Practicable Date, Yen Sheng Factory was owned by Lee Sang, Atbest, Mr. Sammy Yau and Mr. Sonny Yau as to approximately 60.6061%, 18.1817%, 10.6061% and 10.6061%, respectively. Yen Sheng Factory directly wholly owned Dongguan Yuanheng, and Yen Hing was owned by Yen Sheng Factory and Atbest as to approximately 82.3077% and 17.6923%, respectively, as at the Latest Practicable Date.

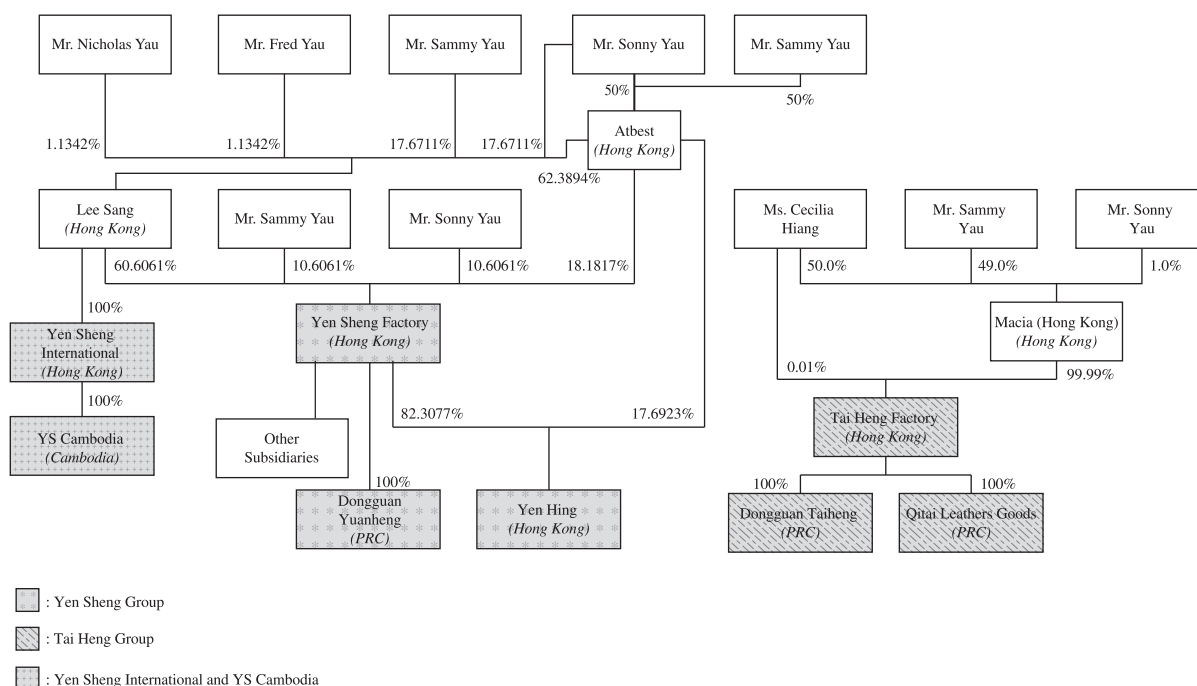
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Tai Heng Group consists of Tai Heng Factory and its subsidiaries, namely Dongguan Taiheng and Qitai Leather Goods. As at the Latest Practicable Date, Tai Heng Factory was owned by Ms. Cecilia Hiang as to approximately 0.01% and Macia (Hong Kong) as to approximately 99.99%. As at the Latest Practicable Date, Macia (Hong Kong) was a company owned by Ms. Cecilia Yau, Mr. Sammy Yau and Mr. Sonny Yau as to approximately 50.0%, 49.0% and 1.0%, respectively. Each of Dongguan Taiheng and Qitai Leather Goods was wholly-owned by Tai Heng Factory as at the Latest Practicable Date.

In May 2016 and August 2016, the Yau Family set up Yen Sheng International and YS Cambodia (collectively, the “**YS Cambodia Group**”), respectively, with a view to set up a production base in Cambodia and provide manufacturing services of handbags to target customers located outside the PRC. Yen Sheng International was an investment holding company as at the Latest Practicable Date. So far as our Directors are aware, as the YS Cambodia Group only commenced its operation in March 2017, only minimal revenue was generated during March 2017.

During the Track Record Period and up to the Latest Practicable Date, each of the Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group did not manufacture any of our Group’s women’s handbags, small leather goods and travel goods under our Jessie & Jane brand.

As at the Latest Practicable Date, the shareholding structure of each of (i) the Yen Sheng Group; (ii) the Tai Heng Group; and (iii) YS Cambodia Group are as follows:



RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Both the Yen Sheng Group and the Tai Heng Group principally provide manufacturing services to their customers and both manufacture products according to the design and specifications provided by their customers, which include brands and fashion houses in North America and Europe. To the best knowledge of our Directors, they do not engage in the design of products, nor do they manufacture any products with their own brands. Hence, both the Yen Sheng Group and the Tai Heng Group are original equipment manufacturers, which are unlike our Group that engages in the design and sale of women's handbags through online-to-offline commerce, etc., and also in brand-building and brand management for our products.

DELINEATION OF BUSINESSES

Our Directors are of the view that there is a clear delineation between the business activities of our Group and that of the Excluded Business in terms of various aspects as detailed below:

	<u>Our Group</u>	<u>The Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group</u>
Business model and business positioning	<ul style="list-style-type: none"> ● asset-light business model ● focus on the design and sale of products through online-to-offline commerce ● brand-building and brand management ● workforce mainly for design functions, brand building and brand management, sales channel management, etc. 	<ul style="list-style-type: none"> ● operate and running of production bases ● requires ownership of production lines ● labour intensive, mainly consists of factory workers
Principal business activities and revenue model	<ul style="list-style-type: none"> ● sale of women's handbags, small leather goods, luggage and travel goods designed by our Group; during the Track Record Period, approximately 21.1%, 21.9% and 9.0% of our revenue and approximately 22.2%, 23.4% and 9.3% of our gross profit for the two years ended 31 December 2016 and the three months ended 30 June 2017, respectively, were generated by selling products manufactured by the Tai Heng Group ● is not engaged in manufacturing and no revenue was generated therefrom during the Track Record Period and up to the Latest Practicable Date 	<ul style="list-style-type: none"> ● manufacture handbags, small leather goods and travel goods according to the product specifications provided by customers ● revenue generated from the manufacturing and sale of handbags, small leather goods and travel goods

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	<u>Our Group</u>	<u>The Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group</u>
Strategy, growth and expansion plan	<ul style="list-style-type: none"> ● will continue to grow and expand its business of design and sale of women’s handbags, small leather goods, luggage and travel goods in the PRC ● continue its design, brand building and brand management, sales channel building and management efforts 	<ul style="list-style-type: none"> ● the Yen Sheng Group will focus on manufacturing of handbags, small leather goods and travel goods for brands established outside the PRC as an original equipment manufacturer ● the Tai Heng Group will focus on manufacturing of women’s handbags, small leather goods and travel goods to brands in the PRC as an original equipment manufacturer ● the YS Cambodia Group will focus on manufacturing of handbags to target customers located outside the PRC as an original equipment manufacturer ● expand production capacity, expand and upgrade of its production machineries and equipment; increase automation
Geographical locations of business operation	<ul style="list-style-type: none"> ● operates principally in the PRC, also have a team of designers in Hong Kong ● products are sold through (i) our self-operated offline retail points and retailer-operated offline retail points; and (ii) our self-operated online retail points and retailer-operated online retail points to end customers who are retail customers in the PRC 	<ul style="list-style-type: none"> ● operates production plants in the PRC ● products of each of the Yen Sheng Group and the YS Cambodia Group are manufactured and exported to customers outside the PRC ● products of the Tai Heng Group are manufactured and mainly sold to customers in the PRC

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	<u>Our Group</u>	<u>The Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group</u>
Products and their specifications	<ul style="list-style-type: none">women's handbags, small leather goods, luggage and travel goods designed by our Group, under our licensed brand ELLE, and our self-owned brand Jessie & Jane	<ul style="list-style-type: none">women's handbags, small leather goods and travel goods, the design and specifications of which are provided by customersbrands under which products are manufactured by each of the Yen Sheng Group and the YS Cambodia Group include brands and fashion houses in North America and Europebrands under which products are manufactured by the Tai Heng Group include (i) ELLE (as the Tai Heng Group provided manufacturing services to our Group); and (ii) other brands in the PRCdo not have their own brand(s) and do not manufacture any products under their own brand
Customers	<ul style="list-style-type: none">retail customers in the PRCthird-party retailers which sells our products to retail customers in the PRC	<ul style="list-style-type: none">for each of the Yen Sheng Group and the YS Cambodia Group, brands and fashion houses in North America and Europe, which, to the best of our Directors' knowledge and belief, are wholesalers and/or retailersfor the Tai Heng Group, (i) our Group; and (ii) other brands in the PRC, which, to the best of our Directors' knowledge and belief, are wholesalers and/or retailers
Suppliers	<ul style="list-style-type: none">manufacturers of women's handbags, small leather goods, luggage and travel goods	<ul style="list-style-type: none">raw materials suppliers for leather and other assembling accessories for the production of handbags, small leather goods and travel goods

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Group	The Yen Sheng Group, the Tai Heng Group and the YS Cambodia Group
<p>Ownership and management structure</p>	
<ul style="list-style-type: none"> ● our Group was a business joint venture between the Yau Family and Summit Time; and was owned by the Yau Family and Summit Time (which is wholly-owned by Ms. Agnes Li, mother of Mr. Brian Lee), as at the Latest Practicable Date ● although each of Mr. Sonny Yau, Mr. Sammy Yau and Mr. Fred Yau holds directorship in our Company, each of Mr. Sammy Yau and Mr. Sonny Yau has not been involved in the daily operation of our Group during the Track Record Period, while Mr. Fred Yau has only been involved in the overall business corporate strategic planning and development of our Group during the Track Record Period ● the daily operation and management of our Group has been supervised by our chief executive officer and one of our executive Directors, namely, Mr. Brian Lee, and has been performed by our senior management 	<ul style="list-style-type: none"> ● owned by the Yau Family ● Mr. Sonny Yau, Mr. Sammy Yau and Mr. Fred Yau hold directorship in the Yen Sheng Group ● Mr. Sonny Yau, Mr. Sammy Yau and Ms. Cecilia Hiang hold directorship in the Tai Heng Group ● Mr. Fred Yau holds directorship in the YS Cambodia Group ● under the overall supervision of the Yau Family, and each of the operating subsidiaries of each of the Yen Sheng Group and the Tai Heng Group has its own management team residing in the PRC to handle day-to-day operations ● under the overall supervision of the Yau Family, and the YS Cambodia Group has its own management team residing in Cambodia to handle day-to-day operations

Our Group is principally engaged in the design and sale of women’s handbags, small leather goods, luggage and travel goods through online-to-offline commerce, brand building and brand management, whereas the Excluded Business comprise principally manufacturing (and exporting where applicable) and sale of handbags, small leather goods and travel goods. Given the different nature of our business and the Excluded Business, our Directors do not expect there to be any overlap or competition of the Excluded Business and our Group’s business after Listing.

Our Directors consider that there is no direct competition between our Group and the Excluded Business based on the following reasons:

- (i) *non-compete businesses* — as set out in the table above, there is a clear delineation between the business of our Group and the Excluded Business. The business of our Group (i.e. design and sale of women’s handbags, small leather goods, luggage and travel goods) and that of the Excluded Business (i.e. manufacturing and sale of handbags, small leather goods and travel goods) are specialised in different segments of the same industry, which do not compete and are not likely to compete with each other;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (ii) *different customers and suppliers* — as set out in the table above, the clientele and suppliers of our Group and that of the Excluded Business are different, and there is no overlapping of customers and suppliers between our Group and the Excluded Business. However, products of the Excluded Business could ultimately be sold to end-customers in the PRC;
- (iii) *different growth path* — as set out in the table above, our Group will continue to strengthen its design, brand building and brand management and sales channel building and management capabilities, and will continue to develop and source new brands; whilst the Excluded Business will expand its production capacity and continue its positioning as manufacturing service providers for its customers;
- (iv) *clear segregation* — there is a clear segregation of businesses and management of our Group and the Excluded Business during the Track Record Period, as two separated businesses are operated under different operating subsidiaries and managed by different people, which allow our Group and the Excluded Business to run independently with different responsibility and management;
- (v) *different ownership structure* — the Excluded Business is owned by the Yau Family exclusively, which does not involve Summit Time; and
- (vi) *separate day-to-day operation* — as set out in the table above, although each of Mr. Sonny Yau, Mr. Sammy Yau and Mr. Fred Yau holds directorships in the Company and the Excluded Business, each of Mr. Sammy Yau and Mr. Sonny Yau has not been involved in the daily operation of our Group during the Track Record Period, while Mr. Fred Yau has only been involved in the overall business corporate strategic planning and development of our Group during the Track Record Period. The daily operation of our Group has been supervised by our chief executive officer and one of our executive Directors, namely, Mr. Brian Lee, and has been performed by our senior management. Hence, there is no overlapping of senior management and workforce between our Group and the Excluded Business in terms of each of its day-to-day operations.

Reasons for exclusion

As disclosed above, our Group and the Excluded Business have different nature of businesses. Our Directors believe that it is in the interest of our Company and our Shareholders as a whole and it would be commercially justifiable to exclude the Excluded Business from our Group for the purpose of Listing because (i) from the operational perspective, the expertise and resources required for the design and sale of products by our Group, and the manufacturing of the products carried on by the Excluded Business, are entirely different; (ii) the exclusion allows our Group to operate under an asset-light business model which will increase our Group's flexibility, efficiency and competitiveness; (iii) from the business strategy perspective, the exclusion allows our Group to focus our resources on developing and strengthening our presence in the PRC, as the net proceeds from the Share Offer are intended to be applied for, among others, marketing investment in social media events and expansion of design team (further information in relation to the intended use of

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

net proceeds from the Share Offer is set out in the section headed “Future plans and use of proceeds” of this prospectus); and (iv) from the ownership structure’s perspective, the Excluded Business is owned by the Yau Family exclusively which does not involve Summit Time. As at the Latest Practicable Date, there was no intention to inject the Excluded Business into our Group in the future, as our Directors are of the view that such business neither forms part of our core business nor is in line with our strategy to strengthen our market position in the design and sale of women’s handbags, small leather goods and travel goods industry.

In respect of the analysis on the Excluded Business, our Controlling Shareholders include Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only. None of our Controlling Shareholders or any of their associates had interests in any other companies as at the Latest Practicable Date which may, directly or indirectly, compete with the business of our Group or otherwise required to be disclosed under Rule 11.04 of the GEM Listing Rules.

Other than the Excluded Business disclosed above, certain companies in which our Controlling Shareholders or their respective associates were directly or indirectly interested had transactions with our Group during the Track Record Period, details of such transactions are set out below. Our Directors confirm that all such transactions were carried out in the ordinary course of business of our Group and on normal commercial terms.

Having considered the following factors, our Directors are satisfied that, despite the existence of certain transactions between our Group and our Controlling Shareholders or their respective associates during the Track Record Period, we are capable of carrying out our business independently from our Controlling Shareholders and their respective associates after Listing.

Management independence

Our Board consists of eight Directors, comprising three executive Directors, namely Mr. Fred Yau, Mr. Brian Lee and Mr. Yip Chun Wai, two non-executive Directors, namely Mr. Sonny Yau and Mr. Sammy Yau, and three independent non-executive Directors. Each of our executive Directors and our non-executive Directors also serves directorship roles in our subsidiaries. Mr. Sonny Yau and Mr. Fred Yau are the directors of Sling BVI; Mr. Sonny Yau, Mr. Sammy Yau, Mr. Fred Yau and Mr. Brian Lee are the directors of Sling Incorp; Mr. Brian Lee and Mr. Yip Chun Wai are directors of Senhao Shanghai; Mr. Brian Lee is the director of Senxuan Shanghai; Mr. Fred Yau is the director of Shenzhen Yaying and Mr. Sammy Yau, Mr. Fred Yau and Mr. Brian Lee are the directors of Elite Grand.

In respect of the analysis on management independence, our Controlling Shareholders include Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Yen Sheng BVI, Ms. Agnes Li and Summit Time. Except as disclosed above, our Controlling Shareholders do not hold any directorship in our Group. As our Group is a business venture between the Yau Family and Summit Time, Mr. Fred Yau is responsible for the overall business corporate strategic planning and development of our Group, while Mr. Brian Lee is responsible for the operation and management of our Group. Although our Controlling Shareholders will retain a substantial interest

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

in our Company after Listing, our Company has full rights to make all decisions on, and to carry out its business operations independently. Mr. Sonny Yau and Mr. Sammy Yau are responsible for supervising and providing strategical guidance to our Group only. The daily operation and management of our Group has been supervised by our chief executive officer and one of our executive Directors, namely Mr. Brian Lee, and has been performed by our senior management. We have our team of staff to carry out the business decisions of our Group independently. We do not rely on our Controlling Shareholders for our business development, staffing or marketing and sales activities. The daily operation of our Group is conducted by our Ms. Shen Min as merchandising director of the product and logistics department, Ms. Jiang Ying as design director and Mr. Fang Yan as design team leader, respectively. Please refer to the section headed “Directors and senior management — Senior management” of this prospectus for further details. Our Directors are satisfied that our team of staff is able to perform its roles in our Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after Listing.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In respect of transaction(s) (the “**Potential Conflicting Transaction(s)**”) to be entered into between our Group and the respective companies which our Directors or their respective associate(s) is/are interested in, for good corporate governance, despite such Potential Conflicting Transaction(s) would not constitute connected transaction(s) under Chapter 20 of the GEM Listing Rules, in order to avoid conflict of interest, our interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such Potential Conflicting Transaction(s) and shall not be counted in the quorum. Should our Group be required to make any decision regarding the Potential Conflicting Transaction(s) going forward, our executive Director, namely Mr. Yip Chun Wai, and all independent non-executive Directors confirmed that they should be able to respond and vote at the relevant board meeting of our Company timely, with all interested executive Directors and non-executive Directors abstain from voting and shall not be counted in the quorum. In addition, our Board has delegated members of the senior management, who are independent from members of our Board, to oversee the daily operation of our Group, including any Potential Conflicting Transaction(s), including but not limited to those with Shanghai Xuandi. Such staff should report to our independent non-executive Directors regarding details of any Potential Conflicting Transaction(s), including the terms and conditions thereof and aggregate transaction amount (if necessary), from time to time.

Operation and administrative independence

In respect of the analysis on operation and administrative independence, our Controlling Shareholders include Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Yen Sheng BVI, Ms. Agnes Li and Summit Time. Our Group has our own

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

independent administrative and corporate governance structure comprising separate individual departments, each with specific areas of responsibilities, including finance, and management and administration. During the Track Record Period, our Group was operationally and administratively independent of our Controlling Shareholders as we have our own operational and administrative personnel. Our Board believes that we have been operating independently from our Controlling Shareholders and will continue to do so after Listing.

Although our Group had certain transactions with our Controlling Shareholders or their respective associates during the Track Record Period, save as set out under the section headed “Continuing connected transactions” of this prospectus, our Directors currently do not expect that there will be other business transactions between our Company and our Controlling Shareholders following Listing.

The operational and administrative transactions between our Group and our Controlling Shareholders or their respective associates during the Track Record Period were as follows:

(i) *Purchase of women’s handbags, small leather goods and travel goods*

During the Track Record Period, our Group had purchased women’s handbags from Macia (Hong Kong) for an aggregate fee of approximately RMB213,000 for the year ended 31 December 2015. Such transaction had been discontinued as at the Latest Practicable Date. Our Directors are of the view that the above arrangements were entered into in the ordinary course of our business, on normal commercial terms and are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

In addition, our Group had purchased women’s handbags, small leather goods and travel goods from Dongguan Taiheng for the two years ended 31 December 2016 and the six months ended 30 June 2017, for an aggregate fee of approximately RMB18,630,000, RMB19,057,000 and RMB5,062,000, respectively, details of which are set out in the section headed “Continuing connected transactions” in this prospectus. As (i) we require our suppliers to provide detailed cost breakdown of producing our products which enables us to assess the prices and consumption of material required for production of our women’s handbags, compare the quotations and consider other qualitative factors such as the raw material used in a particular model, prices of raw material, each supplier’s quality of service and the years of business relationship with our Group during the selection of supplier; and (ii) the transactions were part of the procurement cycle of our Group’s businesses, our Directors are of the view that the above arrangements were entered into in the ordinary course of our business, on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

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(ii) *Sampling services for new designs*

During the Track Record Period, our Group had paid for sampling services provided by Macia (Hong Kong) for the amount of approximately RMB603,000, RMB615,000 and RMB21,000 for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively.

In addition, during the Track Record Period, our Group had paid for sampling services provided by Yen Sheng Factory for the amount of approximately RMB9,000, RMB193,000 and nil for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively.

The above transactions had been discontinued as at the Latest Practicable Date. Our Directors are of the opinion that the above transactions were conducted in the ordinary course of business of our Group as well as on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

(iii) *Operating leases, management fees and building management fees*

During the Track Record Period, our Group has paid leasing fees for its head office to Yen Sheng Factory for an aggregate fee of approximately RMB113,000 for the year ended 31 December 2015.

Further, during the Track Record Period, our Group had paid management fee for head office's supporting services to Yen Sheng Factory for the amount of approximately RMB32,000 for the year ended 31 December 2015. During the Track Record Period, our Group had also paid for building management fee for its head office to Yen Sheng Factory for the amount of approximately RMB48,000 for the year ended 31 December 2015.

The above transactions had been discontinued as at the Latest Practicable Date. Our Group has engaged an independent valuer to review the relevant tenancy agreement, and such valuer is of the opinion that, the terms and conditions of the tenancy agreement was in the usual course of business of our Group, on normal commercial terms, fair and reasonable, and are within the ranges of rents that would be offered by independent third parties for similar premises at similar locations in Hong Kong. As such, our Directors are of the opinion that such transaction was conducted in the ordinary course of business of our Group, are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

In addition, our Group had paid leasing fees to Unigrade for the year ended 31 December 2016 and for the six months ended 30 June 2017, for an aggregate fee of approximately RMB247,000 and RMB128,000, respectively, details of which are set out in the section headed "Continuing connected transactions" of this prospectus. Our Group has engaged an independent valuer to review the relevant tenancy agreement, and such valuer is of the opinion that, the terms and conditions of the tenancy agreement was in the usual course of business of our Group, on normal commercial terms, fair and reasonable, and are within the ranges of

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rents that would be offered by independent third parties for similar premises at similar locations in Hong Kong. As such, our Directors are of the view that the above arrangements were entered into in the ordinary course of our business, on normal commercial terms and are fair and reasonable and in the interests of our Company and the Shareholders as a whole.

Financial independence

In respect of the analysis on financial independence, our Controlling Shareholders include Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Yen Sheng BVI, Ms. Agnes Li and Summit Time. During the Track Record Period, we financed our operations principally through a combination of cash generated from our operations and borrowings from banks.

During the Track Record Period, our Group's obligations under certain bank borrowings were guaranteed and secured by:

- (i) personal guarantees from our Controlling Shareholders and non-executive Directors, namely Mr. Sammy Yau and Mr. Sonny Yau, and our chief executive officer and executive Director, namely Mr. Brian Lee;
- (ii) legal charges over certain properties owned by Lee Sang and Mega Sun Holdings Limited (as at the Latest Practicable Date, Mega Sun Holdings Limited was wholly owned by Superyork Investment Limited, which was in turn held as to 90% and 10% by Unigrade and Atbest, respectively);
- (iii) legal charges over certain properties owned by Unigrade; and
- (iv) corporate guarantee from Yen Sheng Factory.

The abovementioned legal charges under paragraph (ii) above were released as at the Latest Practicable Date. The abovementioned guarantees and the legal charges under paragraphs (i), (iii) and (iv) above will be released upon Listing. For further details regarding the guarantees and securities given by our Controlling Shareholders in respect of our bank borrowings during the Track Record Period, please refer to note 21 to the Accountants' Report set out in Appendix I to this prospectus.

Our Group also had transactions for operational and working capital purposes with our Controlling Shareholders or their respective associates during the Track Record Period. Our Group has received interest income from Yen Sheng Factory for the amount of approximately RMB33,000 for the year ended 31 December 2016, which accounted for approximately 0.02% of our Group's total income in 2016, for the amount due from Yen Sheng Factory of approximately RMB2,572,000.

In addition, during the Track Record Period, our Group has paid interest expenses to Yen Sheng Factory for the amount of approximately RMB156,000 for the year ended 31 December 2015, for the amount due to Yen Sheng Factory of approximately RMB2,546,000.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors are of the view that the above loans and financial transactions were conducted on normal commercial terms which are fair and reasonable and in the interests of our Company and the Shareholders as a whole. Our Directors consider that our Group has no reliance on our Controlling Shareholder.

All the amounts due to or from our Controlling Shareholders and their respective associates, which are non-trade nature, had been fully settled as at the Latest Practicable Date. After completion of the Share Offer, there will be no financing from our Controlling Shareholders or their close associates. Our Directors are of the opinion that taking into account of our Group's internal resources, banking facilities and the estimated net proceeds from the Share Offer, our Group will have sufficient working capital for its requirements for at least the next 12 months from the date of publication of this prospectus. Our Directors believe that our Group will be able to obtain its own third party financing after the Share Offer without support or assistance from our Controlling Shareholders or their respective associates. Therefore, there is no financial dependence of our Group on our Controlling Shareholders or any of their respective associates.

NON-COMPETITION

Non-competition Undertaking

In respect of the Non-competition Undertaking, our Controlling Shareholders include Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only. Each of our Controlling Shareholders has confirmed that, save as disclosed in this prospectus, none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given an irrevocable non-competition undertaking (the “**Non-competition Undertaking**”) in favour of our Company (for itself and for the benefits of its subsidiaries) on 15 December 2017 pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates and/or companies controlled by them (other than our Group and the manufacturing services carried out by the Yen Sheng Group, the Tai Heng Group and to be carried out by YS Cambodia Group under the Excluded Business):

- (a) not, directly or indirectly, be interested or involved or carry on or concern with or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) in any business which is or is about to be engaged in any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by our Group (including but not limited to designing, promoting and selling women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases and women's shoes and accessories, in the PRC and any other country or

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

jurisdiction to which our Group carries business mentioned above and/or in which any member of our Group carries on business mentioned above from time to time (the “**Restricted Activity**”);

- (b) not solicit any existing employee of our Group for employment by it/him/her or its/his/her associates (excluding our Group);
- (c) not, without the consent from our Company, make use of any information pertaining to the business of our Group which may have come to its/his/her knowledge in its/his/her capacity as our Controlling Shareholders or as director of our Controlling Shareholders for any purpose of engaging, investing or participating in any Restricted Activity;
- (d) if there is any project or new business opportunity that relates to the Restricted Activity, refer such project or new business opportunity to our Group for consideration;
- (e) not invest or participate in or carry out any project or business opportunity of the Restricted Activity; and
- (f) procure its/his/her associates (excluding our Group) not to invest or participate in or carry out any project or business opportunity of the Restricted Activity, unless pursuant to the exception set out below.

The above undertakings (a) to (f) are subject to the exception that any of the associates of our Controlling Shareholders (excluding our Group) are entitled to invest, participate and be engaged in or carry out any Restricted Activity or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof has been disclosed to our Company and our Directors, and our Company shall have, after review (taking into account whether the entering into of such project or business opportunity will be in the best interest of our Group) and approval by our Directors (including our independent non-executive Directors without the attendance by any Director with beneficial interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of our independent non-executive Directors), confirmed its rejection in writing to be involved or engaged, or to participate or carry on, in the relevant Restricted Activity and provided also that the principal terms on which that relevant associate of our Controlling Shareholders invests, participates or engages in the Restricted Activity are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if the relevant associate of our Controlling Shareholders decides to be involved, engaged, or participate in or carry out the relevant Restricted Activity, whether directly or indirectly, the terms of such involvement, engagement, participation or carrying out must be disclosed to our Company and our Directors as soon as practicable.

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken to us that in the event that it/he/she or its/his/her associate(s) (other than any member of our Group) (the “**Offeror**”) is given or identified or offered any business investment or commercial opportunity

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

which directly or indirectly competes, or may lead to competition with the Restricted Activity (the “**New Opportunities**”), it/he/she will and will procure its/his/her associate(s) to refer the New Opportunities to us as soon as practicable in the following manner:

- (i) each of our Controlling Shareholders is required to, and shall procure its/his/her associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunities to us, and shall give written notice to us of any New Opportunities containing all information reasonably necessary for us to consider whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of our Group to pursue such New Opportunities, including but not limited to the nature of the New Opportunities and the details of the investment or acquisition costs (the “**Offer Notice**”);
- (ii) the Offeror will be entitled to pursue the New Opportunities only if (a) the Offeror has received a notice from us declining the New Opportunities and confirming that such New Opportunities would not constitute competition with the Restricted Activity, or (b) the Offeror has not received such notice from us within 10 business days from our receipt of the Offer Notice. If there is a material change in the terms and conditions of the New Opportunities pursued by the Offeror, the Offeror will refer the New Opportunities as so revised to us in the manner as set out above.

Upon receipt of the Offer Notice, we will seek opinions and decisions from our independent non-executive Directors who do not have a material interest in the manner as to whether (a) such New Opportunities would constitute competition with the Restricted Activity; and (b) it is in the interest of us and our Shareholders as a whole to pursue the New Opportunities.

The Non-competition Undertaking is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all our Shares in issue and to be issued under the Share Offer and our Shares which may be issued upon the exercise of the options that may be granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

For the above purpose, the “**Relevant Period**” means the period commencing from the Listing Date and shall expire on the earlier of the dates below:

- (i) with respect to each of our Controlling Shareholders and their associates, individually or taken as a whole, ceases to be our Controlling Shareholders for the purpose of the GEM Listing Rules; and
- (ii) the date on which our Shares cease to be listed on the Stock Exchange or (if applicable) other stock exchange.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Under the Non-competition Undertaking, each of our Controlling Shareholders has undertaken to our Group to allow our Directors, their respective representatives and the auditors of our Group to have sufficient access to the records of each of our Controlling Shareholders and their respective associates to ensure compliance with the terms and conditions of the Non-competition Undertaking.

Each of our Controlling Shareholders has undertaken under the Non-competition Undertaking that it/he/she shall provide to us and our Directors from time to time (including our independent non-executive Directors) with all information necessary for the annual review by our independent non-executive Directors with regard to compliance of the terms of the Non-competition Undertaking by our Controlling Shareholders and the enforcement of the Non-competition Undertaking. Each of our Controlling Shareholders has also undertaken to make an annual declaration as to compliance with the terms of the Non-competition Undertaking in our annual report.

In order to properly manage any potential or actual conflict of interests between us and our Controlling Shareholders in relation to compliance and enforcement of the Non-competition Undertaking, we have adopted the following corporate governance measures:

- (i) our independent non-executive Directors shall review, at least on an annual basis, compliance and enforcement of the terms of the Non-competition Undertaking by our Controlling Shareholders;
- (ii) we will disclose any decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Non-competition Undertaking either through our annual report or by way of announcement;
- (iii) we will disclose in the corporate governance report of our annual report on how the terms of the Non-competition Undertaking have been complied with and enforced; and
- (iv) in the event that any of our Directors and/or their respective associates has material interest in any matter to be deliberated by our Board in relation to compliance and enforcement of the Non-competition Undertaking, he may not vote on the resolutions of our Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the Articles.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between our Controlling Shareholders and their respective associates and our Group and to protect the interests of our Shareholders, in particular, the minority Shareholders.

SHARE CAPITAL

The following is a summary of the authorised and issued share capital of our Company as at the date of this prospectus and immediately after completion of the Share Offer and the Capitalisation Issue:

<i>Authorised:</i>	HK\$
<u>1,110,000,000</u> Shares	<u>11,100,000</u>
<i>Issued and to be issued, fully paid or credited as fully paid:</i>	
1,000,000 Shares in issue as at the date of this prospectus	10,000
419,000,000 Shares to be issued under the Capitalisation Issue	4,190,000
<u>140,000,000</u> Share to be issued under the Share Offer	<u>1,400,000</u>
<u>560,000,000</u> Shares in issue immediately upon Listing	<u>5,600,000</u>

ASSUMPTIONS

The above tables assume that the Share Offer becomes unconditional and the issue of Shares pursuant thereto is made as described therein.

The above tables, however, take no account of any Shares which may be allotted and issued by our Company pursuant to the exercise of any options that may be granted under the Share Option Scheme and of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below.

The minimum level of public float to be maintained by our Company after Listing is 25% of the issued share capital of our Company.

RANKING

The Offer Shares and our Shares that may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions hereafter declared, paid or made on our Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

ALTERATIONS OF SHARE CAPITAL

Our Company may from time to time by ordinary resolution or special resolution (as the case may be) of our Shareholders alter the share capital of our Company. For a summary of the provisions in the Articles regarding alterations of share capital, please refer to the paragraph headed “2. Articles of Association — (c) Alterations of capital” in Appendix III to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Conditional on the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total number not more than the sum of:

- i. 20% of the number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue, but excluding any Shares which may be issued upon the exercise of any option that may be granted under the Share Option Scheme; and
- ii. the number of securities repurchased by our Company (if any) pursuant to the repurchase mandate (as referred to below).

The allotment and issue of Shares under a rights issue or pursuant to the exercise of any subscription rights, warrants which may be issued by our Company from time to time, scrip dividend scheme or similar arrangement 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, or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares, or pursuant to the exercise of any options that may be granted under the Share Option Scheme, or under the Share Offer or the Capitalisation Issue.

This mandate will expire at:

- the conclusion of our next annual general meeting;
- the expiration of the period within our next general meeting is required by the Articles or any applicable laws to be held; and
- the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “3. Resolutions of our Shareholders” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Conditional on the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares of not more than 10% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue, but excluding any Shares that may be issued upon the exercise of any option that may be granted under the Share Option Scheme. This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose),

SHARE CAPITAL

and which are in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “10. Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

This mandate will expire at:

- the conclusion of our next general meeting;
- the expiration of the period without which our next annual meeting is required by the Articles or any applicable laws to be held; and
- the date on which such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “3. Resolutions of our Shareholders” in Appendix IV to this prospectus.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme on 15 December 2017. Under the Share Option Scheme, the eligible participants of the scheme, including directors, full-time employees of and advisers and consultants to our Company or our subsidiaries may be granted options which entitle them to subscribe for Shares, when aggregated with options granted under any other scheme, representing initially not more than 10% of the Shares in issue on the Listing Date. Further details of the rules of the Share Option Scheme are set out in the paragraph headed “18. Share Option Scheme” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operation together with our combined financial statements included in the Accountants' Report, which has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), as set out in Appendix I to this prospectus, and the unaudited pro forma financial information included in Appendix II to this prospectus, in each case together with the accompanying notes.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements that involve risks and uncertainties as a result of various factors, including those set forth under the section headed "Risk factors" of this prospectus and elsewhere in this prospectus.

OVERVIEW

We are one of the leading women's online middle-end handbag companies in the PRC in terms of retail sales in 2016. Our core strengths lie in the development, design and marketing of our products and management of our retail sales network (which covers both online and offline retail points). We primarily design, promote and sell women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases in the PRC. Our brand portfolio comprises two brands, namely (i) ELLE, our licensed brand, and (ii) Jessie & Jane, our own brand. Each brand is tailored to the preferences of consumers in varying age groups.

We engage suppliers, who are manufacturers, to produce our products. We have our quality control measures to ensure that finished products produced by our suppliers are up to our quality standard and specification before they are delivered to us.

Since the establishment of our office in the PRC in 2005, we built our offline sales network in the first and second tier cities in the PRC. In order to expand the geographic coverage of our sales network in other PRC cities effectively without incurring significant costs, we sell our products on a wholesale basis to third party retailers, who then sell them to end customers through their retail points. In view of general decline in sales performance in offline consumer market as a result of continuous shift of shopping habits to online, during the Track Record Period, we streamlined our offline retail network by decreasing the total number of our self-operated offline retail points and transferred a number of our self-operated offline retail points outside Shanghai area to our third party retailers. Our Directors consider such move enables us to reallocate our management resources in a more efficient manner to online business and Jessie & Jane brand development. As at 30 June 2017, we had 8 self-operated offline retail points and 89 retailer-operated offline retail points for our products.

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Having considered the rapid development of technology and changes in consumer shopping habits of the young generation in the PRC, we launched our first online retail point in 2010. During the Track Record Period, our online presence was maintained through different e-commerce platforms, such as T-mall, JD.com and VIP.com. Our online sales network currently consists of (i) our self-operated online retail points on e-commerce platforms, such as T-mall, JD.com and VIP.com; and (ii) third party retailer-operated online retail points, which sell the products to end customers through online retail points operated by our third party retailers on e-commerce platforms. As at 30 June 2017, we had 14 self-operated online retail points and 18 retailer-operated online retail points for our products.

Presently, our online retail sales are the predominant performance driver. For the two years ended 31 December 2016 and the six months ended 30 June 2017, we generated revenue of approximately RMB85.5 million, RMB115.7 million and RMB69.6 million through our self-operated online retail points, representing approximately 44.4%, 55.0% and 64.8% of our total revenue contribution respectively. For the Track Record Period, approximately 85.6%, 71.2% and 63.2% of our total revenue were recognised from the sale of our ELLE products, and approximately 14.4%, 28.8% and 36.8% of our total revenue were recognised from the sale of our Jessie & Jane products, respectively.

While e-commerce platforms can achieve more extensive consumer reach for remote areas, offline retail points can enhance customers' direct shopping experience with physical contact of our product design and quality to promote our brand image. In order to enhance Shareholder's value, in future, we will continue to put our primary business focus on development of our e-commerce platforms as well as enrich our product portfolio with new products. At the same time, we will also leverage on our third party retailers to expand our offline retail network so as to achieve optimal use of our management resource.

Our Directors consider that the decision to reduce the number of self-operated offline retail points and increase the number of retailer-operated offline retail points is proved to be a cost effective operating strategy.

BASIS OF PRESENTATION

The financial information has been prepared in accordance with HKFRSs and included applicable disclosures required by the GEM Listing Rules which is relevant for the respective periods over the Track Record Period. The financial information has been prepared on the historical cost basis and is presented in RMB and all values are rounded to the nearest thousand except when otherwise indicated.

Our Company was incorporated in the Cayman Islands on 6 January 2017 as an exempted company with limited liability under the Companies Law. Our Group resulting from our Reorganisation is regarded as a continuing entity. The financial information of our Group, has been prepared by applying the principles of merger accounting as if the group structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation/ establishment where this is a shorter period.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR RESULTS OF OPERATION

Our Group's financial condition and results of operation have been, and will continue to be, affected by a number of factors, including those set out below.

Brand reputation and successful marketing of our products

Brand recognition is one of the key factors in consumers' purchase decisions. Our brand portfolio comprises two brands, namely (i) ELLE, our licensed brand, and (ii) Jessie & Jane, our own brand. Each brand is tailored to the preferences of consumers in varying age groups. Our products are principally designed by our in-house design and product development team located in Hong Kong and Shanghai. We adapt to ever-changing market trends by offering products with fashionable designs. Our success depends on our ability to promote and maintain our brand reputation and design capability.

Use of distribution channels

Retail sales of our products is our primary earning driver. The use of online and offline distribution channels have a direct impact on overall sales performance. On revenue side, the proliferation of e-commerce results in a change in shopping habit, in turn leading to boost of business volume for online purchase at the expense of physical consumer markets. On costing side, the setup and operations of online retail points require lower capital outlay, such as decoration, rentals and staff costs, than physical retail points. Thus, our ability to stay tuned with future consumer market development is critical to our success.

Cost of outsourced production

We outsource the production of our products to third party manufacturers. Our cost of sales mainly comprises the purchase costs of our products. Although we seek to maintain a stable work relationship with most of our third party suppliers, we have not entered into any long term supply agreements with any purchase commitment with them. Any significant fluctuations in the purchase costs, in particular key materials used such as yellow cattle leather and PVC, could affect our cost of sales and our results of operation, if we are not able to pass on any increase in the costs of our products to our customers. We have entered into a framework agreement with Dongguan Taiheng, a connected supplier, for a duration of three years. For further details of our Group's relationship with Dongguan Taiheng and the framework agreement entered into with Dongguan Taiheng, please refer to the sections headed "Relationship with our Controlling Shareholders" and "Continuing connected transactions" of this prospectus respectively.

Competition

We operate in a highly competitive and fragmented industry. We compete with a broad range of women's handbag companies including domestic and international brands available in the PRC market. According to Frost & Sullivan Report, top five market players of women's middle-end

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handbag market in the PRC accounted for approximately 1.87% of total retail sales revenue in 2016. We believe that the intensifying competition in the industry will continue to materially affect our results of operation and financial performance in the future.

Seasonality

Our operating results are subject to a certain degree of seasonality. Traditionally, with the aid of marketing and promotion activities such as Double 11 shopping festival generally attract more retail purchases. Based on our historical records, our sales generally increase steadily in the first three quarters of each year. We recognised approximately 21.3% to 26.7% of our revenue in each of these quarters in 2015 and 2016. We generally experience higher sales in the fourth quarter of each year due to the national-wide marketing events of e-commerce platform operators in the PRC for the Double 11 shopping festival in November. We recognised approximately 29.3% and 32.1% of our revenue in the fourth quarter of 2015 and 2016, respectively. Moreover, we generally experience lower sales in October as consumers defer their purchase and anticipate the special offer for the Double 11 shopping festival in November. We expect our results of operation continue to be influenced by such consumer spending pattern in future.

Pricing strategy

We adopt a market-oriented pricing approach. We determine prices of our products based on a number of key factors, such as results of market research and analysis, historical sales data, production costs, complexity of designs and productions, proposed profit margins and market positions of our products. Our revenue and profitability are directly affected by the pricing of our products. Any material change in our pricing strategy may have a material impact on our results of operation and financial performance.

Economic conditions and consumer spending in the PRC

We primarily conduct our operations in the PRC. Therefore, the economic conditions in the PRC have direct impact on the level of demand for our products. The PRC economy has maintained a solid growth rate in the past few years, with the per capita annual disposable income of urban households in the PRC increased from approximately RMB24,565 in 2012 to approximately RMB33,616 in 2016, at a CAGR of approximately 8.2%, and the per capita net income of rural residents in the PRC increased from approximately RMB8,391 in 2012 to approximately RMB12,363 in 2016, at a rate of CAGR of approximately 10.2%. We believe our financial condition and results of operation had benefited from the economic growth trend of the PRC during the Track Record Period, and are expected to be significantly affected in the future by the growth or contraction of the PRC economy.

CRITICAL ACCOUNTING POLICIES

The audited financial information of our Group has been prepared in conformity with HKFRSs. The financial statements of our Group also include the applicable disclosure requirements of the GEM Listing Rules. The accounting methods, estimates and assumptions that our Group

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applies in its preparation of financial information may have significant impacts on the reported financial condition and results of operation of our Group. These assumptions and estimates are often based on subjective judgements which are uncertain. Actual results may vary as facts, circumstances and condition change or as a result of different assumption.

Below is a summary of the critical accounting policies adopted by our Group for the preparation of financial statements. For full details of our Group's accounting policies and estimates, please refer to notes 2 and 3 to the Accountants' Report set out in Appendix I to this prospectus respectively.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and the use by others of our Group's assets yielding interest, net of value-added taxes, returns, rebates and discounts. Provided it is probable that the economic benefits will flow to our Group; the revenue and costs, if applicable, can be measured reliably; and when specific criteria have been met for each of our Group's activities, as described below. Our Group bases our estimates of return on historical pattern, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of goods — retailers

Revenue is recognised upon transfer of the significant risks and rewards of ownership to the retailers, which occurs when the goods are delivered and accepted by the retailers. Acceptance refers to either of the situations that the retailers accepted the goods in accordance with the sales contracts; the acceptance provisions have lapsed; or our Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the retailers' acceptance of the goods.

Retailers are offered with right of return (including exchange) within the limit as agreed in the sales contracts. Revenue is adjusted for expected returns (including exchanges) based on historical pattern.

For the two years ended 31 December 2016 and the six months ended 30 June 2017, the aggregate amount of products exchanged by our third party retailers amounted to approximately RMB3.7 million, RMB4.2 million and RMB1.6 million, respectively, representing approximately 18.9%, 16.6% and 9.9% of the total amount of products we sold to our third party retailers, respectively. We have subsequently sold approximately RMB2.6 million, RMB4.2 million and RMB0.8 million of these returned products at profit with additional profit of approximately RMB49,000, RMB108,000 and reduction in profit earned of approximately RMB31,000 being recorded for the two years ended 31 December 2016 and the six months ended 30 June 2017, respectively. We had approximately RMB1.1 million, nil and RMB0.8 million of these returned products for the two years ended 31 December 2016 and the six months ended 30 June 2017 remained unsold. As at the Latest Practicable Date, our third party retailers may return products of an aggregate value of up to approximately RMB2.5 million to us.

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Sales of goods — retail

We sell goods to end customers via a chain of self-operated retail points of our Group or over third party online retail platforms. Revenue is recognised when our Group can reasonably estimate the acceptance by end customers. For offline retail sales, acceptance by end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third party payment platforms. Revenue is adjusted for the value of expected returns.

Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis.

Our third party offline retailers may return products of an aggregate value of not more than 30% of the purchase costs to our Group in exchange for other products within 45 to 90 days from the date of receipts of the products. The returned products are classified in inventory ageing according to the date in which our Group first received the goods from our suppliers. As the retailer could only exchange for products within the same season and the returned products had to be in saleable condition, the exchange of products from our offline retailer has no material impact on our inventory ageing.

Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if our Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Our determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Leases which do not transfer substantially all the risks and rewards of ownership to our Group are classified as operating leases. Where our Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

HKFRS 16 “Leases” applies a control model to the identification of leases, distinguishing between leases and services contracts on the basis of whether there is an identified asset controlled by the customer.

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HKFRS 16 introduces a single lessee accounting model and requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of the lease arrangement. The initial measurement of the right-of-use asset is based on the lease liability and adjusted for any prepaid lease payments, lease incentives received, initial direct costs incurred and an estimate of costs the lessee is obliged to incur to dismantle, remove or restore the underlying asset and/or site. Subsequently, the right-of-use asset is depreciated following the requirements of HKAS 16 “Property, Plant and Equipment” and impaired, if any, following the requirements of HKAS 36 “Impairment of Assets”. The lease liability is accounted for similarly to other financial liabilities using an effective interest method.

The lessor accounting requirements are not substantially changed and classification of leases as operating leases or finance leases is retained. HKFRS 16 replaces the previous leases standard HKAS 17 “Leases”, and related interpretations. An entity is allowed to apply HKFRS 16 before that date but only if it also applies HKFRS 15 “Revenue from Contracts with Customers”.

As set out in note 26 to the Accountants’ Report in Appendix I to this prospectus, the operating lease commitments of our Group in respect of its leased premises as at 30 June 2017 amounted to approximately RMB6.9 million. Our Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on our 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 a right-of-use asset and a lease liability upon the adoption of the new standard.

Financial assets

Financial assets are classified into loans and receivables and available-for-sale financial assets. We determine the classification of our financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluate this designation at each reporting date. All financial assets are recognised when, and only when, our Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. At each reporting date, we review the financial assets to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

Income tax

Income tax comprises current tax and deferred tax.

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Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date. Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Net realisable value of inventories

Net realisable value of inventories is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. Our Group reassesses the estimation at the end of each reporting period.

Impairment of receivables

Our Group determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Our Group reassesses the impairment of receivables at the end of each reporting period.

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RESULTS OF OPERATION

The following table sets forth a summary of our results of operation during the Track Record Period as extracted from the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 <i>(unaudited)</i>	RMB'000
Revenue	192,448	210,481	92,937	107,485
Cost of sales	<u>(79,832)</u>	<u>(94,478)</u>	<u>(42,696)</u>	<u>(48,127)</u>
Gross profit	112,616	116,003	50,241	59,358
Other revenue and income	359	175	65	84
Government grants	2,260	2,140	—	—
Selling and distribution costs	(79,939)	(83,878)	(38,347)	(38,856)
Administrative and other operating expenses	(19,991)	(22,130)	(10,686)	(10,058)
Listing expenses	—	(1,990)	—	(4,334)
Finance costs	(905)	(689)	(315)	(415)
Share of results of associates	<u>(751)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit before income tax	13,649	9,631	958	5,779
Income tax expense	<u>(3,547)</u>	<u>(3,374)</u>	<u>(335)</u>	<u>(2,230)</u>
Profit for the year/period	<u>10,102</u>	<u>6,257</u>	<u>623</u>	<u>3,549</u>
Other comprehensive (expense)/income				
Item that may be reclassified subsequently to the profit or loss:				
Exchange differences on translation of foreign operations	<u>(216)</u>	<u>(528)</u>	<u>(128)</u>	<u>324</u>
Total comprehensive income for the year/period attributable to equity holders of the Company	<u>9,886</u>	<u>5,729</u>	<u>495</u>	<u>3,873</u>
Earnings per share for profit attributable to equity holders of the Company				
Basic and diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

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DISCUSSION ON MAJOR ITEMS OF THE COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Revenue

We generate revenue primarily from the sale of our products to consumers through our online retail points and self-operated offline retail points, and sale of our products to third party retailers. For the two years ended 31 December 2016, our revenue increased by approximately 9.4% from approximately RMB192.4 million for the year ended 31 December 2015 to approximately RMB210.5 million for the year ended 31 December 2016. For the six months ended 30 June 2016 and 2017, our revenue increased by approximately 15.7% from approximately RMB92.9 million for the six months ended 30 June 2016 to approximately RMB107.5 million for the six months ended 30 June 2017.

Revenue by sales channel

The following table sets forth a breakdown of our revenue according to sales channel for the years/periods indicated.

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
Retail sales								
Online retail points	85,519	44.4	115,719	55.0	45,017	48.4	69,627	64.8
Offline retail points	65,239	33.9	48,694	23.1	27,200	29.3	10,280	9.6
Wholesale								
Sales to offline retailers	19,659	10.2	25,203	12.0	10,897	11.7	15,817	14.7
Sales to online retailers ^(Note)	22,031	11.5	20,865	9.9	9,823	10.6	11,761	10.9
Total	192,448	100.0	210,481	100.0	92,937	100.0	107,485	100.0

Note: Out of the sales of our products to a number of online retailers, it included the sales of our products to a customer, which is an Independent Third Party, on a wholesale basis. Such customer then sold the products to corporates, such as banks, which may use the products as reward gifts to its clients. For the two years ended 31 December 2016 and the six months ended 30 June 2017, our sales to such customer accounted for approximately RMB9.9 million, RMB5.9 million and RMB6.4 million, respectively, representing approximately 5.2%, 2.8% and 5.9% of our total revenue, respectively.

Retail sales operations is our main sales channel. We generally price our products to end customers at independent third party e-commerce platforms and offline retail points at our suggested retail price.

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Sales from online retail platforms is our primary revenue contributing driver. As at 31 December 2015, 31 December 2016 and 30 June 2017, we operated 12, 15 and 14 online retail points in various well-known PRC e-commerce platforms including our online flagship stores in T-mall, JD.com and VIP.com, respectively. The proliferation of business-to-consumer (B2C) sector in recent years creates a convenient shopping channel for individual consumers, resulting in a shift in shopping habit at the expense of physical consumer market. For the Track Record Period, we witnessed a growth of sales from approximately RMB85.5 million to RMB115.7 million for comparative years ended 31 December 2016, representing an increase of approximately RMB30.2 million or 35.3%; and from RMB45.0 million to RMB69.6 million for comparative periods ended 30 June 2017, representing an increase of approximately RMB24.6 million or 54.7%. The increase for the two years ended 31 December 2016 was attributed to (i) the increase in sales of our relatively new brand Jessie & Jane products, which we acquired in 2014, and has been gaining acceptance and awareness in the consumer market; (ii) a general increase in sales volume at our online retail points on e-commerce platforms as a result of popularisation of these e-commerce platforms; and (iii) these platforms hold different marketing and promotion campaigns such as the Double 11 shopping festival from time to time to stimulate consumer spending. The increase for the comparative periods ended 30 June 2017 was attributed to (i) the continual growth and popularity of our Jessie & Jane brand; and (ii) the increase in sales through our online retail points on the mentioned e-commerce platforms.

Offline (physical) retail point is our traditional retail channel. Our offline retail points primarily include stores in shopping malls and sales counter in department stores. As at 31 December 2015, 31 December 2016 and 30 June 2017, we had 50, 29 and 8 self-operated offline retail points in various cities in the PRC. Given (i) the increasing pressure from store operating costs such as rentals and staff costs; and (ii) changing in consumers' shopping habits from offline to online, we began to reallocate our management resources to online business and closed down offline retail points with unsatisfactory sales performance. In the second half of 2016, we commenced a retail point transfer plan to transfer all self-operated offline retail points outside Shanghai to our offline retailers. For the Track Record Period, our sales through offline retail points decreased from approximately RMB65.2 million to RMB48.7 million for the two years ended 31 December 2016, representing a decrease of approximately RMB16.5 million or 25.4%; and decreased from approximately RMB27.2 million to RMB10.3 million for the six months ended 30 June 2016 and 2017 respectively, representing a decrease of approximately RMB16.9 million or 62.2%. The decrease in sales for the comparative years ended 31 December 2016 was attributed to (i) a general decline in offline retail points performance as a result of the shift in consumer's shopping habits from offline to online; and (ii) closure of 15 self-operated offline retail points. The decrease in sales for the comparative periods ended 30 June 2017 was attributed to the transfer of seven self-operated offline retail points during the year ended 31 December 2016 to our retailers under the retail point transfer plan as mentioned above.

We also sell our products to our retailers on a wholesale basis at a discount to the suggested retail price for reselling to end customers in their offline retail points.

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In view of increasing pressure of retail shop operating costs, wholesale of our products to third party retailers is now becoming our principal expansion strategy for our offline sales network. Similar to our self-operated offline retail points, our retailer-operated offline retail points include concept stores in shopping malls and sales counter in department stores and our retailers are required to adopt our suggested retail pricing and operating policies. As at 31 December 2015, 31 December 2016 and 30 June 2017, we had 64, 85 and 89 retailer-operated offline retail points in various cities in the PRC. Despite the increase in the number of retailer-operated offline retail points by opening of new store and transfer of our self-operated offline retail points, the sales performance of our third party offline retailers was also affected by the general decline in physical consumer market, resulting in a slower rate of increase as compared to our online retail sales. During the Track Record Period, our sales to offline retailer increased from approximately RMB19.7 million to RMB25.2 million for the two years ended 31 December 2016, representing an increase of approximately RMB5.5 million or 28.2%; and increased from approximately RMB10.9 million to RMB15.8 million for the six months ended 30 June 2016 and 2017 respectively, representing an increase of approximately RMB4.9 million or 45.2%. The increase in sales for the comparative years ended 31 December 2016 was mainly attributed to a net increase in 21 retailer-operated offline retail points, in particular for Jessie & Jane brand. The increase in sales for the comparative periods ended 30 June 2017 was attributed to the transfer of seven self-operated offline retail points during the year ended 31 December 2016 to our retailers under the retail point transfer plan as mentioned above.

Our wholesale model to online retailers is similar to the offline one. Since different online platforms adopt different distribution models, some of them may only accept brand owners to set up its own retail point; some of them may only make purchase from brand owners and resell to end customers; and some adopt a combination of both. Our distribution strategy to these online retailers is to establish market presence and coverage in most of the common e-commerce platforms in the market. As at 31 December 2015 and 2016 and 30 June 2017, we cooperated with 9, 11 and 11 online retailers respectively, whereby JD.com and another online retailer who sell our products to corporates such as bank for gift reward redeemed by their customers are our major customers for this sales channel. As we put our key focus for online business on our own online retail points, the contribution and growth in wholesale business to online retailers is relatively low. During the Track Record Period, our sales to online retailers decreased from approximately RMB22.0 million to RMB20.9 million for the two years ended 31 December 2016, representing a decrease of approximately RMB1.2 million or 5.3%; and saw a recovery from approximately RMB9.8 million to RMB11.8 million for the six months ended 30 June 2016 and 2017, representing an increase of approximately RMB1.9 million or 19.7%. The decrease in sales for the comparative years ended 31 December 2016 was mainly attributed to a decrease in sales volume of approximately 12,000 units. The increase in sales for the comparative periods ended 30 June 2017 was attributed to one of our online retailers had organised a promotional event during the six months ended 30 June 2017, hence increased the demand for our products.

We have a consignment arrangement with one of these third party retailers which only accounted for approximately 3.6%, 3.9% and 3.0% of our Group's revenue, while the operating margin earned from such online retailer accounted for approximately 7.3%, 7.4% and 5.5% of our

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Group's total operating margin for the two years and 31 December 2016 and the six months ended 30 June 2017 respectively. Our Group only recognises revenue once the online retailer has actually sold its products to the consumers via the e-commerce platform and, thus there is no material financial impact on our operation. We would send the products to such online retailer after the receipt of purchase orders. However, during the period after the delivery of the goods and before the sale of the goods to end customers, we are allowed to request for particular stocks to be returned to us for sale in other distribution channels. Therefore, our Directors are of the view that our Group is not exposed to any significant risk. As at 31 December 2015 and 2016 and 30 June 2017, the amount of products delivered to such online retailer on a consignment basis were approximately RMB0.4 million, RMB0.3 million and RMB0.5 million respectively, with the products for the two years ended 31 December 2016 fully sold subsequent to the year ends, while approximately RMB0.4 million out of the RMB0.5 million delivered were sold subsequent to 30 June 2017.

Revenue by product categories

We primarily design, promote and sell women's handbags, small leather goods and travel goods, including handle bags, clutch bags, wallets, coin cases, card holders and suitcases, in the PRC. The following table sets forth a breakdown of our revenue by product category for the years/ periods indicated.

	Year ended 31 December						Six months ended 30 June					
	2015		2016		2016		2016		2017		2017	
	RMB'000	%	Sales volume '000	RMB'000	%	Sales volume '000	RMB'000	%	Sales volume '000	RMB'000	%	Sales volume '000
Handbags	173,500	90.1	508	191,726	91.1	670	82,298	88.6	238	96,889	90.1	348
Others ^(Note)	18,948	9.9	322	18,755	8.9	424	10,639	11.4	173	10,596	9.9	239
Total	192,448	100.0	830	210,481	100.0	1,094	92,937	100.0	411	107,485	100.0	587

Note: It primarily includes wallets, travel goods, small leathers goods and cardholders, etc..

The majority of our revenue was derived from handbags, which accounted for approximately 90.1%, 91.1%, 88.6% and 90.1% of our total revenue for the two years ended 31 December 2016 and the six months ended 30 June 2016 and 30 June 2017, respectively. The revenue derived from handbags increased from approximately RMB173.5 million for the year ended 31 December 2015 to approximately RMB191.7 million for the year ended 31 December 2016. Such increase was mainly due to the increase in sales volume from approximately 508,000 units for the year ended 31 December 2015 to approximately 670,000 units for the year ended 31 December 2016 driven by our Jessie & Jane brand. For the six months ended 30 June 2017, the revenue derived from handbags increased to approximately RMB96.9 million from approximately RMB82.3 million for the six months ended 30 June 2016, which was mainly due to the increase in sales volume from approximately 238,000 units for the six months ended 30 June 2016 to approximately 348,000 units for the six months ended 30 June 2017.

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Revenue by brand

Our brand portfolio comprises two brands, namely (i) ELLE, our licensed brand; and (ii) Jessie & Jane, our own brand. The following table sets forth our revenue by brand for the years/periods indicated.

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
ELLE	164,767	85.6	149,887	71.2	68,279	73.5	67,955	63.2
Jessie & Jane	27,681	14.4	60,594	28.8	24,658	26.5	39,530	36.8
Total	<u>192,448</u>	<u>100.0</u>	<u>210,481</u>	<u>100.0</u>	<u>92,937</u>	<u>100.0</u>	<u>107,485</u>	<u>100.0</u>

We have been licensing for the production and sale of ELLE products for over 10 years. With substantial marketing and promotion effort, we have established ELLE brand as our flagship products with a number of well-perceived product lines and series. Following the initial success of ELLE brand, we broaden our product portfolio by acquiring the Jessie & Jane brand. The market positioning for both ELLE and Jessie & Jane is middle-end market with relatively higher product pricing for ELLE. We launch two seasons of new products each year.

Approximately 85.6%, 71.2%, 73.5% and 63.2% of our revenue was generated from ELLE brand for the two years ended 31 December 2016 and the six months ended 30 June 2016 and 30 June 2017, respectively, and approximately 14.4%, 28.8%, 26.5% and 36.8% of our revenue was generated from Jessie & Jane brand for the two years ended 31 December 2016 and the six months ended 30 June 2016 and 30 June 2017, respectively. For the year ended 31 December 2016, the increase in our revenue was mainly driven by the increase in sale of our Jessie & Jane brand as a result of the increasing acceptance and awareness of our Jessie & Jane brand in the consumer market. For the six months ended 30 June 2017, the further growth of our Jessie & Jane brand has continued to be the primary driver for our Group's increase in revenue.

The decrease in sales for ELLE products during the Track Record Period was mainly due to the decrease in the total number of our self-operated offline retail points and the commencement of our retail point transfer scheme in the second half of 2016, where we transferred all self-operated retail points outside Shanghai area to our offline retailers, with the number of closed and transferred self-operated offline retail points for our ELLE brand totaling 20 and 19 for the year ended 31 December 2016 and six months ended 30 June 2017 respectively. As at the Latest Practicable Date, we only retain self-operated retail points which are located in Shanghai. For a more detailed movement of each category of our offline retail points by brand, please refer to the section headed "Business — Offline sales network" in this prospectus. As the products sold to our offline retailers are priced at approximately 30 to 40% of the suggested retail price, while the products sold at self-operated retail points are priced at the suggested retail price net of any consumer discounts, and were generally sold at approximately 39% to 74% of the suggested retail price, the transfer scheme

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led to the decrease in revenue for the six months ended 30 June 2017. The following table sets forth the revenue for ELLE products for the six months ended 30 June 2016 and 2017 through different sales channel:

	ELLE brand		
	For the six months ended 30 June		
	2016	2017	Change in revenue
	RMB'000	RMB'000	%
Retail sales			
Online retail points	31,622	43,463	37.4
Offline retail points	<u>20,956</u>	<u>6,203</u>	(70.4)
Subtotal	<u>52,578</u>	<u>49,666</u>	(5.5)
Wholesale			
Sales to offline retailers	7,105	7,619	7.2
Sales to online retailers	<u>8,596</u>	<u>10,670</u>	24.1
Subtotal	<u>15,701</u>	<u>18,289</u>	16.5
Total	<u>68,279</u>	<u>67,955</u>	(0.5)

For comparison, the sales generated for ELLE products sold at self-operated offline retail points amounted to approximately RMB21.0 million for the six months ended 30 June 2016, while the sales generated for the corresponding period in 2017 amounted to approximately RMB6.2 million. The significant decrease in sales of ELLE products at self-operated offline retail points was due to the decrease in the total number of our self-operated offline retail points and the commencement of our retail point transfer scheme in the second half of 2016. This decline in revenue generated through our self-operated offline retail points was offset by (i) the increase in sales of ELLE products through self-operated online retail points from approximately RMB31.6 million to approximately RMB43.5 million for the six months ended 30 June 2016 and 2017 respectively; and (ii) the increase in sales of ELLE products to our online retailers from approximately RMB8.6 million to RMB10.7 million for the six months ended 30 June 2016 and 2017 respectively.

Cost of sales

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Finished goods	<u>79,832</u>	100.0	<u>94,478</u>	100.0	<u>42,696</u>	100.0	<u>48,127</u>	100.0

(unaudited)

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During the Track Record Period, we engaged suppliers, who are manufacturers, to produce our products in the PRC. Our cost of sales primarily consists of purchase costs of our products, including business taxes and other surcharges incurred. The fees charged by our suppliers will depend primarily on, among other things, the quantity and quality of raw materials required and technical complexity of the product to be manufactured. Leather, PVC and polyester are the major raw materials used for our products. Our cost of sales increased by approximately RMB14.6 million or 18.3% from approximately RMB79.8 million for the year ended 31 December 2015 to approximately RMB94.5 million for the year ended 31 December 2016 as a result of the increase in sales volume for the year ended 31 December 2016 and higher procurement costs resulting from surge in material costs. Our cost of sales increased by approximately RMB5.4 million or 12.7% from approximately RMB42.7 million for the six months ended 30 June 2016 to approximately RMB48.1 million for the six months ended 30 June 2017, which was mainly due to the increase in sales volume of our handbags.

Gross profit and gross profit margin

The following tables set forth our gross profit and gross profit margin by brand and by sales channel for the years/periods indicated.

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
ELLE	97,401	59.1	84,979	56.7	37,862	55.5	37,815	55.6
Jessie & Jane	<u>15,215</u>	55.0	<u>31,024</u>	51.2	<u>12,379</u>	50.2	<u>21,543</u>	54.5
Total	<u><u>112,616</u></u>	58.5	<u><u>116,003</u></u>	55.1	<u><u>50,241</u></u>	54.1	<u><u>59,358</u></u>	55.2

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	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	<i>(unaudited)</i>							
Retail sales								
Online retail points	51,312	60.0	67,025	57.9	25,827	57.4	41,570	59.7
Offline retail points	44,152	67.7	31,765	65.2	17,458	64.2	6,775	65.9
Wholesale								
Sales to offline retailers	7,196	36.6	7,681	30.5	2,764	25.4	6,386	40.4
Sales to online retailers	<u>9,956</u>	45.2	<u>9,532</u>	45.7	<u>4,192</u>	42.7	<u>4,627</u>	39.3
Total	<u>112,616</u>	58.5	<u>116,003</u>	55.1	<u>50,241</u>	54.1	<u>59,358</u>	55.2

Our overall gross profit increased by approximately 3.0% from approximately RMB112.6 million for the year ended 31 December 2015 to approximately RMB116.0 million for the year ended 31 December 2016 as a result of the increase in our sales through e-commerce platforms during the year after offsetting the effect of a decrease in offline sales. For the six months ended 30 June 2017, our overall gross profit was approximately RMB59.4 million, representing an increase of approximately 18.1% from approximately RMB50.2 million for the six months ended 30 June 2016. Such increase was contributed by the continuous increase in our sales through e-commerce platforms during the period.

Our gross profit margin decreased from approximately 58.5% for the year ended 31 December 2015 to approximately 55.1% for the year ended 31 December 2016 as a result of the increase in our cost of sales due to higher procurement costs resulting from surge in raw material costs. For the six months ended 30 June 2017, our gross profit margin was approximately 55.2%, which remained stable when compared to approximately 54.1% for the six months ended 30 June 2016.

The decrease in gross profit margin for ELLE products during the Track Record Period was also a result of the decrease in the total number of our self-operated offline retail points and the commencement of the retail point transfer scheme in the second half of 2016, where we transferred all self-operated offline retail points outside Shanghai area to our offline retailers, with the number of closed and transferred self-operated offline retail points for our ELLE brand totaling 20 and 19 for the year ended 31 December 2016 and the six months ended 30 June 2017 respectively. For a more detailed movement of each category of our offline retail points by brand, please refer to the section headed “Business — Offline sales network” in this prospectus. As the products sold to our offline retailers are priced at approximately 30 to 40% of the suggested retail price, while the products sold at self-operated retail points are priced at the suggested retail price net of any consumer discounts, and were generally sold at approximately 39% to 74% of the suggested retail

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price, such decrease in contribution of ELLE offline retail sales as a result of the transfer scheme led to the decrease in gross profit margin. The following table sets forth the gross profit for ELLE products for the six months ended 30 June 2016 and 2017 through different sales channel:

	ELLE brand				
	For the six months ended 30 June				
	2016		2017		Change in gross profit
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	
RMB'000	%	RMB'000	%	%	
Retail sales					
Online retail points	18,818	59.5	26,457	60.9	40.6
Offline retail points	<u>13,248</u>	63.2	<u>3,994</u>	64.4	(69.9)
Subtotal	<u>32,066</u>	61.0	<u>30,451</u>	61.3	(5.0)
Wholesale					
Sales to offline retailers	1,894	26.7	3,129	41.1	65.2
Sales to online retailers	<u>3,902</u>	45.4	<u>4,235</u>	39.7	8.5
Subtotal	<u>5,796</u>	36.9	<u>7,364</u>	40.3	27.1
Total	<u><u>37,862</u></u>	55.5	<u><u>37,815</u></u>	55.6	(0.1)

For comparison, the gross profit generated from ELLE products sold at self-operated offline retail points amounted to approximately RMB13.2 million for the six months ended 30 June 2016 while the gross profit generated from ELLE products sold at self-operated offline retail points for the corresponding period in 2017 amounted to approximately RMB4.0 million. The significant decrease in gross profit generated from ELLE products at self-operated offline retail points was due to the decrease in the total number of our self-operated offline retail points and the commencement of our retail point transfer scheme in the second half of 2016. This decline in gross profit generated through our self-operated offline retail points was offset by (i) the increase in gross profit of ELLE products through self-operated online retail points from approximately RMB18.8 million for the six months ended 30 June 2016 to RMB26.5 million for the six months ended 30 June 2017; and (ii) the increase in gross profit generated from ELLE products to our offline retailers from approximately RMB1.9 million for the six months ended 30 June 2016 to RMB3.1 million for the six months ended 30 June 2017.

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Operating contribution and operating margin

The following table sets forth our operating contribution by brand and by sales channel, which has deducted the direct operating expenses from the gross profit for each respective sales channel, for the years/periods indicated. The direct operating expenses include sales commission, shop rentals, depreciation, staff costs and amortisation of renovation incentives to offline retailers, etc..

	Year ended 31 December						Six months ended 30 June					
	2015			2016			2016			2017		
	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Retail sales												
Online retail points	28,316	4,451	32,767	31,870	11,665	43,535	12,087	3,999	16,086	14,837	8,240	23,077
Offline retail points	5,473	1,539	7,012	411	(636)	(225)	502	168	670	249	(310)	(61)
Subtotal	33,789	5,990	39,779	32,281	11,029	43,310	12,589	4,167	16,756	15,086	7,930	23,016
Wholesale												
Sales to offline retailers	5,849	159	6,008	3,732	2,559	6,291	1,570	733	2,303	2,737	2,389	5,126
Sales to online retailers	8,919	1,037	9,956	8,653	879	9,532	3,902	290	4,192	4,235	392	4,627
Subtotal	14,768	1,196	15,964	12,385	3,438	15,823	5,472	1,023	6,495	6,972	2,781	9,753
Total	48,557	7,186	55,743	44,666	14,467	59,133	18,061	5,190	23,251	22,058	10,711	32,769

The following table sets forth our operating margin by brand and by sales channel for the years/periods indicated.

	Year ended 31 December						Six months ended 30 June					
	2015			2016			2016			2017		
	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total	ELLE	Jessie & Jane	Total
%	%	%	%	%	%	%	%	%	%	%	%	%
Retail sales												
Online retail points	39.6	31.8	38.3	40.2	31.9	37.6	38.2	29.9	35.7	34.1	31.5	33.1
Offline retail points	10.0	14.5	10.7	1.1	(5.6)	(0.5)	2.4	2.7	2.5	4.0	(7.6)	(0.6)
Subtotal	26.8	24.4	26.4	27.7	23.0	26.3	23.9	21.2	23.2	30.4	26.2	28.8
Wholesale												
Sales to offline retailers	31.0	19.6	30.6	25.5	24.3	25.0	22.1	19.3	21.1	35.9	29.1	32.4
Sales to online retailers	45.2	45.2	45.2	46.0	42.5	45.7	45.4	23.6	42.7	39.7	35.9	39.3
Subtotal	38.3	38.5	38.3	37.0	27.2	34.3	34.9	20.4	31.3	38.1	29.9	35.4
Total	29.5	26.0	29.0	29.8	23.9	28.1	26.5	21.0	25.0	32.5	27.1	30.5

We define gross profit as revenue generated from sales of products minus respective product costs without inclusion of store operating or direct selling expenses. Retail sales through our offline and online retail points are priced at the suggested retail price (net of any consumer discounts) which yield a higher gross profit margin; however after deducting relevant direct selling or store operating expenses, it leads to a lower operating contribution. On the other hand, sales to offline and online retailers, priced at approximately 30 to 40% of the suggested retail price, have little to no direct selling expenses associated with them (i.e. amortisation of renovation incentives

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subsidised to retailers). Thus, it results in high operating contribution, as retailers' store operating expenses such as rental, salespersons salaries and commissions are all borne by retailers themselves.

Self-operated offline retail points

For our self-operated offline retail points, the products are priced at the suggested retail price net of any consumer discounts. This would result in a much higher gross profit margin than sales in other distribution channels. However, operating an offline retail point comes with significant direct selling expenses, for example rental expenses, salaries and commission for salespersons, commission paid to the lessors and amortisation of leasehold improvements. As noted from the operating contribution tables above, we experienced a diminishing trend in terms of operating contribution, to approximately -0.6% for the six months ended 30 June 2017, mainly due to the continuous rise in rental expenses. This led to our Director's decision to commence the retail point transfer plan.

Third party operated offline retail points

For our sales to third party retailers, the products sold to these retailers are priced at approximately 30 to 40% of the suggested retail price. Although the gross profit margin earned from this distribution channel is comparatively lower if sold via self-operated retail points, there are less direct selling expenses associated with it, with only the amortisation of renovation incentives to these offline retailers, as we do not have to bear costs such as rental and salaries for salespersons, the operating contribution is higher as a result.

Self-operated online retail points

For our self-operated online retail points, the products are priced at the suggested retail price net of any consumer discounts. This would also result in a higher gross profit margin than the two wholesale distribution methods. However, e-commerce platforms charge commission and administrative costs for brand owners to have the right to conduct business. During the Track Record Period, these commission and administrative costs were approximately 20.3% to 26.6% of our Group's revenue generated from self-operated online retail points.

Third party operated online retail points

For our sales to third party online retailers, the products sold to these retailers are priced at approximately 30 to 40% of the suggested retail price. Same as the reasoning for third party operated offline retail points as mentioned above, the gross profit margin earned through this channel is lower when compared to margin earned through retail sales. However, as sales through this channel incur no other direct selling expenses, the operating contribution would be exactly the same as the gross profit margin.

During the Track Record Period, it was consistent throughout that sales to online retailers achieved the highest operating margin, due to the fact that it has no direct selling expenses whatsoever, followed by the sales through the online retail channel. Sales to offline retailers have

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also consistently generated a higher operating contribution margin than self-operated retail points, as these self-operated retail points incur significant amounts of direct selling expenses. Due to the increase in rental over the years, the operating margin of our self-operated retail points has declined to approximately -0.6% for the six months ended 30 June 2017.

We sold our products at suggested retail price net of any consumer discounts via our self-operated offline retail points. The major operating costs for our offline retail points include rental expenses, salaries for salespersons, shop management fee and sales commission. During the Track Record Period, the operating margin generated from offline retail points decreased significantly from approximately 10.7% for the year ended 31 December 2015 to operating loss of approximately 0.5% for the year ended 31 December 2016. The decrease in operating margin was primarily due to (i) the decrease in revenue generated at our offline retail points as mentioned in the paragraph headed “Revenue by sales channel” in this section above; (ii) the decrease of gross profit margin of approximately 2.5% as a result of higher procurement costs; and (iii) the increase in direct operating costs for our offline retail points, from approximately 56.9% of sales to 65.7% of sales, due to the increment for rental expenses and salaries for salespersons. Although we closed down a number of offline retail points during the year ended 31 December 2016 to reduce the financial impact from high operating costs, the sales performance for our remaining stores continued to be affected by the change of consumers’ shopping habit. The operating margin generated from offline retail points further decreased from approximately 2.5% for the six months ended 30 June 2016 to operating loss of approximately 0.6% for the six months ended 30 June 2017. The further decrease was mainly due to the fact that gross profit generated from this channel was decreased as a result of the decrease in sales volume in our self-operated offline retail points. As such, the operating contribution was not able to cover the high store operating costs and resulted at an operating loss.

For the operation of our online retail platforms, the major operating costs include service fees and sales commission paid to the e-commerce platforms and e-commerce services providers. The operating margin was relatively stable at approximately 38.3% and 37.6% for the two years ended 31 December 2016, respectively, while a slight decrease from approximately 35.7% for the six months ended 30 June 2016 to 33.1% for the six months ended 30 June 2017, respectively. The decrease in operating margin for the six months ended 30 June 2017 was mainly due to (i) the increase in our service fees paid to e-commerce platforms at a result of more marketing and promotion campaigns were organised by them such as the 618 promotion; and (ii) the increase in e-commerce commission paid to our service providers with the performance achievement. Our online retail points achieved a higher operating margin than that of our offline retail points as the online operations incurred less operating costs as compared to offline operations, where no rental expenses was incurred. The operating margin of sales generated from our online retail points was lower than that of our sales to online retailers as there were commission and services fee paid to e-commerce platforms and services providers, while no such direct operating costs were necessary for sales to online retailers. During the Track Record Period, these commission and administrative costs accounted for approximately 20.3% to 26.6% of our revenue generated from self-operated online retail points.

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For wholesale to third party offline retailers, we sell products at a discount to suggested retail price. The major cost is the procurement cost of the products and amortisation of renovation incentives to offline retailers. As such, there is only a slight difference between gross profit margin and operating contribution for offline retailers and no difference between gross profit margin and operating contribution for online retailers respectively. The operating contribution of wholesale to offline retailers slightly increased from approximately RMB6.0 million for the year ended 31 December 2015 to approximately RMB6.3 million for the year ended 31 December 2016, primarily driven by the increase in sales of our Jessie & Jane brand, while the operating margin decreased from approximately 30.6% for the year ended 31 December 2015 to approximately 25.0% for the year ended 31 December 2016, which was mainly due to (i) the general decline in gross profit margin for our ELLE brand as we have offered a higher wholesale discount to our offline retailer in 2016 which led to a decrease in average selling price; and (ii) the increase in amortisation of renovation incentives to offline retailers as a result of our support to retailers in opening retail points for our Jessie & Jane brand during the year ended 31 December 2016. The operating contribution and operating margin of our wholesale to offline retailers increased from approximately RMB2.3 million and approximately 21.1% for the six months ended 30 June 2016 to approximately RMB5.1 million and approximately 32.4% for the six months ended 30 June 2017, respectively. The increase in operating contribution of approximately RMB2.8 million was mainly due to (i) the increase in sales of and demand for our products, particularly products of our Jessie & Jane brand, following our efforts in marketing and advertisement; and (ii) as we had transferred our self-operated retail points to our retailers, there was a shift in demand for our products to our offline retailers, resulting in increase in sales generated from offline retailers accordingly. The increase in the operating margin was mainly due to (i) the decrease in wholesale discount offered to our offline retailer which lead to higher gross profit margin; and (ii) the decrease in our average cost of products sold. Although the gross profit margin earned from wholesale to offline retailers is comparatively lower than the same if sold via our self-operated retail points, there are less direct selling expenses associated with it, with only the amortisation of renovation incentives to our offline retailers and we do not have to bear other direct operating costs such as rental and salaries for salespersons, the operating contribution is higher as a result.

Offline retailers also have an added incentive to operate our Group's transferred retail points as they do not have to incur material renovation expenses needed if they looked for new location elsewhere.

In addition, the operating margin for offline retail points has remained stable from approximately -0.5% for the year ended 31 December 2016 to approximately -0.6% for the six months ended 30 June 2017. These two sets of performance figures proved our Directors made the right decision in reducing the number of self-operating stores and increasing sales to offline retailers.

As part of our support to the third party retailers, we perform the following procedures:

- (i) regular visits to the third party retailers and review the sales volume of the offline retail points operated by the third party retailers, where available;

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- (ii) our offline business operation department would regularly prepare and our management would review the inventory level report of the third party retailers to ensure that the retailers are not over-stocking their inventory; and
- (iii) our offline business operation department would also regularly prepare and our management would review a sales report of amount sold to each third party retailers to monitor the buying trends of the retailers.

As retailers are not obligated to disclose to us their own financial performance, our Directors would monitor or assess the performance of retailer-operated offline stores with the above indicators.

Furthermore, the sales to offline third party retailers increased by approximately RMB4.9 million, or approximately 45.2% for the six months ended 30 June 2017, due to (i) the net increase in the number of third party retailer-operated retail points; and (ii) the decrease in wholesale discount offered to our Group's offline retailers. Therefore we have been able to sustain and further expand our offline wholesale business.

The operating contribution and operating margin of wholesale to online retailers remained stable for the two years ended 31 December 2016 at approximately RMB10.0 million and 45.2% for the year ended 31 December 2015 and at approximately RMB9.5 million and 45.7% for the year ended 31 December 2016. For the six months ended 30 June 2017, the operating contribution of our wholesale to online retailers increased from approximately RMB4.2 million for the six months ended 30 June 2016 to approximately RMB4.6 million, while the operating margin decreased from approximately 42.7% to 39.3%. The increase in operating contribution for the six months ended 30 June 2017 was mainly attributable to increase in sales volume as a result of a wholesale order received from one of our online retailers for the purpose of group purchase during the six months ended 30 June 2017, while the decrease in operating margin was due to our offering of a greater wholesale discount to such large volume wholesale order as mentioned above. The operating margin of wholesale to online retailer was the highest among our sales channel throughout the Track Record Period. It was mainly due to the fact that although we sell products at a discount to the suggested retail price to our online retailer which leads to lower gross profit margin when compared to our online retail sales, the operating margin earned through this channel is higher as the wholesale to online retailer incur no other direct operating costs, such as sales commission paid to the e-commerce platforms, and thus the operating contribution would be the same as the gross profit margin and resulted at higher operating margin.

In view of (i) the higher operating margin for online retail channel as compared to offline retail points; (ii) the increasing pressure of store operating costs; and (iii) changing in shopping habits from offline to online, we commenced a retail point transfer plan to transfer all self-operated retail points outside Shanghai to our offline retailers in the second half of 2016 and reallocate our management resources to online business.

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Elaboration on retail point transfer scheme

The operating contribution loss suffered for the six months ended 30 June 2017 was mainly due to the fact that our sales volume did not generate sufficient income to cover fixed costs such as shop rentals and salaries for salespersons for the same period. The first quarter of each year has historically been the slack season for our Group's sales performance, accounting for approximately 21.3% and 21.4% of the total revenue in the two years ended 31 December 2016 respectively, with a significant portion of sales being achieved in the last quarter of each year due to marketing events such as the Double 11 shopping festival, accounting for approximately 29.3% and 32.1% of the total revenue in the two years ended 31 December 2016 respectively. Moreover, as our Group still incurs fixed costs such as shop rentals and salaries for salespersons, our Group recorded an operating contribution loss of 0.6%. The closing down and transferring of a number of self-operated offline retail points was to reduce the financial impact from unsatisfactory sales performance in slack season as well as allowing our management to allocate more resources into the management of our Group's online business.

For illustration purpose, assuming our Group were still operating the 6 transferred retail points and sold the volume of ELLE products as the third party retailers did in the first quarter of 2017, our Directors estimate it would generate an additional gross profit of approximately RMB0.7 million and incur additional shop overhead of approximately RMB2.0 million respectively, resulting in overall operating profit of approximately RMB0.2 million or 3.7%. In addition, the operating margin generated from sales to offline retailers will also be decreased by RMB1.5 million. Coupling with the operating profit mentioned above, it is estimated the operating contribution will be decreased by approximately RMB1.3 million if our Group continued to run those transferred retail points.

The objective of closing down a number of offline retail points is to relieve overhead cost pressure in particular in slack seasons as mentioned above. It allows us to allocate more resources into the management of our Group's online business.

Our Directors are of the view that it is beneficial to focus on the online retail sales of the Group, which makes up approximately 44.4%, 55.0% and 64.8% of our Group's total revenue during the Track Record Period. The need to maintain certain offline retail points can be used as showcase purpose, and we believe it is crucial to our success as offline retail points can be used as a brand building and marketing tool for our Group's products, where consumers can experience the touch and feel of the products sold by us.

After going through the slack season in the first quarter of 2017, offline retail sales of ELLE products have recovered to a positive operating contribution of approximately RMB0.2 million or 4.0% for the six months ended 30 June 2017. In addition, with better resource allocation, the overall operating contribution increased by RMB9.5 million to RMB32.8 million in 2017, primarily resulting from the increase in online retail sales revenue.

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For the sales to offline retailers of ELLE products, the operating contribution decreased from approximately 31.0% for the year ended 31 December 2015 to approximately 25.5% for the year ended 31 December 2016 mainly due to the general decline in gross profit margin for ELLE brand products as our Group offered a higher wholesale discount to its offline retailers in 2016, which led to a decrease in average selling price. The operating contribution recovered to approximately 35.9% mainly due to (i) the decrease in wholesale discount offered to our Group's offline retailers; and (ii) the decrease in average cost of products sold.

Other revenue and income

Other revenue and income primarily consist of charges to our suppliers for the delay of shipment of products to our Group and bank interest income. During the Track Record Period, other revenue and income decreased by approximately 51.3% to approximately RMB0.2 million for the year ended 31 December 2016 from approximately RMB0.4 million for the year ended 31 December 2015 due to the decrease in charges to our suppliers for the delay of shipment of approximately RMB0.2 million. Other revenue and income were immaterial for the six months ended 30 June 2016 and 2017 respectively.

Government grants

Government grants recognised during the Track Record Period related to the subsidies we received from local government authorities in Shanghai in connection with local government's support to enterprises. The government grants were approximately RMB2.3 million and RMB2.1 million for the two years ended 31 December 2016, and no government grants were recognised for the six months ended 30 June 2016 and 2017.

Selling and distribution costs

Selling and distribution costs primarily consist of shop expenses, commission for online retail sales, rental expenses for our self-operated retail points, and advertising and promotion costs. The table below sets forth our selling and distribution costs for the years/periods indicated.

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
			<i>(unaudited)</i>	
Shop expenses	16,215	17,630	6,564	5,438
Commission for online retail sales	14,226	17,511	6,500	13,719
Rental expenses	17,266	13,668	8,641	3,380
Advertising and promotion	8,534	11,594	4,756	6,405
Staff costs	8,881	7,674	4,005	3,348
Royalty	5,985	5,637	2,609	2,739
Depreciation and amortisation	1,886	1,773	1,120	146
Renovation incentives to retailers	1,188	1,390	461	1,260
Others ^(Note)	5,758	7,001	3,691	2,421
Total	<u>79,939</u>	<u>83,878</u>	<u>38,347</u>	<u>38,856</u>

Note: It primarily includes transportation and freight charges, products related expenses and storage expenses.

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Shop expenses mainly represented the commission on sales, management fee paid or payable to the shopping mall for managing the operations of our self-operated retail points and fees for participating in promotional events on e-commerce platforms. Commission for online retail sales represented the commission paid or payable to e-commerce services provider and e-commerce platforms, which is as a percentage of sales through our self-operated online retail points. Rental expenses represented the rental charges for our self-operated retail points. Royalty represented the royalty fee incurred for the use of ELLE brand to our licensed brand owner Hachette Filipacchi Presse, S.A..

Advertising and promotion expenses mainly represented the marketing costs incurred for promoting our products and our brand image. During the two years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, approximately RMB2.6 million, RMB4.7 million, RMB2.3 million and RMB3.4 million were incurred for promotion activities and advertising in social media; approximately nil, RMB0.4 million, RMB0.1 million and RMB0.1 million were incurred for participating in nil, 2, 1 and 1 fashions shows and exhibitions; approximately nil, RMB0.8 million, RMB0.8 million and RMB0.3 million were incurred for sponsorships to artists and televisions programmes; and approximately RMB5.9 million, RMB5.7 million, RMB1.6 million and RMB2.6 million were incurred for promotion activities and other advertising materials such as procurement conferences expenses, photo-shooting, packaging materials, catalogs, souvenirs and store displays. For the year ended 31 December 2016 and six months ended 30 June 2017, advertising and promotion expenses increased by approximately RMB3.1 million and RMB1.6 million respectively, mainly due to the increased effort we placed in advertising in social media.

For the year ended 31 December 2016, selling and distribution costs were approximately RMB83.9 million, representing an increase of approximately RMB3.9 million or 4.9% from approximately RMB79.9 million for the year ended 31 December 2015. For the six months ended 30 June 2017, selling and distribution costs were approximately RMB38.9 million, representing an increase of approximately RMB0.5 million or 1.3% from approximately RMB38.3 million for the six months ended 30 June 2016. The increase for the year ended 31 December 2016 was primarily due to (i) the increase in commission for online retail sales of approximately RMB3.3 million as a result of the increase in revenue generated from our online retail points; and (ii) the increase in advertising and promotion costs of approximately RMB3.1 million, partially offset by the decrease in rental expenses of approximately RMB3.6 million as a result of the decrease in the number of self-operated retail points. While the increase for the six months ended 30 June 2017 was mainly due to the increase in commission for online retail sales of approximately RMB7.2 million as a result of the increase in our revenue generated from our self-operated online retail points. The increase was partially offset by the decrease in rental expenses of approximately RMB5.3 million and shop expenses of approximately RMB1.1 million as a result of the transfer of our self-operated retail points to our offline retailers.

For analysis of operating contribution, please also refer to paragraph headed “Gross profit and gross profit margin” above.

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Administrative and other operating expenses

Administrative and other operating expenses mainly consist of staff costs, travelling expenses, office expenses, exchange difference and rent and rates. The table below sets forth our administrative expenses for the years/periods indicated.

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Staff costs	7,581	8,725	3,909	5,870
Travelling expenses	4,878	4,646	2,346	1,484
Office expenses	1,052	1,521	707	493
Exchange difference	1,057	1,520	441	(547)
Rent and rates	1,213	1,374	687	705
Depreciation and amortisation	467	515	266	254
Audit fee	168	226	180	20
Others ^(Note)	3,575	3,603	2,150	1,779
Total	19,991	22,130	10,686	10,058

Note: It primarily includes design fee, entertainment expenses, legal and professional fee, repair and maintenance, electricity and utility, building management fee, insurance, bank charges, impairment on assets and miscellaneous expenses.

Staff costs mainly represented the salaries, employee benefits and retirement benefit costs to our administrative employees. Travelling expenses represented the fees incurred for managing our self-operated retail points and expenses incurred by our designers to both local and overseas fashion shows and exhibitions to keep abreast of latest fashion trends. Office expenses mainly represented the fees incurred for daily office operations including printing and stationery, courier and telecommunication charges. Exchange difference represented the net exchange gain or losses incurred for remitting RMB to HKD.

For the year ended 31 December 2016, administrative and other operating expenses were approximately RMB22.1 million, representing an increase of approximately RMB2.1 million or 10.7% from approximately RMB20.0 million for the year ended 31 December 2015, and for the six months ended 30 June 2017, administrative and other operating expenses were approximately RMB10.1 million, being relatively stable from approximately RMB10.7 million for the six months ended 30 June 2016. The increase for the year ended 31 December 2016 was primarily due to (i) the increase in staff costs of approximately RMB1.1 million as a result of increased average headcount; (ii) the increase in office expenses of approximately RMB0.5 million due to increase in usage of general office supplies and other miscellaneous items; and (iii) the increase in exchange losses of approximately RMB0.5 million.

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Finance costs

Finance costs primarily consist of interest charges on our bank borrowings, loans from Yen Sheng Factory, being a connected company, and loan from our chief executive officer and our executive Director, namely Mr. Brian Lee. Finance costs decreased by approximately 23.9% to approximately RMB0.7 million for the year ended 31 December 2016 from approximately RMB0.9 million for the year ended 31 December 2015. The decrease was mainly due to the repayment of loans from Yen Sheng Factory and Mr. Brian Lee during the year ended 31 December 2016. Finance costs remained stable for the six months ended 30 June 2016 and 2017 at approximately RMB0.3 million and RMB0.4 million, respectively.

Income tax expense

We recognised income tax for profit at the rate of 16.5% in Hong Kong and 25% in the PRC with reference to the estimated taxable profits. Our effective tax rates were approximately 26.0%, 35.0%, 35.0% and 38.6% for the two years ended 31 December 2016 and the six months ended 30 June 2016 and 30 June 2017 respectively.

Our Group's effective tax rate increased by approximately 9.0% point from the year ended 31 December 2015 to the year ended 31 December 2016. As our Group's principal operations are located in the PRC, our effective tax rate for 2015 was close to the enacted rate of 25% in the PRC. The increase of effective tax rate in 2016 was attributed to (i) the incurrence of listing expenses of approximately RMB2.0 million which were non-deductible; and (ii) an under-provision of prior years' tax expense of approximately RMB0.4 million was included in the year ended 31 December 2016.

Our Group's effective tax rate was approximately 38.6% for the six months ended 30 June 2017. It was higher than the enacted rate of 25% in the PRC mainly due to the non-deductible listing expenses of approximately RMB4.3 million.

Profit for the year/period

Our net profit for the year ended 31 December 2015 was approximately RMB10.1 million, achieving a net profit margin of approximately 5.2%, whereas our net profit for the year ended 31 December 2016 was approximately RMB6.3 million, representing a net profit margin of approximately 3.0%. Our net profit for the six months ended 30 June 2016 was approximately RMB0.6 million, achieving a net profit margin of approximately 0.7%, whereas our net profit for the six months ended 30 June 2017 was approximately RMB3.5 million, representing a net profit margin of approximately 3.3%.

By excluding the effect of (i) the non-recurring listing expenses of approximately RMB2.0 million being incurred for the year ended 31 December 2016; and (ii) an one-off government grant of approximately RMB2.3 million and RMB2.1 million received for the two years ended 31 December 2016, the net profit and net profit margin generated from our principal activities decreased from approximately RMB7.8 million and 4.1% for the year ended 31 December 2015 to

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approximately RMB6.1 million and 2.9% for the year ended 31 December 2016 respectively. Such decrease was mainly due to (i) a slight decrease in gross margin; (ii) the increase in selling and distribution expenses; and (iii) the increase in administrative and other operating expenses.

By excluding the effect of the non-recurring listing expenses of approximately RMB4.3 million being incurred for the six months ended 30 June 2017, the net profit and net profit margin for the six months ended 30 June 2016 was approximately RMB0.6 million and 0.7%, while net profit and net profit margin for the six months ended 30 June 2017 was approximately RMB7.9 million or 7.3% respectively. The increase in our net profit for the six months ended 30 June 2017 was mainly due to the relatively stable selling and distribution costs despite the increase in our revenue as a result of the transfer of our self-operated offline retail points outside Shanghai area to our offline retailers which significantly reduced our shop expenses.

COMBINED STATEMENTS OF FINANCIAL POSITION

The table below set out our combined statement of financial position extracted from the Accountants' Report set out in Appendix I to this prospectus.

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	3,288	1,642	1,343
Interests in associates	—	—	—
Intangible assets	2,353	2,306	2,270
Available-for-sale financial asset	—	127	123
Deferred tax assets	1,818	1,501	1,902
	<u>7,459</u>	<u>5,576</u>	<u>5,638</u>
Current assets			
Inventories	28,323	28,669	26,713
Trade and other receivables	33,499	38,052	32,949
Amount due from the then immediate holding company	181	—	—
Amounts due from Controlling Shareholders	—	—	9
Amounts due from associates	—	—	—
Income tax recoverable	—	1,358	810
Restricted cash	2,000	786	2,983
Cash and cash equivalents	9,140	20,193	32,442
	<u>73,143</u>	<u>89,058</u>	<u>95,906</u>

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	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Current liabilities			
Trade and other payables	31,277	31,900	35,910
Bank borrowings	26,300	34,612	33,680
Deferred revenue	101	146	116
Amount due to a related company	327	17	—
Amount due to the then immediate holding company	—	21	10
Income tax payable	3,264	2,876	2,875
	<u>61,269</u>	<u>69,572</u>	<u>72,591</u>
Net current assets	<u>11,874</u>	<u>19,486</u>	<u>23,315</u>
Net assets	<u>19,333</u>	<u>25,062</u>	<u>28,953</u>
EQUITY			
Share capital	—	—	9
Reserves	19,332	25,062	28,944
Equity attributable to equity holders of the Company	19,332	25,062	28,953
Non-controlling interests	<u>1</u>	<u>—</u>	<u>—</u>
Total equity	<u>19,333</u>	<u>25,062</u>	<u>28,953</u>

DISCUSSION ON MAJOR ITEMS OF THE COMBINED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment mainly comprised (i) leasehold improvements; (ii) office equipment; (iii) computer equipment; and (iv) motor vehicles, which amounted to approximately RMB3.3 million, RMB1.6 million and RMB1.3 million as at 31 December 2015, 31 December 2016 and 30 June 2017 respectively. The decrease of approximately RMB1.6 million as at 31 December 2016 was mainly due to (i) depreciation charge for the year of approximately RMB2.2 million; and (ii) leasehold improvements written-off of approximately RMB0.3 million due to the closing down of our self-operated offline retail shops, offset by the additions in leasehold improvement and office equipment of approximately RMB0.8 million. The decrease of

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approximately RMB0.3 million as at 30 June 2017 was mainly due to (i) depreciation charge for the period of approximately RMB0.4 million; and (ii) leasehold improvements transferred of approximately RMB0.3 million to prepayment as part of our Group's retail point transfer scheme.

Interests in associates

Interests in associates represented our investments in two private entities, Mercantile Group Limited (“**Mercantile**”) and Eternal Goldyard Limited (“**Eternal Goldyard**”), which were incorporated in Hong Kong and principally engaged in retail sales of fashion goods in Hong Kong. Due to the negative net book value of the entities, such investments were fully impaired during the year ended 31 December 2015. We disposed of Mercantile during the year ended 31 December 2016 and disposed of Eternal Goldyard during the six months ended 30 June 2017. For further details, please refer to note 13 to the Accountants' Report set out in Appendix I to this prospectus.

Intangible assets

Our intangible assets mainly comprised (i) the trademark of our Jessie & Jane brand; and (ii) computer software. Our intangible assets amounted to approximately RMB2.4 million, RMB2.3 million and RMB2.3 million as at 31 December 2015, 31 December 2016 and 30 June 2017 respectively. The slight decrease in intangible assets during the Track Record Period was mainly due to amortisation charge of computer software.

We perform impairment analysis on the trademark of our Jessie & Jane brand annually, which has carrying amount of approximately RMB2.3 million throughout the Track Record Period, to assess whether it is subject to any impairment. Impairment is determined by assessing the recoverable amount of the trademark, that is, the performance of our Jessie & Jane brand and identify if it is less than the carrying amount. The following table sets forth the sensitivity analysis of the impact of variations in each of the key underlying assumptions for impairment testing on the recoverable amount of the trademark as of the dates indicated, where the headroom represents the excess of the recoverable amount over the carrying amount of the trademark when these key parameters have been applied. We considered the revenue growth rates and discount rates to be the key parameters in our impairment testing. For further details of the impairment analysis, please refer to note 14 to the Accountants' Report set out in Appendix I to this prospectus.

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Sensitivity analysis for impairment assessment of intangible assets — trademark

	As at 31 December				As at 30 June	
	2015		2016		2017	
	Recoverable amount	Headroom	Recoverable amount	Headroom	Recoverable amount	Headroom
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Growth rate changes						
0	136,147	133,897	147,167	144,917	149,118	146,868
-5%	117,950	115,700	121,724	119,474	119,689	117,439
-10%	101,890	99,640	100,153	97,903	95,325	93,075
Discount rate changes						
0	136,147	133,897	147,167	144,917	149,118	146,868
+5%	98,333	96,083	106,755	104,505	107,466	105,216

As at 31 December 2015 and 2016 and 30 June 2017, the recoverable amounts were approximately RMB136.1 million, RMB147.2 million and RMB149.1 million, respectively, and were higher than the carrying amount of RMB2.3 million. As can be seen in the sensitivity analysis above, the headroom remained positive where the recoverable amount exceeded the carrying amount, thus we consider no impairment is necessary in accordance to HKAS 36 “Impairment of Assets”.

Inventories

The following table sets forth the breakdown of our inventories as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Handbags	25,775	25,354	23,988
Others ^(Note)	2,548	3,315	2,725
Total	28,323	28,669	26,713

Note: “Others” primarily includes wallets, travel goods, small leathers goods and cardholders, etc..

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We outsourced the production of our products to third-party manufacturers in the PRC. Our inventories mainly comprised finished goods which we purchased from our suppliers and were stated at lower of cost and net realisable value. Our inventories remained stable at approximately RMB28.7 million as at 31 December 2016, compared to approximately RMB28.3 million as at 31 December 2015. Our inventories decreased by approximately 6.8% to approximately RMB26.7 million as at 30 June 2017 compared to 31 December 2016, which was primarily because of (i) less purchases were made in the months prior to the period end as compared to the months prior to the year ended 31 December 2016; and (ii) we have transferred nine self-operated offline retail points to our retailers during the six months ended 30 June 2017, therefore reducing the need to maintain a higher inventory level as at 30 June 2017.

The following table sets forth the ageing of our inventories as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Within 1 year	21,908	22,629	20,494
1–2 years	4,723	3,784	4,331
2–3 years	1,284	1,702	1,355
Over 3 years	408	554	533
Total	28,323	28,669	26,713

Up to 30 November 2017, approximately RMB14.8 million or approximately 55.2% of our Group's inventories as at 30 June 2017 had been subsequently sold. With clearance sales and promotional events subsequent to 30 June 2017 and up to 11 November 2017 with average discounts offered at approximately 30% of the suggested retail price, approximately RMB4.0 million out of the total amount of inventories aged over one year of approximately RMB6.2 million as at 30 June 2017 has been subsequently sold, generating average gross profit margin of approximately 43%. Our Group will continue to carry out such clearance sales and promotional events in upcoming months such as Christmas to clear up such remaining aged inventories. Furthermore, our Directors are also of the view that as these products can be sold on e-commerce platforms at a bigger discount or to third party offline retailers which specialise in managing discount outlet stores, and that their realisable value were above costs according to our past sale experience as disclosed above that we were able to achieve average gross profit margin of approximately 43% despite the discount offered at approximately 30% of the suggested retail price, no impairments were considered necessary to be made on these products.

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Trade receivables

Our trade receivables are mainly amounts due from online retailers, offline retailers and department stores. The following table sets forth the breakdown of our trade receivables as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables			
— from an associate	196	—	—
— from third parties	20,849	23,692	21,013
	21,045	23,692	21,013
Less: Provision for impairment	(867)	(1,030)	(763)
Total trade receivables, net	20,178	22,662	20,250

Our trade receivables increased by approximately 12.3% from approximately RMB20.2 million as at 31 December 2015 to approximately RMB22.7 million as at 31 December 2016, primarily due to the late settlement of one of our major online retailers. Our trade receivables decreased by approximately 10.6% to approximately RMB20.3 million as at 30 June 2017, primarily due to the settlement by the same online retailer subsequent to the financial year ended 31 December 2016.

Most retail sales (including self-operated online and offline retail points) do not have credit term. For sales through e-commerce platforms, our customers would usually settle payments by credit cards or through electronic payment service. For sales through self-operated retail points (not including department store sales counters), our customers would usually settle payments by cash or credit cards. Payments by customers using credit cards were normally settled within a few days after the trade date.

Our credit term is mainly granted to department store sales counters, one of our major e-commerce retail platforms and both online and offline retailers with a range of 0 to 90 days.

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The following table sets forth the ageing analysis, based on the revenue recognition dates and net of impairment, of our trade receivables as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
0–90 days	14,374	14,657	16,655
91–180 days	3,887	4,569	1,816
181–365 days	1,814	3,152	1,418
Over 365 days	103	284	361
Total	20,178	22,662	20,250

Included in our trade receivables balance are debtors with aggregate carrying amount of approximately RMB7.7 million, RMB11.6 million and RMB8.9 million as at 31 December 2015, 31 December 2016 and 30 June 2017, respectively, which were past due as at the reporting date but for which we have not provided for impairment loss. Invoices would be issued once the products are received by our offline retailers. It is the business practice of one of our major online retailers to have a consignment arrangement in which such online retailer would issue invoice after their sales to the end customers. During the Track Record Period and up to the Latest Practicable Date, save for the transactions with the said online retailer that were with a consignment arrangement, we had no other transaction with retailer that is with a consignment arrangement. The long overdue balances of over 180 days during the Track Record Period were mainly due to the delay in settlements from one of our major online retail platforms and several offline retailers. These balances were related to a number of independent customers that had a good track record of credit with our Group. Based on past credit history, our management believes 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. Our Group does not hold any collateral or other credit enhancements over these balances.

Up to 30 November 2017, approximately RMB13.9 million or approximately 68.8% of our Group's trade receivables as at 30 June 2017 had been subsequently settled.

Amounts due from/to the then immediate holding company, Controlling Shareholders, associates and a related company

The amounts due from or to the then immediate holding company, Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Yen Sheng BVI, Ms. Agnes Li and Summit Time), associates and a related company are non-trade in nature. We recognised impairment losses for the amounts due from associates during the two years ended 31 December 2016 as the two associates, namely Eternal Goldyard and Mercantile, were both loss making and had negative net book value.

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Deposits, prepayments and other receivables

Our deposits, prepayments and other receivables mainly consisted of rental and other deposits paid in relation to our self-operated offline retail points and office space and prepayments for renovation incentives to our retailers for new shops opened by them. The following table sets forth the breakdown of our other receivables as at the dates indicated.

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	RMB'000	RMB'000	RMB'000
Rental and other deposits	2,606	2,466	1,867
Prepayments — to third parties	3,238	4,080	4,348
Prepayments — to a related company controlled by three of the Controlling Shareholders	—	—	61
Prepaid listing expenses	—	693	2,096
Other receivables	<u>7,477</u>	<u>8,151</u>	<u>4,327</u>
Total	<u><u>13,321</u></u>	<u><u>15,390</u></u>	<u><u>12,699</u></u>

Our rental and other deposits mainly represented rental deposits paid for our self-operated offline retail points and office space. The gradual decline in balance noted during the Track Record Period was mainly due to the gradual decline in the number of self-operated offline retail points.

Prepayments mainly comprised the renovation incentives to our retailers for new shops opened by them and the prepayments of operating expenses. It increased by approximately 26.0% to approximately RMB4.1 million as at 31 December 2016 from approximately RMB3.2 million as at 31 December 2015 primarily due to the increase in the number of retailer-operated offline retail points. Prepayments further increased to approximately RMB4.4 million as at 30 June 2017 was mainly due to the increase in prepaid operating expenses.

Other receivables mainly represented cash held on trust by staff and government grant receivables. Our other receivables increased from approximately RMB7.5 million as at 31 December 2015 to approximately RMB8.2 million as at 31 December 2016 mainly due to the increase in cash held on trust by staff. The decrease in balance as at 30 June 2017 to approximately RMB4.3 million was due to (i) the decrease in government grant receivables of approximately RMB2.1 million; and (ii) the decrease in cash held on trust by staff.

As at 31 December 2015, 31 December 2016 and 30 June 2017, six, two and none of self-operated offline retail points outside Shanghai area were operated under the name of our staff (個體戶) instead of our subsidiaries. Such arrangement was adopted as a temporary measure to secure certain strategic retail point location in a short period of time. Our Directors are of the view that, in the PRC, retailers often compete on prime locations for new retail point opening but time consuming registration process for setting up a branch company in other PRC provinces is required.

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Given this dilemma, we had the intention to assign and instruct our staff to set up and operate the retail points on behalf of us until we established respective branch companies or identified suitable third-party retailers for store transfer. As such, the cash receipt from retail point operations was kept in the assigned staff's bank account in the time of such transition period. As at 31 December 2015 and 2016, and 30 June 2017, the cash held on trust by staff were approximately RMB4.3 million, RMB5.6 million and RMB1.5 million, respectively. As at 30 June 2017, all the remaining self-operated offline retail points under the assigned staff's name were transferred to third party retailers and such arrangement has been ceased since the last offline retail point had been transferred. As at 31 July 2017, the relevant funds have all been utilised by and remitted to the Group. The bank account operated under the staff's name was closed on 31 July 2017. For further information about the arrangement, please refer to section headed "Business — Our operation process — D. Sales and distribution — Self-operated retail points operated under the name of our staff" of this prospectus.

Trade payables

Our trade payables primarily consist of payables to our suppliers who generally offered us credit terms of approximately 0 to 90 days. The following table sets forth a summary of our trade payables as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables			
— to a related company controlled by three of the Controlling Shareholders	976	1,162	203
— to third parties	8,795	11,478	16,722
Total	9,771	12,640	16,925

Our trade payables increased by approximately 29.4% to approximately RMB12.6 million as at 31 December 2016 from approximately RMB9.8 million as at 31 December 2015, primarily due to the increase in purchases made in the year as driven by the increase in sales. As at 30 June 2017, our trade payables increased by approximately RMB4.3 million to approximately RMB16.9 million mainly due to increase in purchases made in anticipation for the upcoming festivals such as the Double 11 shopping festival.

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The following table sets forth the ageing analysis, based on the date of goods received, of our trade payables as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
0–90 days	9,684	12,114	15,873
91–180 days	87	—	586
181–365 days	—	257	—
Over 365 days	—	269	466
Total	9,771	12,640	16,925

Accrued charges and other payables

Our accrued charges and other payables mainly consisted of deposits received and receipts in advance from our retailers, accrued expenses and other tax payables. The following table sets forth the breakdown of our accrued charges and other payables as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Accrued expenses			
— to a related company significantly influenced by a director	1,117	355	464
— to third parties	12,176	9,095	10,772
	13,293	9,450	11,236
Deposits received	2,094	2,233	1,995
Other tax payables	4,708	5,798	4,102
Receipts in advance	1,411	1,779	1,652
Total	21,506	19,260	18,985

Accrued expenses mainly represented (i) commission payables to shopping malls for our sales through self-operated offline retail points; and (ii) royalty fee payable to our licensed brand owner, Hachette Filipacchi Presse, S.A., for the sale of products under the brand name ELLE. Balance decreased to approximately RMB9.5 million as at 31 December 2016 from approximately RMB13.3 million as at 31 December 2015, whilst increased to approximately RMB11.2 million as at 30 June 2017 mainly due to the increase in accrued listing fee RMB1.4 million as at 30 June 2017.

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Deposits received represented the amount our Group requires our retailers to pay up front in case of any non-settlement of trade receivables by our retailers. Balance remained relatively stable during the Track Record Period.

Other tax payables represented value added tax and other surcharges levied in the PRC. Balance increased from approximately RMB4.7 million as at 31 December 2015 to approximately RMB5.8 million as at 31 December 2016 mainly due to the higher revenue generated for the year ended 31 December 2016. It reduced to approximately RMB4.1 million as at 30 June 2017 due to the lower revenue generated for the three months prior to the period ended 30 June 2017 as compared to the three months prior to the year ended 31 December 2016 due to events such as the Double 11.

Receipts in advance are payments we charge to retailers, which we have just begun our business relationship with, before the delivery of products. Balance increased from approximately RMB1.4 million as at 31 December 2015 to approximately RMB1.8 million as at 31 December 2016 mainly due to the increase in the number of retailers, and remained stable at RMB1.7 million as at 30 June 2017.

Bank borrowings

The following table sets forth our bank borrowings as at the dates indicated.

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bank borrowings:			
Secured	13,988	23,642	28,161
Unsecured	<u>12,312</u>	<u>10,970</u>	<u>5,519</u>
	<u>26,300</u>	<u>34,612</u>	<u>33,680</u>
Carrying amount repayable:			
Within one year or on demand	<u>26,300</u>	<u>34,612</u>	<u>33,680</u>

Interest-bearing bank borrowings increased by approximately RMB8.3 million to approximately RMB34.6 million as at 31 December 2016 from approximately RMB26.3 million as at 31 December 2015 primarily due to an increase in bank borrowings of approximately RMB8.6 million and repayment of bank borrowings of approximately RMB2.1 million during the year ended 31 December 2016. As at 30 June 2017, our interest-bearing bank borrowings decreased by approximately RMB0.9 million to approximately RMB33.7 million as compared to 31 December

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2016, mainly due to the net effect of an increase in bank borrowings of approximately RMB5.3 million and repayment of bank borrowings of approximately RMB5.2 million during the six months ended 30 June 2017.

The following table sets forth the ranges of effective interest rates of our borrowings as at the dates indicated.

	As at 31 December		As at 30 June
	2015	2016	2017
Variable-rate borrowings	2.4%–2.5%	2.0%–2.7%	2.2%–2.6%

All of our bank borrowings were drawn for working capital purpose and do not contain any material financial covenants. The loans were either secured by the personal guarantees of our Directors, corporate guarantee by Yen Sheng Factory, a connected party, and legal charges of properties of Lee Sang, Mega Sun and Unigrade, both connected parties of our Group. Please refer to note 21 to the Accountants' Report in Appendix I to this prospectus for details of the relevant securities.

Our Directors confirm that the aforesaid guarantees in the preceding paragraph will be released and replaced by a corporate guarantee provided by our Company upon Listing.

Our Directors' decision to obtain banking facilities in Hong Kong through Sling Incorp instead of through our Group's PRC subsidiaries was because of the more favourable terms in terms of maximum facility amounts and interest rates we are able to obtain from banks in Hong Kong, when compared to facilities our Group can obtain in the PRC.

As we are keen to develop our online business in light of its market potential, we needed to invest significant amount of working capital for the new trial. As banks can offer a combination of term loan and back up facilities, we consider it would be a flexible financing solution to make up the shortfall in funding needs in addition to new equity contribution.

On 16 October 2014, Senhao Shanghai entered into a banking facility agreement with the Bank of Shanghai for a term of one year, for a loan amount of RMB5 million at the interest rate of 7.2% per annum, for our Group's working capital purposes.

However, as our Group has been expanding its business, we considered that the facility amount obtained from the Bank of Shanghai was inadequate, compared to the facility line of HK\$50 million and HK\$20 million obtained by Sling Incorp from Bank of China and Standard Chartered Bank respectively, and the interest rate was comparatively higher than what we can obtain from banks in Hong Kong, ranging from 2.0% to 2.7% during the Track Record Period.

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As the terms offered by banks in Hong Kong are more favourable to us than what we could obtain from banks in the PRC (with reference to our lending experience with the Bank of Shanghai above), our Directors confirm that it is solely a business decision for our Group to obtain loans from banks in Hong Kong and that the PRC subsidiaries of our Group have no difficulties in obtaining bank loans in the PRC.

Deferred revenue

Deferred revenue represents the liabilities provided for our customer loyalty programs. Our Group operates a variety of customer loyalty programs to provide incentives to customers to buy our products. For each of the purchase of our Group's products, the customer will be rewarded with credit points by our Group. When accumulated certain level of credit points, the customer can redeem the credit points for rewards such as free or discounted goods or cash discount vouchers. Awarded credits will valid for one year since the date of purchase.

Our deferred revenue for customer loyalty programs remained stable at approximately RMB0.1 million, RMB0.1 million and RMB0.1 million as at 31 December 2015 and 2016 and 30 June 2017 respectively.

Accumulated losses

Our Group has accumulated losses of approximately RMB0.1 million as at 1 January 2015 as we have only started to become profit making since 2012. Having considered the rapid development of technology and changes in consumer shopping habits of the young generation in the PRC, we launched our first online retail point in 2010, leading to an improvement in our financial performances since then.

KEY FINANCIAL RATIOS

	As at 31 December		As at 30 June
	2015	2016	2017
Current ratio (<i>Note 1</i>)	1.2 times	1.3 times	1.3 times
Quick ratio (<i>Note 2</i>)	0.7 times	0.9 times	1.0 times
Gearing ratio (<i>Note 3</i>)	136.0%	138.1%	116.3%
Net debt to equity (<i>Note 4</i>)	88.8%	57.5%	4.3%
Inventory turnover days (<i>Note 5</i>)	115.4 days	110.1 days	104.1 days
Trade receivables turnover days (<i>Note 6</i>)	35.5 days	37.1 days	36.1 days
Trade payables turnover days (<i>Note 7</i>)	36.7 days	43.3 days	55.6 days

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	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
Return on equity (<i>Note 8</i>)	52.3%	25.0%	24.5%
Return on total assets (<i>Note 9</i>)	12.5%	6.6%	7.0%
Interest coverage ratio (<i>Note 10</i>)	16.1 times	15.0 times	14.9 times

Notes:

- (1) Current ratio equals to current assets divided by current liabilities.
- (2) Quick ratio equals to current assets minus inventories and divided by current liabilities.
- (3) Gearing ratio equals to total debt divided by total equity as at the end of the year/period.
- (4) Net debt to equity ratio equals net debt divided by total equity as at the end of the year/period. Net debt includes total debt net of cash and cash equivalents.
- (5) Inventory turnover days equal to average inventory divided by cost of inventories used during such year/period and multiplied by 365 days for each of the two years ended 31 December 2016 and by 181 days for the six months ended 30 June 2017.
- (6) Trade receivables turnover days equal to average trade receivables balances divided by revenue during the year/period and multiplied by 365 days for each of the two years ended 31 December 2016 and by 181 days for the six months ended 30 June 2017.
- (7) Trade payables turnover days equal to average trade payables balances divided by cost of inventories used during the year/period and multiplied by 365 days for each of the two years ended 31 December 2016 and by 181 days for the six months ended 30 June 2017.
- (8) Return on equity ratio equals to profit/annualised profit for the year/period divided by total equity.
- (9) Return on total asset ratio equals to profit/annualised profit for the year/period divided by total assets.
- (10) Interest coverage ratio equals to profit before interest and tax divided by interest expense.

Current and quick ratios

As at 31 December 2015, 31 December 2016 and 30 June 2017, our current ratio was about 1.2 times, 1.3 times and 1.3 times respectively, and our quick ratio was approximately 0.7 times, 0.9 times and 1.0 times respectively. Both our current and quick ratios remained stable during the Track Record Period, reflecting our stable working capital position.

Gearing ratio

Our gearing ratio increased to approximately 138.1% as at 31 December 2016 from approximately 136.0% as at 31 December 2015. The increase for the year ended 31 December 2016 was mainly due to the increase in bank borrowings as at 31 December 2016 to approximately RMB34.6 million from approximately RMB26.3 million as at 31 December 2015. Our gearing ratio

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then decreased to approximately 116.3% as at 30 June 2017 mainly due to the increase in total equity to RMB29.0 million caused by the net profit of RMB3.5 million for the six months ended 30 June 2017.

Net debt to equity

Our net debt to equity ratio decreased to approximately 57.5% as at 31 December 2016 from approximately 88.8% as at 31 December 2015 due to the increase in our cash and cash equivalents generated from operations and bank borrowings from RMB9.1 million as at 31 December 2015 to RMB20.2 million as at 31 December 2016. The further decrease to approximately 4.3% as at 30 June 2017 was due to the further increase in our cash and cash equivalents mainly generated from operations to RMB32.4 million.

Inventory turnover days

Inventory turnover days were relatively stable at approximately 115.4 days and 110.1 days for the two years ended 31 December 2016 respectively. Inventory turnover days decreased from approximately 110.1 days to approximately 104.1 days for the six months ended 30 June 2017 compared to 31 December 2016, as a result of our decreased inventory level due to the transition of our self-operated offline retail points to our offline retailers.

Trade receivables turnover days

Trade receivables turnover days remained stable at approximately 35.5 days, 37.1 days and 36.1 days as at 31 December 2015, 31 December 2016 and 30 June 2017 respectively.

Trade payables turnover days

Trade payables turnover days increased from approximately 36.7 days as at 31 December 2015 to approximately 43.3 days as at 31 December 2016 and further increased to approximately 55.6 days as at 30 June 2017. Such increase was a result of us being able to negotiate for a longer credit term from our suppliers due to our long term business relationship established with them.

Our Directors confirm that we had no default or delay in payment of our trade payables during the Track Record Period that would have had any material impact on our business, financial condition or results of operation. Up to 30 November 2017, approximately RMB16.2 million or approximately 95.5% of our trade payables as at 30 June 2017 had been subsequently settled.

Return on equity

Our return on equity was approximately 52.3%, 25.0% and 24.5% for the two years ended 31 December 2016 and the six months ended 30 June 2017 respectively. The decrease in return on equity in 2016 was mainly attributable to the decrease in our net profit for the year ended 31 December 2016. Our return on equity remained stable at approximately 24.5% for the six months ended 30 June 2017.

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Return on total assets

Our return on total assets decreased to approximately 6.6% for the year ended 31 December 2016 from approximately 12.5% for the year ended 31 December 2015 primarily due to the decrease in our net profit for the year ended 31 December 2016. Our return on total assets increased to approximately 7.0% for the six months ended 30 June 2017 mainly contributed by the increase in our annualised net profit.

Interest coverage ratio

Our interest coverage ratio decreased to approximately 15.0 times for the year ended 31 December 2016 from approximately 16.1 times for the year ended 31 December 2015. The decrease was mainly due to the increase in our bank borrowings balance as at 31 December 2016. Our interest coverage ratio remained stable at approximately 14.9 times for the six months ended 30 June 2017.

LIQUIDITY AND CAPITAL STRUCTURE

During the Track Record Period, our operations were generally financed from internally generated cash flows and bank borrowings. Our Directors believe that in the long term, our Group's operations will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

The following table sets forth a summary of our net cash flows for the Track Record Period.

Cash flows

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
			<i>(unaudited)</i>	
Net cash generated from/(used in) operating activities	6,848	5,273	(3,171)	12,613
Net cash used in investing activities	(2,448)	(855)	(596)	(289)
Net cash generated from financing activities	203	6,492	3,239	88
Net increase/(decrease) in cash and cash equivalents	4,603	10,910	(528)	12,412
Cash and cash equivalents at the beginning of the year/period	4,512	9,140	9,140	20,193
Effect of foreign exchange rate changes	25	143	46	(163)
Cash and cash equivalents at the end of the year/period	<u>9,140</u>	<u>20,193</u>	<u>8,658</u>	<u>32,442</u>

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Operating activities

Our operating cash inflows principally derived from the receipts of payment from the sales of our products. Our operating cash outflows are principally payment for purchases of our products and other costs for operations.

Net cash from operating activities of approximately RMB6.8 million for the year ended 31 December 2015 was primarily attributable to the operating profit before working capital changes of approximately RMB20.3 million, of which approximately RMB13.6 million was profit before income tax, and adjusted for a net cash outflow resulted from changes in working capital amounted to approximately RMB11.2 million. Changes in working capital mainly represented the net effect of (i) the increase in trade and other receivables by approximately RMB10.8 million; and (ii) the increase in inventories of approximately RMB6.4 million, partially offset by the increase in trade and other payables of approximately RMB5.2 million.

Net cash from operating activities of approximately RMB5.3 million for the year ended 31 December 2016 was primarily attributable to the operating profit before working capital changes of approximately RMB14.5 million, of which approximately RMB9.6 million was profit before income tax, and adjusted for a net cash outflow resulted from changes in working capital amounted to approximately RMB3.7 million. Changes in working capital mainly represented the net effect of the increase in trade and other receivables of approximately RMB4.8 million, and partially offset by the increase in restricted cash of approximately RMB1.2 million.

Net cash from operating activities of approximately RMB12.6 million for the six months ended 30 June 2017 was primarily attributable to the operating profit before working capital changes of approximately RMB6.2 million, of which approximately RMB5.8 million was profit before income tax, and adjusted for a net cash inflow resulted from changes in working capital amounted to approximately RMB9.0 million. Changes in working capital mainly represented the net effect of (i) the decrease in trade and other receivables of approximately RMB5.4 million; (ii) the increase in trade and other payables of approximately RMB4.0 million; and (iii) the decrease in inventories of approximately RMB1.9 million.

Investing activities

Net cash used in investing activities of approximately RMB2.4 million for the year ended 31 December 2015 was mainly attributable to (i) the purchase of property, plant and equipment of approximately RMB2.1 million mainly for the leasehold improvements of newly opened retail points; and (ii) the acquisition of an associate of approximately RMB0.4 million.

Net cash used in investing activities of approximately RMB0.9 million for the year ended 31 December 2016 was mainly attributable to the purchase of property, plant and equipment and intangible assets of approximately RMB0.8 million mainly for the leasehold improvements of newly opened our offline retail points.

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Net cash used in investing activities of approximately RMB0.3 million for the six months ended 30 June 2017 for the purchase of property, plant and equipment.

Financing activities

Net cash from financing activities of approximately RMB0.2 million for the year ended 31 December 2015 was mainly attributable to (i) the net increase in bank borrowings of approximately RMB7.9 million; and (ii) repayment of borrowings from Yen Sheng Factory and Mr. Brian Lee of approximately RMB7.7 million.

Net cash from financing activities of approximately RMB6.5 million for the year ended 31 December 2016 was mainly attributable to the net increase in bank borrowings of approximately RMB6.5 million.

Net cash from financing activities of approximately RMB88,000 for the six months ended 30 June 2017 was attributable to the net increase in bank borrowings.

Net assets

As at 31 December 2015 and 2016 and the six months ended 30 June 2017, we had net assets of approximately RMB19.3 million, RMB25.1 million and RMB29.0 million respectively, comprising non-current assets of approximately RMB7.5 million, RMB5.6 million and RMB5.6 million and net current assets of approximately RMB11.9 million, RMB19.5 million and RMB23.3 million respectively.

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Net current assets

The following table sets forth our current assets and current liabilities as at the dates indicated.

	As at 31 December		As at 30 June	As at 31 October
	2015	2016	2017	2017
	RMB'000	RMB'000	RMB'000	RMB'000 <i>(unaudited)</i>
Current assets				
Inventories	28,323	28,669	26,713	47,065
Trade and other receivables	33,499	38,052	32,949	40,793
Amount due from the then immediate holding company	181	—	—	—
Amounts due from Controlling Shareholders	—	—	9	—
Amounts due from associates	—	—	—	—
Income tax recoverable	—	1,358	810	1,196
Restricted cash	2,000	786	2,983	1,132
Cash and cash equivalents	<u>9,140</u>	<u>20,193</u>	<u>32,442</u>	<u>8,813</u>
	<u>73,143</u>	<u>89,058</u>	<u>95,906</u>	<u>98,999</u>
Current liabilities				
Trade and other payables	31,277	31,900	35,910	44,735
Bank borrowings	26,300	34,612	33,680	28,103
Deferred revenue	101	146	116	116
Amount due to a related company	327	17	—	—
Amount due to the then immediate holding company	—	21	10	8
Income tax payable	<u>3,264</u>	<u>2,876</u>	<u>2,875</u>	<u>3,063</u>
	<u>61,269</u>	<u>69,572</u>	<u>72,591</u>	<u>76,025</u>
Net current assets	<u><u>11,874</u></u>	<u><u>19,486</u></u>	<u><u>23,315</u></u>	<u><u>22,974</u></u>

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We recorded an increase in our net current assets position by approximately RMB7.6 million to approximately RMB19.5 million as at 31 December 2016 compared to approximately RMB11.9 million as at 31 December 2015. Such increase was mainly attributable to the combined effect of (i) increase in cash and cash equivalents of approximately RMB11.1 million; (ii) increase in trade and other receivables of approximately RMB4.6 million; (iii) increase in tax recoverable of approximately RMB1.4 million, and partially offset by the increase in bank borrowings of approximately RMB8.3 million. Our net current assets position further increased by approximately RMB3.8 million to approximately RMB23.3 million as at 30 June 2017 as compared to approximately RMB19.5 million as at 31 December 2016, mainly due to the combined effect of increase in cash and cash equivalents of approximately RMB12.2 million, and partially offset by the (i) decrease in inventories of approximately RMB2.0 million; (ii) decrease in trade and other receivables of approximately RMB5.1 million; and (iii) increase in trade and other payables of approximately RMB4.0 million.

CAPITAL EXPENDITURES

Our capital expenditure during the Track Record Period primarily related to leasehold improvement of our offline retail points, purchase of office and computer equipment and computer software. We funded our capital expenditure by internal cash resources. The following table sets forth our capital expenditure as at the dates indicated.

	Year ended 31 December		Six months ended 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Leasehold improvement	1,993	670	60
Office equipment	86	101	285
Computer equipment	8	—	—
Computer software	—	47	—
Total	2,087	818	345

The decrease in capital expenditure by approximately RMB1.3 million to approximately RMB0.8 million for the year ended 31 December 2016 from approximately RMB2.1 million for the year ended 31 December 2015 was primarily due to the decrease of expenditure in leasehold improvement. The decrease in capital expenditure by approximately RMB0.5 million for the six months ended 30 June 2017 from approximately RMB0.8 million was mainly due to the further decrease of expenditure in leasehold improvement as no new offline retail store is opened for the period.

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CONTRACTUAL COMMITMENTS

Capital commitments

We had no significant capital commitments as at 31 December 2015, 31 December 2016 and 30 June 2017.

Operating lease commitments

During the Track Record Period, we leased a number of premises which comprised office, warehouses, retail shops and department store counters under operating leases. The leases run for an initial period of one to three years, with an option to renew and renegotiate the lease terms at the expiry dates or at dates as mutually agreed between our Group and respective landlords. Certain retail shops and department store counters include payment obligations with rental varied with gross revenue. The contingent lease payments are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

The following table sets forth our total minimum lease payments under non-cancellable operating leases as at the dates indicated.

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2015</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Within one year	7,005	6,398	4,814
In the second to fifth years	<u>1,973</u>	<u>4,070</u>	<u>2,043</u>
Total	<u><u>8,978</u></u>	<u><u>10,468</u></u>	<u><u>6,857</u></u>

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

Save for the capital and operating lease commitments disclosed above, we had not entered into any material off-balance sheet commitments and arrangements during the Track Record Period and up to the Latest Practicable Date.

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Except as disclosed herein, we had not entered into any other financial instruments for hedging purposes during the Track Record Period and up to the Latest Practicable Date.

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INDEBTEDNESS

The following table sets forth our indebtedness as at the respective financial position dates mentioned below.

	As at 31 December		As at 30 June	As at
	2015	2016	2017	31 October
	RMB'000	RMB'000	RMB'000	2017
				<i>(unaudited)</i>
Bank borrowings	26,300	34,612	33,680	28,103
Amount due to a related company	327	17	—	—
Amount due to the then immediate holding company	<u>—</u>	<u>21</u>	<u>10</u>	<u>8</u>
	<u><u>26,627</u></u>	<u><u>34,650</u></u>	<u><u>33,690</u></u>	<u><u>28,111</u></u>

At the close of business on 31 October 2017, we had (i) a loan facility of approximately RMB44.3 million which was secured by legal charges over certain properties owned by Unigrade, a connected company in which Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau and Mr. Nicholas Yau are the ultimate beneficial owners and of which approximately RMB28.1 million was utilised; and (ii) a loan facility of approximately RMB17.7 million of which nil was utilised.

As at 31 October 2017, we had outstanding bank borrowings of approximately RMB28.1 million which were secured by personal guarantees given by Mr. Sammy Yau and Mr. Sonny Yau, our Controlling Shareholders and non-executive Directors, and Mr. Brian Lee, our chief executive officer and executive Director. The aforesaid personal guarantees will be released or replaced by corporate guarantees of our Group upon Listing.

As at 31 October 2017, we had an unutilised loan facility of approximately RMB33.9 million.

Save as mentioned above, our Group did not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at 31 October 2017.

Save as aforesaid or as otherwise disclosed herein, we did not have outstanding at the close of business on 31 October 2017, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

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CONTINGENT LIABILITIES

As at 31 December 2015, 31 December 2016 and 30 June 2017, neither our Group nor our Company had any significant contingent liabilities.

EVENTS AFTER THE REPORTING PERIOD

The companies now comprising our Group underwent our Reorganisation in preparation for Listing which was completed on 4 December 2017.

Except as disclosed herein, there were no material subsequent events undertaken by our Company or by our Group after 30 June 2017.

LISTING EXPENSES

The Underwriters are expected to receive a commission of 7.5% of the aggregate Offer Price of all Offer Shares, which is payable by our Company. The total amount of listing expenses, commissions together with SFC transaction levy and the Stock Exchange trading fee in connection with Listing is estimated to be approximately RMB22.4 million, of which approximately RMB8.8 million is expected to be capitalised upon Listing. The remaining estimated listing expenses amount to approximately RMB13.6 million, including (i) approximately RMB2.0 million charged for the year ended 31 December 2016; (ii) approximately RMB4.3 million charged for the six months ended 30 June 2017; and (iii) approximately RMB7.3 million is expected to be charged upon Listing. The estimated listing expenses of our Group are subject to adjustments based on the actual amount of expenses incurred/to be incurred by our Group upon Listing. Our Group's financial performance and results of operation for the year ending 31 December 2017 would not be significantly and adversely affected by the listing expenses mentioned above.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group had entered into certain related party transactions, details of which are set out in note 27 to the Accountants' Report in Appendix I to this prospectus. Our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

DIVIDEND

No dividend was declared or paid by our Group to its then equity holders for the two years ended 31 December 2016 and the six months ended 30 June 2017, and up to the Latest Practicable Date.

Our Company does not have a dividend policy or any pre-determined dividend distribution ratio. The declaration of future dividends will be subject to the recommendation by our Board at their discretion in accordance with our Articles of Association and will depend on a number of factors, including market conditions, our strategic plans and prospects, our business opportunities,

FINANCIAL INFORMATION

our financial condition and operating results, our working capital requirements and anticipated cash needs, statutory and contractual restrictions and obligations on the payment of dividends by us and other factors that our Board considers relevant. In addition, our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only) will be able to influence our dividend policy. Cash dividends on Shares, if any, will be paid in Hong Kong dollars.

WORKING CAPITAL SUFFICIENCY

Taking into account the financial resources available to us, including the expected cash generated from our operations, the available banking facilities and the estimated net proceeds of the Share Offer, our Directors are of the view that, in the absence of unforeseen circumstances, we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

There was no distributable reserve of our Company available for distribution to our Shareholders as at 30 June 2017.

MARKET AND OTHER FINANCIAL RISKS

Foreign currency risk

Our Group's exposures to foreign currency risk mainly arise from our Group's operation in Hong Kong which are primarily denominated in Hong Kong dollars. For further details, please refer to note 28 to the Accountants' Report set out in Appendix I to this prospectus.

Interest rate risk

Our Group's exposure to the risk of changes in market interest rates relates to our interest-bearing borrowings which bearing variable rates. For further details, please refer to note 28 to the Accountants' Report set out in Appendix I to this prospectus.

Credit risk

Our Group's exposure to credit risk mainly arises from granting credit to customers in the ordinary course of our operations. Our Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at the end of each reporting date. In order to minimise credit risk, we have ongoing credit evaluation on the financial condition of our debtors and tightly monitors the ageing of the receivable balances, and follow up action is taken in case of overdue balances. For further details, please refer to note 28 to the Accountants' Report set out in Appendix I to this prospectus.

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Liquidity risk

Liquidity risk relates to the risk that our Group will not be able to meet our financial obligations as they become due. In the management of liquidity risk, our Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet our liquidity requirements in the short and long term. For further details, please refer to note 28 to the Accountants' Report set out in Appendix I to this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, save for the estimated non-recurring listing expenses, since 30 June 2017 and up to the date of this prospectus, (i) there had been no material adverse change in the market conditions or the industry and environment in which we operate that materially and adversely affect our financial or operating position; (ii) there was no material adverse change in the trading and financial position or prospects of our Group; and (iii) no event had occurred that would materially and adversely affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

SENSITIVITY ANALYSIS

The following sensitivity analysis illustrates the impact of hypothetical changes on our gross profit for the years/periods during the Track Record Period, based on historical fluctuations during the Track Record Period of (i) cost of sales; (ii) average selling price; and (iii) commission for online retail sales assuming all other factors affecting our profit remain unchanged:

Cost of sales

	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Change in gross profit	Gross profit	Change in gross profit	Gross profit	Change in gross profit	Gross profit	Change in gross profit
Cost of sales changes	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
+20%	96,650	(14.2)	97,107	(16.3)	41,702	(17.0)	49,733	(16.2)
+10%	104,633	(7.1)	106,555	(8.1)	45,971	(8.5)	54,545	(8.1)
0	112,616	—	116,003	—	50,241	—	59,358	—
-10%	120,599	7.1	125,451	8.1	54,511	8.5	64,171	8.1
-20%	128,582	14.2	134,899	16.3	58,780	17.0	68,983	16.2

For the two years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, cost of sales amounted to approximately RMB79.8 million, RMB94.5 million, RMB42.7 million and RMB48.1 million, respectively, representing approximately 41.5%, 44.9%, 45.9% and 44.8% of our Group's total revenue for the respective years/periods.

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Average selling price

Average selling price changes	Year ended 31 December				Six months ended 30 June			
	2015		2016		2016		2017	
	Gross profit	Change in gross profit	Gross profit	Change in gross profit	Gross profit	Change in gross profit	Gross profit	Change in gross profit
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
+20%	151,106	34.2	158,099	36.3	68,828	37.0	80,855	36.2
+10%	131,861	17.1	137,051	18.1	59,535	18.5	70,107	18.1
0	112,616	—	116,003	—	50,241	—	59,358	—
-10%	93,371	(17.1)	94,955	(18.1)	40,947	(18.5)	48,610	(18.1)
-20%	74,126	(34.2)	73,907	(36.3)	31,654	(37.0)	37,861	(36.2)

For the two years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, our average selling price were approximately RMB231.9, RMB192.4, RMB226.1 and RMB183.1 respectively.

Commission for online retail sales

Commission for online retail sales changes	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit	Net profit	Change in net profit
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
+5%	9,569	(5.3)	5,600	(10.5)	379	(39.2)	3,035	(14.5)
+2%	9,889	(2.1)	5,994	(4.2)	526	(15.7)	3,343	(5.8)
0	10,102	—	6,257	—	623	—	3,549	—
-2%	10,315	2.1	6,520	4.2	721	15.7	3,755	5.8
-5%	10,635	5.3	6,914	10.5	867	39.2	4,063	14.5

For the Track Record Period, the commission percentages charged by our online sales platforms have been stable, which was approximately 5% of total online retail sales.

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UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

For the unaudited pro forma statement of adjusted combined net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules for illustrating the effect of the Share Offer on the combined net tangible assets of our Group as at 30 June 2017 as if the Share Offer and the Capitalisation Issue were completed on 30 June 2017, please refer to Appendix II to this prospectus.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Business objectives and strategies

As at the Latest Practicable Date, our Group primarily design, promote and sell women's handbag, small leather goods and travel goods. Our Group's primary objectives are to maintain our growth in the industry, enhance our overall competitiveness and increase our market share.

Our Group will endeavour to achieve its business objectives and adopt the business strategies as set out in the section headed "Business — Strategies and future plans" of this prospectus.

Implementation plans

In order to achieve the aforementioned business objectives, we set forth below our implementation plans for each of the six-month periods from the Latest Practicable Date to 30 June 2020. Investors should note that our implementation plans are formulated on the bases and assumptions referred to in the paragraph headed "Bases and assumptions" below. These bases and assumptions are inherently subject to many uncertainties and unpredictable factors, in particular the risk factors as set out in the section headed "Risk factors" of this prospectus. Therefore, there is no assurance that our Group's business plans will materialise in accordance with the estimated time frame and that our Group's future plans will be accomplished at all.

Marketing investments in social media events

We intend to strengthen our market position in the women's handbag industry in the PRC and enhance our brand recognition and awareness in order to expand our market share and capture the benefit of market growth in the PRC. We will be engaging an independent third party marketing firm, which will help promote our Group's products in one of the most popular Chinese microblogging websites (the "**Website**") by regularly providing product updates to users of the Website. The marketing firm will also be composing short scripts in one of the largest standalone messaging social media apps as part of its promotion services for our Group's products.

In addition to furthering our marketing activities in social media platforms, we will be allocating approximately RMB6.0 million and RMB5.0 million of our proceeds and approximately RMB1.5 million out of our Group's internal resources in providing sponsorships to artists and television programmes and participating in and attending fashion shows and exhibitions respectively as to enable our products to be showcased to a larger variety of consumers.

We plan to participate in four fashion shows and exhibitions for each of our ELLE and Jessie & Jane brands per year, with the participation fee costing approximately RMB0.5 million each time, where our products will be showcased to the attending press and media. We plan to participate in a total of 20 fashion shows and exhibitions, 10 for each of our ELLE and Jessie & Jane brands, for the period between the Latest Practicable Date and 30 June 2020 using our proceeds.

FUTURE PLANS AND USE OF PROCEEDS

For details on the amount incurred for the sponsorships to artists and television programmes and participation in fashion events, please refer to the section headed “Financial information — Discussion on major items of the combined statements of profit or loss and other comprehensive income — Selling and distribution costs” of this prospectus.

Expansion of product design and development capacities

To cope with our planned business expansion, we will be (i) recruiting two designers in the PRC; (ii) engaging one overseas design consultant firm for our Jessie & Jane brand; (iii) recruiting one product development manager; and (iv) recruiting one procurement executive.

In order to maintain the high quality of our Group’s products, the two additional designers we intend to recruit will be required to have at least approximately three to seven years of experience in similar field. The product development manager and the procurement executive we intend to recruit will each be required to have at least approximately five years of experience in similar field respectively. We will also be engaging an overseas design consultant firm to provide feedback on the product and design of our Jessie & Jane branded products.

Physical shop opening and refurbishment

Although our Group has undergone a change in business strategy in recent periods, our Directors are of the view that maintaining certain offline retail points, such as the planned ELLE flagship store in Shanghai as showcase purpose which will cost approximately RMB400,000, is crucial to our Group’s success. In addition to our existing flagship store for Jessie & Jane brand, we plan to add a new flagship store for ELLE brand. This is because offline retail points of ELLE and Jessie & Jane brands can be used as a brand building and marketing tool for our Group’s ELLE and Jessie & Jane brands. Despite the fact that a majority of our revenue is derived through our online channels, we believe it is crucial to maintain our offline presence and the online and offline sales channels are supplementing each other and are effectively enhancing our brand recognition. Offline retail points allow us to present our products, where consumers are able to have physical touch and sense of our products and obtain the necessary product information before purchase. We also control the store decoration design and product display in the stores operated by our third party retailers to ensure that all retail points adopt uniform design, appearance, decoration, layout, colour and lighting schemes. Therefore, we are of the view that offline retail points can serve as a medium to strengthen our respective brands’ images as it allows us to directly display our products on these offline platforms to the public. For further information about our store decoration and product display, please refer to the section headed “Business — Our business — Our operation process — D. Sales and distribution — Supports and services to our third party retailers” in this prospectus.

Our Group, in addition to the flagship store to be opened in Shanghai, will be providing our offline retailers with refurbishment subsidies for the opening of their new offline retail points for both ELLE and Jessie & Jane brands.

FUTURE PLANS AND USE OF PROCEEDS

The operating margin obtained by our Group for our wholesale to offline retailers ranged from approximately 25.0% to 39.0% during the Track Record Period. Our Directors are of the view that, as long as our Group is able to achieve such high positive operating margin for our wholesale to offline retailers, it is in the interest of our Group to continue to support the opening of retailer-operated offline retail points via refurbishment subsidies as it will generate further sales growth and enhance the profitability for our Group.

In recent years, with the advance of e-commerce, online shopping emerges as a new distribution channel altering consumer spending habit, whilst we also witnessed the structural change in the offline market in the way that store traffic at sales counter points in department stores is reducing and shifting towards specialty stores at shopping malls. As at 30 June 2017, 45 of our ELLE brand retailer-operated offline retail points out of the total number of 49 are counters at department stores. Our Directors are of the view that specialty stores at shopping malls can enable us to control our own store decoration and can facilitate our brand building work. In order to encourage our offline retailers to open new offline retail points in shopping malls, we intend to provide them with refurbishment subsidies. Although the number of retailer operated offline retail points decreased during the Track Record Period, a majority of the closures was retail points in department stores. Our Group will be allocating part of the proceeds to subsidise our offline retailers to open new offline retail points in shopping malls to replace the retail points previously closed down in department stores.

As at 30 June 2017, there were only 40 Jessie & Jane brand retailer-operated offline retail points, compared to 49 ELLE brand retailer-operated offline retail points. Six out of the total number of 40 are counters at department stores. With the aid of our decoration subsidy scheme, our Jessie & Jane brand experienced significant growth in the Track Record Period. Our Directors are of the view that such growth momentum will continue to sustain in near future and thus it is an advantage to our Group to continue the support to our Jessie & Jane brand retailers for the new opening and refurbishment of Jessie & Jane brand offline retail points. We intend to subsidise a total of eight ELLE and 31 Jessie & Jane brand retailer-operated offline retail points as part of our future plan. For details on the number of retail points to be subsidised for each of the six-month period from the Latest Practicable Date to 30 June 2020, please refer to below.

For details on how our Group controls our offline retailers in the opening of new offline retail points, please refer to “Business — D. Sales and distribution — Offline sales network”.

Information technology system purchase and upgrade

We will also be enhancing our information technology systems to support our business expansion. We plan to upgrade our finance system and other functions of our system. In addition, we will also purchase new software licences to add new functions, such as customer relationship system, to our system. Further, we plan to enhance our capacities to provide information technology support to our different departments to ensure we operate our business and expand our business in an efficient manner.

FUTURE PLANS AND USE OF PROCEEDS

For the period from the Latest Practicable Date to 30 June 2018

<u>Business strategy</u>	<u>Implementation plan</u>
Marketing investment in social media events	<ul style="list-style-type: none">● Providing sponsorships to artists and television programmes.● Increasing our marketing efforts by, among others, placing more advertisements on social media and photoshoots.● Participating in and attending fashion shows and exhibitions.
Expansion of product design and development capacities	<ul style="list-style-type: none">● Recruitment of designers and engage one more overseas design consultant firm for fashion trend information for our brands.● Recruitment of one additional product development manager and one additional procurement executive
Physical shop opening and refurbishment	<ul style="list-style-type: none">● Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of 14 new Jessie & Jane shops under new shop opening incentive scheme.
Information technology system purchase and upgrade	<ul style="list-style-type: none">● Upgrading our finance system and functions such as inventory reports, etc. and sales processing system.● Purchasing of software licences including our product design and operating system softwares.● Purchasing of servers and storage equipment.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2018

<u>Business strategy</u>	<u>Implementation plan</u>
Marketing investment in social media events	<ul style="list-style-type: none">● Providing sponsorships to artists and television programmes.● Increasing our marketing efforts by, among others, placing more advertisements on social media and photoshoots.● Participating in attending fashion shows and exhibitions.
Expansion of product design and development capacities	<ul style="list-style-type: none">● Retaining the designers and overseas design consultant firm hired and engaged during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our design capabilities.● Retaining the product development manager and the procurement executive hired during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our product development team.
Physical shop opening and refurbishment	<ul style="list-style-type: none">● Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of two new ELLE and seven new Jessie & Jane shops under new shop opening incentive scheme.● Opening of a self-operated ELLE flagship store.
Information technology system purchase and upgrade	<ul style="list-style-type: none">● Implementation of a customer relationship system.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 June 2019

<u>Business strategy</u>	<u>Implementation plan</u>
Marketing investment in social media events	<ul style="list-style-type: none">● Providing sponsorships to artists and television programmes.● Increasing our marketing efforts by, among others, placing more advertisements on social media and photoshoots.● Participating in and attending fashion shows and exhibitions.
Expansion of product design and development capacities	<ul style="list-style-type: none">● Retaining the designers and overseas design consultant firm hired and engaged during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our design capabilities.● Retaining the product development manager and the procurement executive hired during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our product development team.
Physical shop opening and refurbishment	<ul style="list-style-type: none">● Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of three new ELLE and seven new Jessie & Jane shops under new shop opening incentive scheme.
Information technology system purchase and upgrade	<ul style="list-style-type: none">● Implementation of an order management system and an e-commerce management system.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2019

<u>Business strategy</u>	<u>Implementation plan</u>
Marketing investment in social media events	<ul style="list-style-type: none">● Providing sponsorships to artists and television programmes.● Increasing our marketing efforts by, among others, placing more advertisements on social media and photoshoots.● Participating in and attending fashion shows and exhibitions.
Expansion of product design and development capacities	<ul style="list-style-type: none">● Retaining the designers and overseas design consultant firm hired and engaged during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our design capabilities.● Retaining the product development manager and the procurement executive hired during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our product development team.
Physical shop opening and refurbishment	<ul style="list-style-type: none">● Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of three new ELLE and two Jessie & Jane shops under new shop opening incentive scheme.
Information technology system purchase and upgrade	<ul style="list-style-type: none">● Upgrading of our business intelligence system for facilitating the sales, purchasing and inventory functions of our operations in the PRC.

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 June 2020

<u>Business strategy</u>	<u>Implementation plan</u>
Marketing investment in social media events	<ul style="list-style-type: none">● Providing sponsorships to artists and television programmes (to be funded out of internal resources).● Increase our marketing efforts by, among others, placing more advertisements on social media and photoshoots.● Participating in and attending fashion shows and exhibitions.
Expansion of product design and development capacities	<ul style="list-style-type: none">● Retaining the designers and overseas design consultant firm hired and engaged during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our design capabilities.● Retaining the product development manager and the procurement executive hired during the period from the Latest Practicable Date to 30 June 2018 to continue to strengthen our product development team.
Physical shop opening and refurbishment	<ul style="list-style-type: none">● Providing subsidy on decoration costs of approximately RMB150,000 each, representing approximately 50% of each shop's decoration costs, to our third party retailers for the opening of one new Jessie & Jane shops under new shop opening incentive scheme.

Bases and assumptions

Potential investors should note that the attainability of our Group's business objectives depends on a number of assumptions, in particular:

- there will be no material changes in the existing political, legal, fiscal, social or economic conditions in Hong Kong, the PRC or in any other places in which any member of our Group carries on its business or will carry on its business;
- 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;

FUTURE PLANS AND USE OF PROCEEDS

- there will be no material changes in the bases or rates of taxation in Hong Kong, the PRC or in any other places in which any member of our Group operates or will operate;
- there will be no material changes in legislation or regulations whether in Hong Kong or elsewhere materially affecting the business carried on by our Group;
- there will be no significant changes in our Group's business relationship with its existing strategic and business partners;
- there will be no significant changes in our Group's business relationship with its major customers;
- there will be no material changes in the funding required for each of the scheduled achievements as outlined under the paragraph headed "Implementation plans" in this section; and
- our Group will not be materially affected by the risk factors as set out in the section headed "Risk factors" of this prospectus.

REASONS FOR LISTING AND USE OF PROCEEDS

Our Company intends to raise funds by the Share Offer in order to pursue its business objectives as set out in the paragraph headed "Business objectives and strategies" in this section.

Our Directors believe that Listing will enhance our Group's profile and recognition and the net proceeds from the Share Offer will strengthen our Group's financial position such that our Group is fully equipped to pursue our business plans set out in this section.

The net proceeds from the Share Offer will provide financial resources to our Group to pursue multi-facet business strategies including, *inter alia*, (i) enhancing our brand awareness and publicity through extensive marketing effort; (ii) strengthening our IT infrastructure to support our development in e-commerce platforms; (iii) enhancing our product design and development capacities; and (iv) achieving a greater degree of market penetration to expand our market share.

Our Group's existing business activities are primarily funded by our internal generated cash flow, equity capital and bank borrowings. As the current business becomes more mature in terms of sales and profitability, our Directors consider appropriate for our Group to manage down the financial risk on business operation to a moderate level and reduce our reliance on bank borrowings. On the other hand, in order to foster future growth, our Group also needs a more stable source of funding, as the current bank borrowings are revolving loans and are repayable on demand. Moreover, our bank borrowings are repayable in terms that are no longer than six months. In one of our banking facilities, each drawdown can only be re-borrowed after repayment or is granted roll-over at the end of each interest period which is of a term that is no longer than three months. Another banking facility has a "clean-up" condition where all loans drawdown has to be repaid every six months period, thus our Directors are of the view that this banking facility is solely for short term purposes. Our development plans include capital expenditure (such as new

FUTURE PLANS AND USE OF PROCEEDS

shop opening and purchase of IT equipment) and marketing plan for brand building purpose. For our capital expenditure plan, as it requires a longer investment period to pay back the cost and thus the use of revolving bank facilities may create a mismatch between our assets and liabilities structure. For brand building activities, the benefit tends to be more intangible and cannot be easily quantifiable in particular for short term. Therefore, our Directors are of the view that the use of our unutilised bank facilities to implement our development plan will limit our flexibility in planning for our daily business operations and restrict us from pursuing our strategic business opportunities, as we have to allocate additional cash flows from our operations to service the bank loans in case the bank does not agree to re-borrow and/or grant roll-over for the loans and/or the loans due for repayment according to the clean up condition. Our Directors are of the view that the unutilised banking facilities are used to finance our purchases of inventories from our suppliers and for short term liquidity purposes as inventory and trade receivables are more liquid assets with more predictable cashflows to meet the borrowing terms. Hence, our Directors believe that Listing is essential for future development, expansion and maintaining the market position of our Group as it can raise our equity capital base and enable our Group to have access to the capital market to fund future business development.

Although we had cash and cash equivalents of approximately RMB32.4 million as at 30 June 2017 and approximately RMB29.2 million as at 31 July 2017 based on our unaudited management accounts and unutilised loan facilities of approximately HK\$27.2 million as at 31 July 2017, the Group also had bank borrowings of approximately RMB34.8 million and a net debt of approximately RMB5.6 million as at 31 July 2017.

To implement our financing strategy, our Group aims to apply internal operating cash inflow to repay outstanding bank borrowings so as to lower our current gross gearing position at approximately 116.3% as at 30 June 2017. The following sensitivity analysis illustrates the impact of hypothetical changes on our finance costs and net profit for the six months ended 30 June 2017 if our gearing ratio of approximately 116.3% as at 30 June 2017 is further increased, based on the interest rate of 1-month HIBOR + 1.75% and assuming all other factors affecting our profit remain unchanged:

<u>Bank borrowings changes</u>	<u>Six months ended 30 June 2017</u>				
	<u>Gearing ratio</u> %	<u>Finance costs</u> RMB'000	<u>Change in finance costs</u> %	<u>Net profit</u> RMB'000	<u>Change in net profit</u> %
0	116.3	415	—	3,549	—
+10%	128.0	474	14.3	3,500	(1.4)
+50%	174.5	647	55.8	3,356	(5.5)
+81% (Note)	210.6	780	88.0	3,244	(8.6)

Note: This hypothetical rate of increase in bank borrowings assumes the full drawdown of the unutilised bank facilities of approximately RMB27.2 million as at 31 July 2017.

FUTURE PLANS AND USE OF PROCEEDS

As mentioned above, as our current business has become more mature in terms of sales and profitability, we utilise our cash surplus to reduce our bank borrowings and in turn our gearing ratio. As such, further increase in our gearing ratio will not cause undue effect on our operations. However, the increase in our cash resources and bank borrowings will increase our gearing ratio accordingly, resulting in additional finance costs and thereby decreasing our net profit. As shown in the analysis above, the increase of 10% in our borrowings, based on the interest rate of 1-month HIBOR + 1.75%, would increase our finance costs and decrease our net profit by approximately 14.3% and 1.4% respectively for the six months ended 30 June 2017 driving our gearing ratio to approximately 128.0%. If we further draw down the remaining unutilised bank facilities of approximately RMB27.2 million as at 31 July 2017, our finance costs would increase and our net profit would decrease by approximately 88.0% and 8.6% respectively for the six months ended 30 June 2017, driving our gearing ratio to approximately 210.6%. Our Directors are of the view that the use of high level of bank borrowings and high gearing ratio for implementation of our business plans could require us to allocate higher portion of our cash flow from operations to fund our repayments of principal and interest on our borrowings, thus reducing the availability of our cash flow from operations to fund our working capital, capital expenditure and other daily operation purposes and limit our ability to incur additional debt. In addition, our Group intends to continue to use our bank borrowings to fund our existing business activities as we did during the Track Record Period and we will also reserve these unutilised banking facilities as contingency financing facilities for our operational needs in case of any delay in payment by our customers, particularly our third party retailers, whilst the need to repay our suppliers and settle daily operating expenses when they fall due. In view of the need to reserve the unutilised banking facilities for contingency purposes, our Directors are of the view that the use of equity financing, without incurring finance costs, to implement our business strategies is in the best interest of our Company and our Shareholders as a whole.

Our Group made net repayment of approximately RMB6.7 million in respect of outstanding bank loan in August 2017, thus reducing bank borrowings from approximately RMB34.8 million as at 31 July 2017 to approximately RMB28.1 million as at 31 October 2017. Our Group's cash and cash equivalents had reduced from approximately RMB29.2 million as at 31 July 2017 to RMB8.8 million as at 31 October 2017 due to the repayment of bank borrowings and utilisation for other general working capital needs. Following the reduction of bank borrowings, our Group's existing cash resources are reserved as our Group's working capital and to support its daily operations and the unutilised banking facility will serve as a buffer for general working capital use. Furthermore, with the benefit of Listing, our Group intends to strengthen our capital structure by enlarging the shareholder base. The capital structure with additional equity capital serves to provide more stable and reliable funding source and enable our Group to implement our future business strategies with a lower level of gearing ratios and higher level of current ratio. Also, upon Listing, our Group will have the opportunity to conduct equity fund raising activities with higher flexibility for business development in the long run, which in turn benefits our Group and Shareholders as a whole.

Net proceeds from the Share Offer, after deducting underwriting commission and other expenses relating to Listing payable by our Company, are expected to be approximately RMB31.0 million.

FUTURE PLANS AND USE OF PROCEEDS

We intend to apply the net proceeds from the Share Offer in the following manner:

- approximately RMB13.6 million, representing approximately 43.9% of the net proceeds from the Share Offer, will be used for marketing investment in social media and events;
- approximately RMB4.2 million, representing approximately 13.5% of the net proceeds from the Share Offer, will be used for the expansion of our product design and development team;
- approximately RMB6.2 million, representing approximately 20.2% of the net proceeds from the Share offer, will be used for physical shop opening and refurbishment;
- approximately RMB6.9 million, representing approximately 22.1% of the net proceeds from the Share Offer, will be used for information technology system purchase and upgrade; and
- approximately RMB0.1 million, representing approximately 0.3% of the net proceeds from the Share Offer, will be used for the general working capital of our Group.

To the extent that the net proceeds from the Share Offer are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts with licensed banks and/or authorised financial institutions in Hong Kong so long as it is in our interest.

The following table set forth a detailed breakdown of the use of proceeds for the aforesaid plans:

	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total amount to be funded by net proceeds from the Share Offer	Total % of net proceeds
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
1) Marketing investment in social media and events							
Sponsorship to artists and TV programmes (<i>note 1</i>)	1,490	1,490	1,490	1,490	—	5,960	19.2
Fashion shows and exhibitions	1,000	1,000	1,000	1,000	1,000	5,000	16.1
Photo shooting	—	200	—	200	—	400	1.3
Placing advertisements on social media (<i>note 2</i>)	450	450	450	450	450	2,250	7.3
Subtotal	2,940	3,140	2,940	3,140	1,450	13,610	43.9

Notes:

1. Approximately RMB1.5 million for sponsorship to artists and TV programmes would be funded out of our Group's internal resources.
2. Approximately RMB2.0 million for placing advertisements on social media would be funded out of our Group's internal resources.

FUTURE PLANS AND USE OF PROCEEDS

	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total amount to be funded by net proceeds from the Share Offer	Total % of net proceeds
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
2) Expansion of product design and development team							
Recruitment of two designers in the PRC	234	234	234	234	234	1,170	3.8
Engage one overseas design consultant firm for Jessie & Jane brand	260	260	260	260	260	1,300	4.2
Recruitment of one product development manager	273	273	273	273	273	1,365	4.4
Recruitment of one procurement executive	70	70	70	70	70	350	1.1
Subtotal	<u>837</u>	<u>837</u>	<u>837</u>	<u>837</u>	<u>837</u>	<u>4,185</u>	<u>13.5</u>
	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total amount to be funded by net proceeds from the Share Offer	Total % of net proceeds
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
3) Physical shop opening and refurbishment							
Refurbishment of ELLE brand offline retail points	—	300	450	450	—	1,200	3.9
New opening of ELLE flagship store	—	400	—	—	—	400	1.3
New opening and refurbishment of Jessie & Jane brand offline retail points	<u>2,100</u>	<u>1,050</u>	<u>1,050</u>	<u>300</u>	<u>150</u>	<u>4,650</u>	<u>15.0</u>
Subtotal	<u>2,100</u>	<u>1,750</u>	<u>1,500</u>	<u>750</u>	<u>150</u>	<u>6,250</u>	<u>20.2</u>

FUTURE PLANS AND USE OF PROCEEDS

	From the Latest Practicable Date to 30 June 2018	For the six months ending 31 December 2018	For the six months ending 30 June 2019	For the six months ending 31 December 2019	For the six months ending 30 June 2020	Total amount to be funded by net proceeds from the Share Offer	Total % of net proceeds
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
4) Information technology system purchase and upgrade							
Upgrade finance system	78	—	—	—	—	78	0.3
Upgrade sales processing system	873	—	—	—	—	873	2.8
Implement customer relationship system	—	1,345	—	—	—	1,345	4.3
Implement order management system and e-commerce management system	—	—	970	—	—	970	3.1
Upgrade business intelligence system	—	—	—	1,540	—	1,540	5.0
Purchase of software licences	805	—	—	—	—	805	2.6
Purchase of computers & network equipment	1,251	—	—	—	—	1,251	4.0
Subtotal	<u>3,007</u>	<u>1,345</u>	<u>970</u>	<u>1,540</u>	<u>—</u>	<u>6,862</u>	<u>22.1</u>
5) Working capital	79	—	—	—	—	79	0.3
Total:	<u><u>8,963</u></u>	<u><u>7,072</u></u>	<u><u>6,247</u></u>	<u><u>6,267</u></u>	<u><u>2,437</u></u>	<u><u>30,986</u></u>	<u><u>100.0</u></u>

UNDERWRITING

THE UNDERWRITERS

Joint Bookrunners and Joint Lead Managers

Kingsway Financial Services Group Limited

Sanfull Securities Limited

The Public Offer Underwriters and the Placing Underwriters

Kingsway Financial Services Group Limited

Sanfull Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong under the Public Offer (on and subject to the terms and conditions set out in this prospectus and the Application Forms). Subject to the Listing Division granting listing of and permission to deal in the Shares (subject only to allotment and to certain other conditions set out in the Underwriting Agreement being satisfied on or before the time specified therein), the Underwriters have severally agreed to apply, or procure applications, on the terms and conditions of this prospectus and the Application Forms, for the Public Offer Shares now being offered and which are not taken up under the Public Offer. The Placing Underwriters will, subject to the terms and conditions set out in the Underwriting Agreement, severally agree to subscribe for, or procure subscribers to subscribe for, the Placing Shares.

Grounds for termination

The Sole Sponsor and/or the Joint Bookrunners (for themselves and on behalf of the Underwriters) may by notice in writing to the Company (with a copy of such notice to the other parties thereto), terminate the Underwriting Agreement at their sole and absolute discretion with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the “**Termination Time**”):

- (a) there has come to the notice of any of the Sole Sponsor, the Joint Bookrunners or the Underwriters:
 - (i) any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement or any other provisions of the Underwriting Agreement by any party thereto (other than the Sole Sponsor, the Joint Bookrunners and the Underwriters)

UNDERWRITING

which, in any such cases, is considered, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), to be material in the context of the Share Offer; or

- (ii) any statement contained in this prospectus, the web proof information pack, the formal notice and any announcements issued by our Company (including any supplement or amendment to each of the said documents) has become or been discovered to be untrue, incorrect or misleading in any respect which is considered, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), to be material in the context of the Share Offer; or
- (iii) any event, series of events, matter or circumstances occurs or arises on or after the date of the Underwriting Agreement and before the Termination Time, being an event, matter or circumstance which, if it had occurred before the date of the Underwriting Agreement, would have rendered any of the representations, warranties or undertakings contained in the Underwriting Agreement untrue, incorrect or misleading in any respect, and which is considered, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), to be material in the context of the Share Offer; or
- (iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), a material omission in the context of the Share Offer; or
- (v) any event, act or omission which gives or is likely to give rise to any liability of our Company or any of our executive Directors or our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only) arising out of or in connection with the breach of any of the representations, warranties or undertakings contained in the Underwriting Agreement; or
- (vi) any breach by any party to the Underwriting Agreement (other than the Sole Sponsor, the Joint Bookrunners and the Underwriters) of any provision of the Underwriting Agreement which, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters), is material; or

UNDERWRITING

- (b) there shall have developed, occurred, existed, or come into effect any event or series of events, matter or circumstance whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (i) any new law or regulation or any change in existing laws or regulations, or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the BVI, the Cayman Islands or any of the jurisdictions in which our Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business and/or operation of our Group (the “**Relevant Jurisdictions**”); or
 - (ii) any change in, or any event or series of events or development resulting or likely to result in any change in local, regional or international financial, equity securities, currency, political, military, industrial, economic, stock market or other market conditions or prospects in or affecting the Relevant Jurisdictions; or
 - (iii) any change in the system under which the value of the HK dollars or Renminbi is linked to that of the US dollars or any other foreign currency; or
 - (iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (v) any change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Relevant Jurisdictions; or
 - (vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of our Group; or
 - (vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the Relevant Jurisdictions; or
 - (viii) a general moratorium on commercial banking activities or disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance service in or affecting the Relevant Jurisdictions; or
 - (ix) any event of force majeure including, without limiting the generality thereof, any act of God, military action, riot, public disorder, civil commotion, fire, flood, tsunami, explosion, epidemic, terrorism (whether or not responsibility has been claimed), strike or lock-out; or

UNDERWRITING

- (x) 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 the Relevant Jurisdictions; or
- (xi) a demand by any creditor for repayment or payment of any material indebtedness of any other member of our Group or in respect of which any member of our Group is liable prior to its stated maturity; or
- (xii) any material 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
- (xiii) 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 over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xiv) any litigation or claim of importance of any third party being instigated or threatened against any member of our Group,

which, in the sole and absolute opinion of any of the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Underwriters):

- (i) is or will be, or is likely to be, adverse to the business, financial, trading or other conditions or prospects of our Group taken as a whole or any member of our Group; or
- (ii) has or will have or is likely to have an adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted, the distribution of the Offer Shares or the demand or market price of the Shares following Listing; or
- (iii) for any other reason makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Share Offer as a whole.

For the above purpose:

- (i) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or a devaluation of Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and

UNDERWRITING

- (ii) any normal market fluctuations shall not be construed as events or series of events affecting market conditions referred to above.

Undertakings to the Stock Exchange

Undertakings by our Company

Pursuant to Rule 17.29 of the GEM Listing Rules, our Company has undertaken to the Stock Exchange that except pursuant to the Share Offer, no further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of our Shares or our securities will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 17.29(1) to (5) of the GEM Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only) has jointly and severally undertaken to the Stock Exchange and to our Company that, he/she/it shall not (and shall procure that the relevant registered holder(s) of the Shares shall not):

- (i) in the period commencing on the date by reference to which disclosure of his/her/its shareholding in our Company 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, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares (or any interest therein) which he/she/it is shown by this prospectus to be the beneficial owner(s); and
- (ii) in the period of six months commencing on the date on which the period referred to in (i) above expires (the “**Second Six-month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any Shares (or any interest therein) referred to in (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that he/she/it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

UNDERWRITING

Pursuant to Rule 13.19 of the GEM Listing Rules, each of our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only), jointly and severally, has further undertaken to the Stock Exchange and our Company that he/she/it will comply with the following requirements:

- (i) in the event that he/she/it pledges or charges any direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the relevant periods specified in Rule 13.16A of the GEM Listing Rules, he/she/it shall 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 Shares under paragraph (i) above, he/she/it must inform our Company immediately in the event that he/she/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.

Undertakings pursuant to the Underwriting Agreement

Undertakings by our Company

Except pursuant to the Capitalisation Issue, the Share Option Scheme and the Share Offer, during the First Six-month Period, our Company has undertaken to each of the Joint Bookrunners, the Sole Sponsor and the Underwriters not to, and to procure each member of the Group not to, without the prior written consent of the Joint Bookrunners and the Sole Sponsor and except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules:

- (a) offer, allot, issue or sell, or agree to allot, issue or sell, hedge, grant or agree to grant any option, right or warrant over, or otherwise dispose of (or 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
- (b) 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 such securities; or
- (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or

UNDERWRITING

- (d) offer or agree to do any of the foregoing transactions and publicly disclose any intention to effect such transaction,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only) has undertaken to each of our Company, the Joint Bookrunners, the Sole Sponsor and the Underwriters that, except for any pledge or charge of Shares (in respect of which our Controlling Shareholders are shown in this prospectus as the beneficial owner) by our Controlling Shareholders as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, without the prior written consent of the Joint Bookrunners and the Sole Sponsor:

- (a) he/she/it will not, at any time during the First Six-month Period, (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) beneficially owned by he/she/it as at the Listing Date (the “**Locked-up Securities**”), or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Locked-up Securities, or (iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above, or (iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above, in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (b) he/she/it will not, during the period of 6 months commencing on the date on which the First Six-month Period expires (the “**Next 6-Month Period**”), enter into any of the transactions specified in (i), (ii) or (iii) under paragraph (a) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/she/it will cease to be a “controlling shareholder” (as defined in the GEM Listing Rules) of our Company;

UNDERWRITING

- (c) if he/she/it enters into any of the transactions specified in (i), (ii) or (iii) under paragraph (a) above or offer to or agree to or announce any intention to effect any such transaction during the Next 6-Month Period, he/she/it will take all reasonable steps to ensure that any such transaction, offer, agreement or announcement will not create a disorderly or false market in the Shares of any other securities of our Company; and
- (d) without prejudice to the undertakings as referred to in paragraphs (a) and (b) above, during the period commencing on the date by reference to which disclosure of its direct or indirect shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/she/it shall:
 - (i) when he/she/it pledges or charges or otherwise create any rights of encumbrances over any Locked-up Securities in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company, the Joint Bookrunners and the Sole Sponsor of such pledge or charge or creation of the rights of encumbrances together with the number of the securities so pledged or charged and all other information as may be reasonably requested by our Company, the Joint Bookrunners and/or the Sole Sponsor; and
 - (ii) subsequent to the pledge or charge or creation of rights or encumbrances over the Locked-up Securities as mentioned in sub-paragraph (i) above, when he/she/it receives any indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged or encumbered securities as referred to in sub-paragraph (i) above will be disposed of, immediately inform our Company of such indications, and inform (or procure our Company to inform) the Joint Bookrunners and the Sole Sponsor as soon as practicable thereafter (taking into account the requirements of applicable laws, rules and regulations) of such indications.

Each of our Controlling Shareholders (including Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI only) has also undertaken and covenanted with our Company, the Joint Bookrunners, the Sole Sponsor and the Underwriters that he/she/it shall comply with the requirements of Rules 13.16A, 13.18 and 13.19 of the GEM Listing Rules and to procure that our Company shall comply with the requirements under Rules 13.19 and 13.20 of the GEM Listing Rules.

COMMISSION AND EXPENSES

The Underwriters will receive a commission of 7.5% of the aggregate Offer Price payable for the Offer Shares underwritten by them, out of which any sub-underwriting commissions, praecipium and selling concession will be paid. The amount of underwriting commission will be approximately HK\$4.5 million. The Sole Sponsor will also receive a documentation and advisory fee, being the Sole Sponsor's fee of HK\$4.3 million.

UNDERWRITING

The underwriting commission, documentation and advisory fee, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Share Offer, are estimated to amount to approximately HK\$25.7 million (equivalent to approximately RMB22.4 million) in total, and are payable by our Company.

SOLE SPONSOR'S, JOINT BOOKRUNNERS' AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a documentation and advisory fee. The Joint Bookrunners and the Underwriters will receive an underwriting commission. Particulars of these underwriting commission and expenses are set forth under the paragraph headed "Commission and expenses" above in this section.

We have appointed Kingsway Capital Limited as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the first full year commencing after the Listing Date.

Save as disclosed above, none of the Sole Sponsor, the Joint Bookrunners and the Underwriters is interested legally or beneficially in shares of any members of our Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any of our members nor any interest in the Placing and the Public Offer.

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 14,000,000 new Shares (subject to reallocation) for subscription by the public in Hong Kong as described in the paragraph headed “The Public Offer” in this section; and
- (b) the Placing of an aggregate of 126,000,000 new Shares (subject to reallocation) 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.

THE PUBLIC OFFER

Number of Shares initially offered

We are initially offering 14,000,000 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 completion of the Share Offer and the Capitalisation Issue. 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.

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 the Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. When there is over-subscription under the Public Offer, allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of the 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 28,000,000 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 42,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer;
- (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 42,000,000 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 56,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer; 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 56,000,000 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 70,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer.

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

In addition, if the Public Offer Shares are undersubscribed, the Joint Bookrunners have the authority to reallocate all or any of the unsubscribed Public Offer Shares to the Placing.

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/she/it 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.

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.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applicants under the Public Offer are required to pay, on application, the Offer Price of HK\$0.43 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. Further details are set out below in the section headed “How to apply for the Public Offer Shares” of this prospectus.

THE PLACING

Number of Offer Shares offered

The Placing will consist of an initial offering of 126,000,000 Offer Shares (subject to reallocation), 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. The Placing will be offered by us to professional, institutional and/or other investors in Hong Kong.

Allocation

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Placing Shares after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its Shareholders as a whole. Investors allocated with the Placing Shares cannot apply for the Public Offer Shares under the Public 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 paragraph headed “The Public Offer — Reallocation” in this section. In addition, the Offer Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners.

UNDERWRITING AGREEMENT

The Public Offer and the Placing are fully underwritten by the Underwriters under the terms of the Underwriting Agreement and is conditional upon the Underwriting Agreement becoming unconditional.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

CONDITIONS OF THE SHARE OFFER

The Share 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 the Capitalisation Issue (including any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme); and
- (b) the obligations of the Underwriters under the 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 Underwriting Agreement.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published on our Company's website at www.sling-inc.com.hk and the Stock Exchange's website at 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" of 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 or before Monday, 15 January 2018 but will only become valid certificates of title at 8:00 a.m. on Tuesday, 16 January 2018 provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Grounds for termination" of this prospectus has not been exercised.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Tuesday, 16 January 2018. The Shares will be traded in board lots of 5,000 Shares each. The stock code for the Shares is 8285.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the Stock Exchange granting the listing of, and permission to deal in, our Shares on GEM and our compliance with the stock admission requirements of HKSCC, our 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.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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. You should seek advice from your stockbroker or other professional advisers for details of such settlement arrangements as such arrangements will affect your rights and interests.

We have made all necessary arrangements for our Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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;
- apply online via the **HK eIPO White Form** at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you, or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form**, in addition to the above, you must also (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop (bearing its company name).

If an application is made by a person under a power of attorney, our Company and the Joint Bookrunners may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** for the Public Offer Shares.

HOW TO APPLY FOR 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 of our subsidiaries;
- a director or chief executive officer of our Company and/or any of our 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; and
- an associate (as defined in the GEM Listing Rules) of any of the above;
- have been allocated or have applied for or indicated an interest in any Placing Shares or otherwise participated in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which application channel to use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk. 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 Application Form

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 December 2017 until 12:00 noon on Thursday, 4 January 2018 from:

- (i) the following addresses of the Public Offer Underwriters:

Kingsway Financial Services Group Limited

7/F, Tower 1
Lippo Centre
89 Queensway
Hong Kong

Sanfull Securities Limited

Room 2001-6
Cosco Tower
183 Queen's Road Central
Hong Kong

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

(ii) any of the following branches of Standard Chartered Bank (Hong Kong) Limited:

<u>District</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Causeway Bay Branch	G/F to 2/F, Yee Wah Mansion, 38–40A Yee Wo Street, Causeway Bay
Kowloon	Kwun Tong Branch	G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong
	Mei Foo Manhattan Branch	Shop Nos. 07 & 09, Ground Floor, Mei Foo Plaza, Mei Foo Sun Chuen
New Territories	Maritime Square Branch	Shop 308E, Level 3, Maritime Square, Tsing Yi

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 December 2017 until 12:00 noon on Thursday, 4 January 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**HORSFORD NOMINEES LIMITED — SLING GROUP PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

Friday, 29 December 2017	—	9:00 a.m. to 5:00 p.m.
Saturday, 30 December 2017	—	9:00 a.m. to 1:00 p.m.
Tuesday, 2 January 2018	—	9:00 a.m. to 5:00 p.m.
Wednesday, 3 January 2018	—	9:00 a.m. to 5:00 p.m.
Thursday, 4 January 2018	—	9:00 a.m. to 12:00 noon

The Application Lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 4 January 2018, 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.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By completing and submitting an Application Form or applying through the **HK eIPO White Form**, 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 Joint Bookrunners (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the 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, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Bookrunners and the Underwriters nor any of their respective officers or

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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 (a) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) 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) 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 to collect share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters, any of their respective directors, officers or representatives or any other person or party involved in the Share Offer 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 to 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 (a) 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

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC; and (b) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM

General

Individuals who meet the criteria in the sub-section headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form**.

Time for Submitting Applications under the HK eIPO White Form

You may submit your application through the **HK eIPO White Form** at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 29 December 2017 until 11:30 a.m. on Thursday, 4 January 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 4 January 2018 or such later time under the sub-section headed “10. Effect of bad weather on the opening of the application lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instructions given by you or for your benefit through the **HK eIPO White Form** to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application 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** or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "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 Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central, Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and our Hong Kong Branch Share Registrar.

HOW TO APPLY FOR THE PUBLIC OFFER SHARES

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, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
 - (if the electronic application instructions are given for your benefit) declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

HOW TO APPLY FOR 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 representation in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the Application Lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving the **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 (Winding Up and Miscellaneous Provisions) 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 Offer Price, brokerage fee, 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, refund of the application monies (including brokerage fee, 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 5,000 Public Offer Shares. Instructions for more than 5,000 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 *(Note)*

Friday, 29 December 2017	—	9:00 a.m. to 8:30 p.m. ^{<i>(Note)</i>}
Saturday, 30 December 2017	—	8:00 a.m. to 1:00 p.m.
Tuesday, 2 January 2018	—	8:00 a.m. to 8:30 p.m. ^{<i>(Note)</i>}
Wednesday, 3 January 2018	—	8:00 a.m. to 8:30 p.m. ^{<i>(Note)</i>}
Thursday, 4 January 2018	—	8:00 a.m. ^{<i>(Note)</i>} to 12:00 noon

Note: These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 29 December 2017 until 12:00 noon on Thursday, 4 January 2018 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Thursday, 4 January 2018, the last application day or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the Application Lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Such facility is subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant 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 Thursday, 4 January 2018.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form**, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and

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- 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 Shares.

You must pay the Offer Price, brokerage fee, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** in respect of a minimum of 5,000 Public Offer Shares. Each application or electronic application instructions in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage fee will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee will be 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.

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,

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 4 January 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the Application Lists do not open and close on Thursday, 4 January 2018 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” of this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the level of indications of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Monday, 15 January 2018 on our Company’s website at www.sling-inc.com.hk and the Stock Exchange’s website at 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 dates and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.sling-inc.com.hk and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Monday, 15 January 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Monday, 15 January 2018 to 12:00 midnight on Sunday, 21 January 2018;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Monday, 15 January 2018 to Thursday, 18 January 2018;
- in the special allocation results booklets which will be available for inspection during opening hours from Monday, 15 January 2018 to Wednesday, 17 January 2018 at all the receiving bank’s designated branches listed above in the paragraph headed “3. Applying for Public Offer Shares” in this section.

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.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or through **HK eIPO White Form**, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Bookrunners and their respective agents and nominees and the **HK eIPO White Form** Service Provider have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If you apply through the HK eIPO White Form

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 15 January 2018, or such

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other date as notified by our Company on our website at www.sling-inc.com.hk and the website of the Stock Exchange at www.hkexnews.hk as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Monday, 15 January 2018 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.

(iv) 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 our 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.

(v) 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 payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreement does not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or

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- 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 conditions of the Public Offer are not fulfilled in accordance with the section headed “Structure and conditions of the Share Offer — Conditions of the Share Offer” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage fee, 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 or about Monday, 15 January 2018.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our 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 all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for (including brokerage fee, 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).

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Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or about Monday, 15 January 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Tuesday, 16 January 2018 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.

Personal collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from our Hong Kong Branch Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Monday, 15 January 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to our Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or about Monday, 15 January 2018, by ordinary post and at your own risk.

(ii) *If you apply using a YELLOW Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection your refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Monday, 15 January 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant Stock account or the

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designated CCASS Participant's stock account as stated in your Application Form on Monday, 15 January 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS Participant (other than a CCASS Investor Participant)*

For Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

- *If you 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 “— 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 Monday, 15 January 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and the CCASS Internet System.

(iii) *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 Monday, 15 January 2018, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer in the manner specified in the paragraph headed “— 11. Publication of results”

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above on Monday, 15 January 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 15 January 2018 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "Operating Guide for Investor Participants" in effect from time to time) on Monday, 15 January 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications (including brokerage fee, 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 Monday, 15 January 2018.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our 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 our 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 stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

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

The following is the text of a report set out on pages I-1 to I-61, received from the Company's reporting accountants, Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of 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.



ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF SLING GROUP HOLDINGS LIMITED AND KINGSWAY CAPITAL LIMITED

Introduction

We report on the historical financial information of Sling Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages I-4 to I-61, which comprises the combined statements of financial position of the Group as at 31 December 2015 and 2016 and 30 June 2017, and the statement of financial position of the Company as at 30 June 2017, and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-61 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 December 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.2 and 2.1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and preparation set out in Notes 1.2 and 2.1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015 and 2016 and 30 June 2017 and the Company's financial position as at 30 June 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of presentation and preparation set out in Notes 1.2 and 2.1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the combined statement of profit or loss and other comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the six months ended 30 June 2016 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the presentation and preparation of the Stub Period Comparative Financial Information in accordance with the basis of presentation and preparation set out in Notes 1.2 and 2.1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements

2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants’ report, is not prepared, in all material respects, in accordance with the basis of presentation and preparation set out in Notes 1.2 and 2.1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 10 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No statutory financial statements for the Company

No statutory financial statements have been prepared for the Company since its date of incorporation.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

29 December 2017

Lin Ching Yee Daniel

Practising Certificate No.: P02771

I. HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The combined financial statements of the Group for the Track Record Period, on which the Historical Financial Information is based, were audited by Grant Thornton Hong Kong Limited in accordance with Hong Kong Standards on Auditing issued by HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

Combined Statements of Profit or Loss and Other Comprehensive Income

	Note	Year ended 31 December		Six months ended 30 June	
		2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Revenue	4	192,448	210,481	92,937	107,485
Cost of sales		<u>(79,832)</u>	<u>(94,478)</u>	<u>(42,696)</u>	<u>(48,127)</u>
Gross profit		112,616	116,003	50,241	59,358
Other revenue and income	5	359	175	65	84
Government grants		2,260	2,140	—	—
Selling and distribution costs		(79,939)	(83,878)	(38,347)	(38,856)
Administrative and other operating expenses		(19,991)	(22,130)	(10,686)	(10,058)
Listing expenses		—	(1,990)	—	(4,334)
Finance costs	6	(905)	(689)	(315)	(415)
Share of results of associates	13	<u>(751)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit before income tax	7	13,649	9,631	958	5,779
Income tax expense	8	<u>(3,547)</u>	<u>(3,374)</u>	<u>(335)</u>	<u>(2,230)</u>
Profit for the year/period		<u>10,102</u>	<u>6,257</u>	<u>623</u>	<u>3,549</u>
Other comprehensive (expense)/ income					
Item that may be reclassified subsequently to the profit or loss:					
Exchange differences on translation of foreign operations		<u>(216)</u>	<u>(528)</u>	<u>(128)</u>	<u>324</u>
Total comprehensive income for the year/period attributable to equity holders of the Company		<u>9,886</u>	<u>5,729</u>	<u>495</u>	<u>3,873</u>
Earnings per share for profit attributable to equity holders of the Company					
Basic and diluted	11	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Combined Statements of Financial Position

	<i>Note</i>	As at 31 December		As at
		2015	2016	30 June
		RMB'000	RMB'000	2017
				RMB'000
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	12	3,288	1,642	1,343
Interests in associates	13	—	—	—
Intangible assets	14	2,353	2,306	2,270
Available-for-sale financial asset	15	—	127	123
Deferred tax assets	22	1,818	1,501	1,902
		<u>7,459</u>	<u>5,576</u>	<u>5,638</u>
Current assets				
Inventories	16	28,323	28,669	26,713
Trade and other receivables	17	33,499	38,052	32,949
Amount due from the then immediate holding company	18a	181	—	—
Amounts due from Controlling Shareholders	18b	—	—	9
Amounts due from associates	18c	—	—	—
Income tax recoverable		—	1,358	810
Restricted cash	19	2,000	786	2,983
Cash and cash equivalents	19	9,140	20,193	32,442
		<u>73,143</u>	<u>89,058</u>	<u>95,906</u>
Current liabilities				
Trade and other payables	20	31,277	31,900	35,910
Bank borrowings	21	26,300	34,612	33,680
Deferred revenue	23	101	146	116
Amount due to a related company	18d	327	17	—
Amount due to the then immediate holding company	18a	—	21	10
Income tax payable		3,264	2,876	2,875
		<u>61,269</u>	<u>69,572</u>	<u>72,591</u>
Net current assets		<u>11,874</u>	<u>19,486</u>	<u>23,315</u>
Net assets		<u>19,333</u>	<u>25,062</u>	<u>28,953</u>

	<i>Note</i>	<u>As at 31 December</u>		<u>As at</u>
		<u>2015</u>	<u>2016</u>	<u>30 June</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>2017</u>
				<u>RMB'000</u>
EQUITY				
Share capital	24	—	—	9
Reserves	25	<u>19,332</u>	<u>25,062</u>	<u>28,944</u>
Equity attributable to equity holders of the Company		19,332	25,062	28,953
Non-controlling interests		<u>1</u>	<u>—</u>	<u>—</u>
Total equity		<u>19,333</u>	<u>25,062</u>	<u>28,953</u>

Statement of Financial Position of the Company

		As at 30 June 2017
	<i>Note</i>	<u>RMB'000</u>
ASSETS AND LIABILITIES		
Current asset		
Amounts due from Controlling Shareholders	<i>18b</i>	<u>9</u>
Net assets		<u><u>9</u></u>
EQUITY		
Share capital	<i>24</i>	<u>9</u>
Total equity		<u><u>9</u></u>

Combined Statements of Changes in Equity

	Attributable to equity holders of the Company						Total equity
	Share capital	Capital reserve	Translation reserve	(Accumulated	Total	Non-controlling interests	
				losses)/ Retained profits			
RMB'000 <i>Note 24</i>	RMB'000 <i>Note 25</i>	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2015	—	10,520	(974)	(100)	9,446	1	9,447
Profit for the year	—	—	—	10,102	10,102	—	10,102
<i>Other comprehensive expense:</i>							
Exchange differences on translation of foreign operations	—	—	(216)	—	(216)	—	(216)
Total comprehensive (expense)/income for the year	—	—	(216)	10,102	9,886	—	9,886
As at 31 December 2015 and 1 January 2016	—	10,520	(1,190)	10,002	19,332	1	19,333
Profit for the year	—	—	—	6,257	6,257	—	6,257
<i>Other comprehensive expense:</i>							
Exchange differences on translation of foreign operations	—	—	(528)	—	(528)	—	(528)
Total comprehensive (expense)/income for the year	—	—	(528)	6,257	5,729	—	5,729
Acquisition of additional interests in a subsidiary	—	—	—	1	1	(1)	—
Transaction with equity holders	—	—	—	1	1	(1)	—
As at 31 December 2016	—	10,520	(1,718)	16,260	25,062	—	25,062

	Attributable to equity holders of the Company				Non-controlling interests		Total equity
	Share capital	Capital reserve	Translation reserve	Retained profits	Total		
	RMB'000 <i>Note 24</i>	RMB'000 <i>Note 25</i>	RMB'000	RMB'000	RMB'000	RMB'000	
As at 1 January 2017	—	10,520	(1,718)	16,260	25,062	—	25,062
Profit for the period	—	—	—	3,549	3,549	—	3,549
<i>Other comprehensive income:</i>							
Exchange differences on translation of foreign operations	—	—	324	—	324	—	324
Total comprehensive income for the period	—	—	324	3,549	3,873	—	3,873
Issuance of share capital upon incorporation	9	—	—	—	9	—	9
Issuance of share capital of Sling BVI	—	9	—	—	9	—	9
Transactions with equity holders	9	9	—	—	18	—	18
As at 30 June 2017	9	10,529	(1,394)	19,809	28,953	—	28,953
As at 1 January 2016 (audited)	—	10,520	(1,190)	10,002	19,332	1	19,333
Profit for the period	—	—	—	623	623	—	623
<i>Other comprehensive expenses:</i>							
Exchange differences on translation of foreign operations	—	—	(128)	—	(128)	—	(128)
Total comprehensive (expense)/income for the period	—	—	(128)	623	495	—	495
As at 30 June 2016 (unaudited)	—	10,520	(1,318)	10,625	19,827	1	19,828

Combined Statements of Cash Flows

	Note	Year ended 31 December		Six months ended 30 June	
		2015	2016	2016	2017
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from operating activities					
Profit before income tax		13,649	9,631	958	5,779
Adjustments for:					
Amortisation of intangible assets	7	59	94	45	36
Depreciation of property, plant and equipment	7	2,294	2,194	1,341	364
Write-down of inventories to net realisable value	7	178	—	—	93
Impairment losses on trade and other receivables	7	188	268	264	—
Impairment losses on amounts due from associates	7	993	279	—	—
Losses on written-off of property, plant and equipment	7	287	255	—	—
Unrealised exchange differences		990	1,172	499	(466)
Interest income	5	(8)	(91)	(49)	(56)
Interest expenses	6	905	689	315	415
Share of results of associates		751	—	—	—
Operating profit before working capital changes		20,286	14,491	3,373	6,165
(Increase)/Decrease in inventories		(6,351)	(331)	(185)	1,863
(Increase)/Decrease in trade and other receivables		(10,842)	(4,802)	(1,243)	5,356
(Increase)/Decrease in amount due from the then immediate holding company		(181)	193	185	—
Decrease/(Increase) in amounts due from associates		54	(279)	(43)	—
Decrease in amount due from a related company		3,277	—	—	—
(Increase)/Decrease in restricted cash		(1,500)	1,214	(480)	(2,197)
Increase/(Decrease) in trade and other payables		5,205	545	(749)	4,023
Increase/(Decrease) in deferred revenue		30	45	5	(30)
Increase/(Decrease) in amount due to a related company		327	(333)	73	(17)
(Decrease)/Increase in amount due to the then immediate holding company		(1,226)	21	(2,139)	(11)
Decrease in amount due to a director		(38)	—	—	—
Cash generated from/(used in) operations		9,041	10,764	(1,203)	15,152
Interest paid		(905)	(689)	(315)	(415)
Income taxes paid		(1,288)	(4,802)	(1,653)	(2,124)
<i>Net cash generated from/(used in) operating activities</i>		<u>6,848</u>	<u>5,273</u>	<u>(3,171)</u>	<u>12,613</u>

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Cash flows from investing activities				
Purchases of property, plant and equipment	(2,087)	(771)	(598)	(345)
Purchases of intangible assets	—	(47)	(47)	—
Purchase of available-for-sale financial asset	—	(127)	—	—
Acquisition of non-controlling interests	—	(1)	—	—
Acquisition of an associate	(369)	—	—	—
Interest received	8	91	49	56
<i>Net cash used in investing activities</i>	<u>(2,448)</u>	<u>(855)</u>	<u>(596)</u>	<u>(289)</u>
Cash flows from financing activities				
Proceeds from bank borrowings	16,819	8,592	4,796	5,307
Repayment of bank borrowings	(8,935)	(2,100)	(1,557)	(5,219)
Repayment of loans from the then immediate holding company	(6,550)	—	—	—
Repayment of loan from a director	(1,131)	—	—	—
<i>Net cash generated from financing activities</i>	<u>203</u>	<u>6,492</u>	<u>3,239</u>	<u>88</u>
Net increase/(decrease) in cash and cash equivalents	4,603	10,910	(528)	12,412
Cash and cash equivalents at the beginning of the year/period	4,512	9,140	9,140	20,193
Effect of foreign exchange rate changes	25	143	46	(163)
Cash and cash equivalents at the end of the year/period	<u>9,140</u>	<u>20,193</u>	<u>8,658</u>	<u>32,442</u>

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II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

1.1 General 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 6 January 2017. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is Unit 1, 21st Floor, Yen Sheng Centre, 64 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company and its subsidiaries are principally engaged in the design and sale of women's handbags, small leather goods, luggage and travel goods (the "Listing Business").

The Company's immediate and ultimate holding company is Yen Sheng Investment Limited ("Yen Sheng BVI"), a company incorporated in the British Virgin Islands ("BVI") and controlled by Mr. Yau Tai Leung Sammy ("Mr. Sammy Yau"), Mr. Yau Sonny Tai Nin ("Mr. Sonny Yau"), Mr. Yau Frederick Heng Chung ("Mr. Fred Yau"), Mr. Yau Nicholas Heng Wah ("Mr. Nicholas Yau") and Ms. Hiang Siu Wei Cecilia ("Ms. Cecilia Hiang").

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in paragraphs headed "Reorganisation" in the section headed "History and Development and Reorganisation" to the Prospectus. The Reorganisation was completed on 4 December 2017.

In these combined financial statements, certain English name of the companies referred herein represent the management's best effort to translate the Chinese name of the companies as no English name has been registered.

At each reporting period and the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies, the particulars of which are set out below:

Company name	Place and date of incorporation/ establishment	Registered/Issued and fully paid up capital as at the end of the Track Record Period	Equity interest attributable to the Group				Principal activity
			As at				
			31 December 2015	2016	30 June 2017	Date of this report	
Sling Investment Limited ("Sling BVI") (Note a)	BVI, 13 January 2017	HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each	N/A	N/A	100%	100%	Investment holding
Sling Incorporated Limited ("Sling Incorp") (Note b)	Hong Kong, 20 January 1999	7,937,431 ordinary shares	100%	100%	100%	100%	Design, marketing, sourcing and procurement of women's handbags, small leather goods and travel goods
Elite Grand Limited ("Elite Grand") (Note c)	Hong Kong, 30 October 2009	10,000 ordinary shares	95%	100%	100%	100%	Dormant

Company name	Place and date of incorporation/ establishment	Registered/Issued and fully paid up capital as at the end of the Track Record Period	Equity interest attributable to the Group				Principal activity
			As at				
			31 December 2015	2016	30 June 2017	Date of this report	
Senhao Shangmao (Shanghai) Company Limited 森浩商貿(上海)有限公司 ("Senhao Shanghai") (Note d)	The People's Republic of China (the "PRC"), 19 October 2005	USD2,000,000	100%	100%	100%	100%	Wholesale and retail of handbags, wallets and luggage
Senxuan Shangmao (Shanghai) Company Limited 森遠商貿(上海)有限公司 ("Senxuan Shanghai") (Note e)	The PRC, 17 April 2016	USD100,000	N/A	100%	100%	100%	Retail and export of handbags, wallets and luggage
Shenzhen Yaying Design Company Limited 深圳雅盈設計有限公司 ("Shenzhen Yaying") (Note f)	The PRC, 7 July 2016	RMB50,000	N/A	100%	100%	100%	Inactive
Senqing Shangmao (Shanghai) Company Limited 森晴商貿(上海)有限公司 ("Senqing Shanghai") (Note g)	The PRC, 18 September 2012	RMB500,000	100%	100%	N/A	N/A	Wholesale and retail of handbags, wallets and luggage

Note:

- (a) No audited financial statements have been prepared as it is not required to issue any audited financial statements under the statutory requirement in its place of incorporation.
- (b) The statutory financial statements for the years ended 31 December 2015 and 2016 were prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong.
- (c) Elite Grand was dormant and no audited financial statements have been prepared since incorporation.
- (d) The statutory financial statements for the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the enterprises established in the PRC (the "PRC GAAP") and were audited by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司).
- (e) Senxuan Shanghai was newly incorporated on 17 April 2016. The statutory financial statements for the year ended 31 December 2016 were prepared in accordance with the PRC GAAP and were audited by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司).
- (f) Shenzhen Yaying was newly incorporated on 7 July 2016 and no audited financial statements have been prepared since incorporation. As at the date of this report, the registered capital of Shenzhen Yaying has not yet been paid.

- (g) The statutory financial statements for the year ended 31 December 2015 were prepared in accordance with the PRC GAAP and were audited by Shanghai Zhonghui Certified Public Accountants Co., Ltd. (上海中惠會計師事務所有限公司). Senqing Shanghai was deregistered on 22 January 2017, and no audited financial statements for the year ended 31 December 2016 have been prepared.

1.2 Basis of presentation and reorganisation

Prior to the incorporation of the Company and the completion of the Reorganisation as more fully explained in the paragraphs headed “Reorganisation” in the section headed “History and Development and Reorganisation” to the Prospectus, the Listing Business was carried out by the companies now comprising the Group (collectively referred to as the “Operating Companies”). The Operating Companies were controlled by Yen Sheng BVI, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau, Ms. Cecilia Hiang, Ms. Li Wing Chi Agnes (“Ms. Agnes Li”) and Summit Time Resources Limited (“Summit Time”) (collectively referred to as the “Controlling Shareholders”).

Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 4 December 2017.

The Reorganisation only involved inserting new holding companies, which have not been engaged in any other business, immediate to the top of Sling Incomp, the Reorganisation has not resulted in any changes of economic substance. Accordingly, the Historical Financial Information of the Group for the Track Record Period has been prepared using the merger basis of accounting as if the current group structure has been in existence throughout the Track Record Period, or since their respective dates of incorporation and/or establishment, whichever was shorter.

The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for the Track Record Period which include the results, changes in equity and cash flows of the companies now comprising the Group have been prepared as if the Company had always been the holding company of the Group and the current group structure has been in existence throughout the Track Record Period, or since their respective dates of incorporation and/or establishment, whichever was shorter. The combined statements of financial position of the Group as at 31 December 2015 and 2016 and 30 June 2017 have been prepared to present the financial position of the Group as if the current group structure has been in existence as at the respective dates. The assets and liabilities of the companies now comprising the Group are combined using their historical carrying amounts prior to the Reorganisation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The Historical Financial Information has been prepared in accordance with HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA which are effective for the accounting period beginning on 1 January 2017 throughout the Track Record Period. The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The significant accounting policies that have been used in the preparation of this Historical Financial Information are summarised below. These policies have been consistently applied to all the years/periods presented in the Historical Financial Information.

The Historical Financial Information has been prepared on the historical cost basis except for financial instrument classified as available-for-sale financial asset which is stated at fair value. The Historical Financial Information is presented in Renminbi (“RMB”), which is the functional currency of the Company and its major subsidiaries, and all values are rounded to the nearest thousand (“RMB’000”) except when otherwise indicated.

It should be noted that accounting estimates and assumptions are used in preparation of the Historical Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 3.

2.2 Issued but not yet effective HKFRSs

The Group has not early adopted the following new and amended HKFRSs which have been issued but are not yet effective:

Amendments to HKFRS 1 included in Annual Improvements 2014–2016 Cycle	First-time Adoption of Hong Kong Financial Reporting Standards ¹
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
HKFRS 9	Financial Instruments ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture ³
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKFRS 15	Clarification to HKFRS 15 Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKAS 28 included in Annual Improvements 2014–2016 Cycle	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 40	Transfer of Investment Property ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²

1 Effective for annual periods beginning on or after 1 January 2018

2 Effective for annual periods beginning on or after 1 January 2019

3 Effective for annual periods beginning on or after a date to be determined

The directors of the Company (the "Directors") anticipate that all of the new and amended HKFRSs will be adopted in the Group's accounting policy for the first period beginning after the effective date of these new and amended HKFRSs. Information on new and amended HKFRSs that are expected to have impact on the Group's accounting policies are set out below. Other new and amended HKFRSs are not expected to have a material impact on the Group's combined financial statements.

HKFRS 9 "Financial Instruments"

HKFRS 9 will replace HKAS 39 "Financial Instruments: Recognition and Measurement" in its entirety. The new standard introduces changes to HKAS 39's guidance on the classification and measurement of financial assets. Under HKFRS 9, each financial asset is classified into one of three main classification categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss. The classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. An entity may make an irrevocable election at initial recognition to present in other comprehensive income for the subsequent changes in the fair value of an investment in an equity instrument that is not held for trading.

Most of the HKAS 39's requirements for financial liabilities were carried forward unchanged to HKFRS 9. The requirements related to the fair value option for financial liabilities have however been changed to address own credit risk. Where an entity chooses to measure its own debt at fair value, HKFRS 9 requires the amount of the change in fair value due to changes in the entity's own credit risk to be presented in other comprehensive income, unless effect of changes in the liability's credit risk would create or enlarge an accounting mismatch in the profit or loss, in which case, all gains or losses on that liability are to be presented in the profit or loss.

HKFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

HKFRS 9 also provides new guidance on the application of hedge accounting. The new hedge accounting models retain the three types of hedge accounting and the requirements of formal designation and documentation of hedge accounting relationships. The new hedge accounting requirements look to align hedge accounting more closely with entities' risk management activities by increasing the eligibility of both hedged items and hedging instruments and introducing a more principles-based approach to assess hedge effectiveness.

The Directors consider that the application of HKFRS 9 in the future will not have a significant impact on the Group's results and financial position.

HKFRS 15 "Revenue from Contracts with Customers" and Amendments to HKFRS 15 "Clarifications to HKFRS 15 Revenue from Contracts with Customers"

HKFRS 15 presents new requirements for the recognition of revenue, replacing HKAS 18 "Revenue", HKAS 11 "Construction Contracts", and several revenue related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing HKFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities.

The amendments to HKFRS 15 are issued with the aim to clarify certain issues on implementation of HKFRS 15.

The Directors consider that the application of HKFRS 15 and Amendments to HKFRS 15 in the future will not have a significant impact on the Group's results and financial position.

HKFRS 16 "Leases"

HKFRS 16 applies a control model to the identification of leases, distinguishing between leases and services contracts on the basis of whether there is an identified asset controlled by the customer.

HKFRS 16 introduces a single lessee accounting model and requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset and a lease liability at the commencement of the lease arrangement. The initial measurement of the right-of-use asset is based on the lease liability and adjusted for any prepaid lease payments, lease incentives received, initial direct costs incurred and an estimate of costs the lessee is obliged to incur to dismantle, remove or restore the underlying asset and/or site. Subsequently, the right-of-use asset is depreciated following the requirements of HKAS 16 "Property, Plant and Equipment" and impaired, if any, following the requirements of HKAS 36 "Impairment of Assets". The lease liability is accounted for similarly to other financial liabilities using an effective interest method.

The lessor accounting requirements are not substantially changed and classification of leases as operating leases or finance leases is retained. HKFRS 16 replaces the previous leases standard HKAS 17 “Leases”, and related Interpretations. An entity is allowed to apply HKFRS 16 before that date but only if it also applies HKFRS 15 “Revenue from Contracts with Customers”.

As set out in Note 26 to the Historical Financial Information, the operating lease commitments of the Group in respect of its leased premises as at 30 June 2017 amounted to RMB6,857,000. The Directors do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in 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 a right-of-use asset and a lease liability.

2.3 Basis of combination

The Historical Financial Information incorporates the financial statements of the Company and its subsidiaries for the Track Record Period. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies.

Subsidiaries are entities controlled by the Group. The Group controls an entity when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

The Group includes the income and expenses of a subsidiary in the Historical Financial Information from the date it gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the Historical Financial Information. Where unrealised losses on intra-group asset sales are reversed on combination, the underlying asset is also tested for impairment from the Group’s perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity on a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability.

Non-controlling interests are presented in the combined statement of financial position within equity, separately from the equity attributable to the owners of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year/period between non-controlling interests and the owners of the Company.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling interests within combined equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in the other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the related assets (i.e.

reclassified to the profit or loss or transferred directly to retained earnings). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an interest in an associate or a joint venture.

2.4 Associates

An associate is an entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

In the Historical Financial Information, an interest in an associate is initially recognised at cost and subsequently accounted for using the equity method. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the profit or loss in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). The profit or loss for the year/period includes the Group's share of the post-acquisition, post-tax results of the associate for the year/period, including any impairment loss on the interest in associate recognised for the year/period. The Group's other comprehensive income for the year/period includes its share of the associate's other comprehensive income for the year/period.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associate are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net interest in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's interest in its associates. At each reporting date, the Group determines whether there is any objective evidence that the interest in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate, including cash flows arising from the operations of the associate and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate. If the retained interest in that former associate is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would have been required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to the profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to the profit or loss (as a reclassification adjustment) when the equity method is discontinued.

If an interest in an associate becomes an interest in a joint venture, the Group continues to apply the equity method and does not re-measure the retained interest.

2.5 Foreign currency translation

In the individual financial statements of the combined entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in the profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the Historical Financial Information, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into RMB. Assets and liabilities have been translated into RMB at the closing rates at the reporting date. Income and expenses have been converted into RMB at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been recognised in other comprehensive income and accumulated separately in translation reserve in equity.

2.6 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvement	Shorter of useful lives or lease period
Office equipment	20–50%
Computer equipment	20–50%
Motor vehicles	20%

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

2.7 Intangible assets (other than goodwill)

Acquired intangible assets are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives. Amortisation commences when the intangible assets are available for use. The following useful lives are applied:

Computer software	4–5 years
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Trademark which is classified as intangible asset with indefinite useful life is carried at cost less any subsequent accumulated impairment losses.

The trademark has a legal life of 10 years and renewable every 10 years at minimal cost. The Directors are of the opinion that the Group would renew the trademark continuously and has the ability to do so.

As a result, the trademark is considered by the management of the Group as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely. The trademark will not be amortised until its useful life is determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired.

The assets' amortisation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Intangible assets, with finite and indefinite useful lives, are tested for impairment as described below in Note 2.17.

2.8 Financial assets

The Group's accounting policies for financial assets other than interests in subsidiaries and associates are set out below.

Financial assets are classified into loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(ii) *Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the available-for-sale financial assets revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss is reclassified from equity to profit or loss. Interest calculated using the effective interest method is recognised in the profit or loss.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the profit or loss, and other changes are recognised in other comprehensive income.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- The disappearance of an active market for that financial asset because of financial difficulties.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) *Financial assets carried at amortised cost*

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the profit or loss of the period in which the impairment occurs.

If, in subsequent periods, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the profit or loss of the period in which the reversal occurs.

(ii) *Available-for-sale financial assets carried at fair value*

When a decline in the fair value of an available-for-sale financial asset has been recognised in other comprehensive income and accumulated in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the profit or loss.

Reversals in respect of investment in equity instruments classified as available-for-sale and stated at fair value are not recognised in the profit or loss. The subsequent increase in fair value is recognised in other comprehensive income. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the profit or loss.

Impairment losses on financial assets other than financial assets at fair value through profit or loss and trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the profit or loss.

2.9 Inventories

Inventories are carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses. Cost is determined using the weighted average basis.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.11 Financial liabilities

The Group's financial liabilities include bank borrowings, trade and other payables, amount due to a related company and amount due to the then immediate holding company.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (Note 2.19).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 the recognition of a new liability, and the difference in the respective carrying amount is recognised in the profit or loss.

Bank borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Trade and other payables, amount due to a related company and amount due to the then immediate holding company

They are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.12 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to the profit or loss on a straight line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the accounting period in which they are incurred.

2.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.14 Share capital

Ordinary shares are classified as equity. Share capital is recognised at the amount of consideration of shares issued, after deducting any transaction costs associated with the issuing of shares (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.15 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and the use by others of the Group's assets yielding interest, net of value-added taxes, returns, rebates and discounts. Provided it is probable that the economic benefits will flow to the Group; the revenue and costs, if applicable, can be measured reliably; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical pattern, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

Sales of goods — retailers

Revenue is recognised upon transfer of the significant risks and rewards of ownership to the retailers, which occurs when the goods are delivered and accepted by the retailers. Acceptance refers to either of the situations that the retailers accepted the goods in accordance with the sales contracts; the acceptance provisions have lapsed; or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the retailers' acceptance of the goods.

Retailers are offered with right of return (including exchange) within the limit as agreed in the sales contracts. Revenue is adjusted for expected returns (including exchanges) based on historical pattern.

Sales of goods — retail

The Group sells its goods to end customers via a chain of self-operated retail points of the Group or over third-party online retail platforms. Revenue is recognised when the Group can reasonably estimate the acceptance by end customers. For offline retail sales, acceptance by end customers is estimated based on historical experience on product returns. For online retail sales, acceptance can normally be estimated when online payment transaction is completed through third-party payment platforms. Revenue is adjusted for the value of expected returns.

Interest income

Interest income is recognised on an accrual basis using the effective interest method.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants are deferred and recognised in the profit or loss over the period necessary to match them with the costs that the grants are intended to compensate.

2.17 Impairment of non-financial assets

The Group's property, plant and equipment and intangible assets are subject to impairment testing. Intangible assets with indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost of disposal, or value in use, if determinable.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.18 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan under the Mandatory Provident Fund ("MPF") Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in the profit or loss as employees render services during the Track Record Period. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.19 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

2.20 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the Track Record Period. All changes to current tax assets or liabilities are recognised as a component of tax expense in the profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the Historical Financial Information and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries and associates, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in the profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

- (a) the Group has the legally enforceable right to set off the recognised amounts; and

- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (i) the same taxable entity; or
 - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.21 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker (the “CODM”) for their decisions about resources allocation to the Group’s business components and for their review of the performance of those components.

2.22 Related parties

For the purposes of this Historical Financial Information, 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 if that person:
 - (i) has control or joint control over of 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.
- (b) the party is an entity and if 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 an associate or joint venture of a member of a group of which the other entity is a member).
 - (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).

(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.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are discussed below:

Net realisable value of inventories

Net realisable value of inventories (Note 16) is based on estimated selling price less any estimated costs to be incurred to completion and disposal with reference to prevailing market information. These estimates are based on the current market condition and the historical experience in selling goods of similar nature. It could change significantly as a result of changes in market conditions. The Group reassesses the estimation at the end of each reporting period.

Impairment of receivables

The Group determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers/debtors and current market conditions. The Group reassesses the impairment of receivables at the end of each reporting period.

Impairment of property, plant and equipment and intangible assets

If circumstances indicate that the net book value of property, plant and equipment (Note 12) and intangible assets (Note 14) may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets". The carrying amounts of property, plant and equipment and intangible assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs.

Depreciation and amortisation

Property, plant and equipment (Note 12) and intangible assets (Note 14) with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during the Track Record Period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expense for future periods is adjusted if there are significant changes from previous estimates.

3.2 Critical judgements in applying the entity's accounting policies*Income taxes*

The Group is subject to income taxes in jurisdictions in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year/period in which such determination is made.

4. REVENUE AND SEGMENT REPORTING**4.1 Revenue**

Revenue represents the consideration received and receivable from sale of women's handbags, small leather goods, luggage and travel goods through different channels, net of value-added tax, returns, rebates and discounts and were analysed as follows:

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
			<u>(unaudited)</u>	
Online retail sales	85,519	115,719	45,017	69,627
Offline retail sales	65,239	48,694	27,200	10,280
Wholesale to offline retailers	19,659	25,203	10,897	15,817
Wholesale to online retailers	<u>22,031</u>	<u>20,865</u>	<u>9,823</u>	<u>11,761</u>
	<u>192,448</u>	<u>210,481</u>	<u>92,937</u>	<u>107,485</u>

4.2 Segment information

The Group's operating activities are attributable to a single reportable and operating segment focusing primarily on the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. This operating segment has been identified on the basis of internal management reports reviewed by the CODM, being the executive directors of the Company. The CODM mainly reviews revenue derived from the wholesale and retail of women's handbags, small leather goods, luggage and travel goods. The CODM reviews the overall results of the Group as a whole to make decisions about resources allocation. Accordingly other than the entity-wide disclosure, no segment analysis is presented.

Geographical information

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interests in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, the location of the operations to which they are allocated, in the case of intangible assets, and the location of operations, in the case of interests in associates.

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
			(unaudited)	
Revenue from external customers				
The PRC (excluding Hong Kong)	191,571	210,024	92,681	107,481
Hong Kong	877	457	256	4
	<u>192,448</u>	<u>210,481</u>	<u>92,937</u>	<u>107,485</u>
				As at
		<u>As at 31 December</u>	<u>As at</u>	30 June
		<u>2015</u>	<u>2016</u>	<u>2017</u>
		<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Specified non-current assets				
The PRC (excluding Hong Kong)		5,132	3,505	3,229
Hong Kong		509	443	384
		<u>5,641</u>	<u>3,948</u>	<u>3,613</u>

Information about major customers

During the Track Record Period, none of the Group's customers contributed more than 10% of the Group's revenue.

5. OTHER REVENUE AND INCOME

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Other revenue				
Bank interest income	8	53	49	56
Dividend and interest income from available-for-sale financial asset	—	5	—	—
Loan interest from the then immediate holding company (<i>Note</i>)	—	33	—	—
	8	91	49	56
Other income				
Sundry income	351	84	16	28
	359	175	65	84

Note: Loan to the then immediate holding company is unsecured, interest-bearing at 5% per annum, and has been fully repaid during the year ended 31 December 2016.

6. FINANCE COSTS

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Interest charges on:				
— Bank borrowings	704	689	315	415
— Loans from the then immediate holding company (<i>Note</i>)	156	—	—	—
— Loan from a director (<i>Note</i>)	45	—	—	—
	905	689	315	415

Note: Loans from the then immediate holding company/a director are unsecured, interest-bearing at 5% per annum, and have been fully repaid during the year ended 31 December 2015.

7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Auditors' remuneration	168	226	180	20
Cost of inventories recognised as an expense	78,325	92,758	41,919	46,732
Write-down of inventories to net realisable value	178	—	—	93
Impairment losses on trade and other receivables	188	268	264	—
Impairment losses on amounts due from associates	993	279	—	—
Amortisation of intangible assets	59	94	45	36
Depreciation of property, plant and equipment	2,294	2,194	1,341	364
Losses on written-off of property, plant and equipment	287	255	—	—
Staff costs (including directors' emoluments)				
— Salaries, allowances and other benefits	12,722	12,755	5,952	7,382
— Contributions to retirement benefit schemes	3,740	3,644	1,962	1,836
Operating lease charges on premises				
— Minimum lease payments	10,201	9,095	6,586	2,804
— Contingent lease payments (Note)	8,278	5,947	2,742	1,281
Exchange losses/(gain), net	1,057	1,520	441	(547)

Note: The contingent lease payments refer to the operating lease rentals based on pre-determined percentages to realised sales less the basic rentals of the respective leases.

8. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Track Record Period.

PRC Enterprise Income Tax (the "PRC EIT") in respect of the Group's operations in the PRC has been calculated at the rate of 25% on the estimated assessable profit for the Track Record Period arising from the PRC.

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Current tax				
Hong Kong profits tax				
— Current year/period	896	310	24	463
— (Over)/Under-provision in respect of prior years	(16)	84	83	—
The PRC EIT				
— Current year/period	2,639	2,320	253	2,168
— Under-provision in respect of prior years	—	343	—	—
	3,519	3,057	360	2,631
Deferred tax				
— Charged/(Credited) to the profit or loss (<i>Note 22</i>)	28	317	(25)	(401)
Income tax expense	3,547	3,374	335	2,230

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Profit before income tax	13,649	9,631	958	5,779
Tax on profit before income tax, calculated at the rates applicable to profits in the tax jurisdiction concerned	3,118	2,464	231	1,523
Tax effect of non-deductible expenses	483	473	23	712
Tax effect of non-taxable income	(47)	(1)	—	(2)
Recognition of deductible temporary differences previously not recognised	9	11	(2)	(3)
(Over)/Under-provision in respect of prior years	(16)	427	83	—
Income tax expense	3,547	3,374	335	2,230

9. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended					
31 December 2015					
<i>Executive directors</i>					
Mr. Fred Yau	—	—	—	—	—
Mr. Lee Tat Fai Brian ("Mr. Brian Lee")	—	773	482	14	1,269
Mr. Yip Chun Wai	—	—	—	—	—
<i>Non-executive directors</i>					
Mr. Sammy Yau	—	—	—	—	—
Mr. Sonny Yau	—	—	—	—	—
	—	773	482	14	1,269
Year ended					
31 December 2016					
<i>Executive directors</i>					
Mr. Fred Yau	—	—	—	—	—
Mr. Brian Lee	—	817	—	15	832
Mr. Yip Chun Wai	—	308	26	14	348
<i>Non-executive directors</i>					
Mr. Sammy Yau	—	—	—	—	—
Mr. Sonny Yau	—	—	—	—	—
	—	1,125	26	29	1,180
Six months ended					
30 June 2017					
<i>Executive directors</i>					
Mr. Fred Yau	—	106	—	4	110
Mr. Brian Lee	—	681	—	8	689
Mr. Yip Chun Wai	—	159	—	7	166
<i>Non-executive directors</i>					
Mr. Sammy Yau	—	—	—	—	—
Mr. Sonny Yau	—	—	—	—	—
	—	946	—	19	965

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Contributions to retirement benefit scheme	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended					
30 June 2016					
(unaudited)					
<i>Executive directors</i>					
Mr. Fred Yau	—	—	—	—	—
Mr. Brian Lee	—	376	—	8	384
Mr. Yip Chun Wai	—	152	—	6	158
<i>Non-executive directors</i>					
Mr. Sammy Yau	—	—	—	—	—
Mr. Sonny Yau	—	—	—	—	—
	—	528	—	14	542

Mr. Sonny Yau was appointed as a director of the Company on 6 January 2017. Mr. Fred Yau, Mr. Brian Lee and Mr. Sammy Yau were appointed as the directors of the Company on 22 June 2017. Mr. Yip Chun Wai was appointed as a director of the Company on 20 October 2017. The independent non-executive directors, Mr. Tong Raymond Kwok Kong, Mr. Won Chik Kee and Mr. Feng Dai were appointed as the directors of the Company on 15 December 2017. During the Track Record Period, the independent non-executive directors have not yet been appointed and have not received any directors' emoluments in the capacity of independent non-executive directors.

The above emoluments represent the emoluments received from the Group by the Directors in their capacity as an employee or directors of the subsidiaries of the Company during the Track Record Period.

(b) Five highest paid individuals

The five highest paid individuals of the Group during the Track Record Period include one, two and two directors whose emoluments are disclosed above. Details of the emoluments in respect of the remaining four, three and three highest paid individuals are as follows:

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000
Salaries, allowances and benefits in kind	1,404	1,337	605	642
Discretionary bonuses	171	89	—	—
Contributions to retirement benefit schemes	53	46	23	59
	1,628	1,472	628	701

The above individuals' emoluments are within the following bands:

	<u>Year ended 31 December</u>		<u>Six months ended 30 June</u>	
	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2017</u>
			(unaudited)	
	Number of individuals			
HK\$Nil to HK\$1,000,000	<u>4</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Period, no emoluments were paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors or five highest paid individuals have waived or agreed to waive any emoluments during the Track Record Period.

10. DIVIDENDS

No dividend was declared or paid by the Group during the Track Record Period to its equity holders.

11. EARNINGS PER SHARE

Earnings per share is not presented as its inclusion, for the purpose of this Historical Financial Information, is not considered meaningful due to the Reorganisation and the basis of presentation of the results of the Group for the Track Record Period as disclosed in Note 1.2 of Section II above.

12. PROPERTY, PLANT AND EQUIPMENT

	<u>Leasehold improvement</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2015					
Cost	5,505	678	124	288	6,595
Accumulated depreciation	(2,260)	(405)	(108)	(69)	(2,842)
Net book amount	<u>3,245</u>	<u>273</u>	<u>16</u>	<u>219</u>	<u>3,753</u>
Year ended 31 December 2015					
Opening net book amount	3,245	273	16	219	3,753
Additions	1,993	86	8	—	2,087
Written-off	(287)	—	—	—	(287)
Depreciation	(2,114)	(115)	(10)	(55)	(2,294)
Exchange differences	28	—	1	—	29
Closing net book amount	<u>2,865</u>	<u>244</u>	<u>15</u>	<u>164</u>	<u>3,288</u>
As at 31 December 2015 and 1 January 2016					
Cost	6,857	765	139	288	8,049
Accumulated depreciation	(3,992)	(521)	(124)	(124)	(4,761)
Net book amount	<u>2,865</u>	<u>244</u>	<u>15</u>	<u>164</u>	<u>3,288</u>
Year ended 31 December 2016					
Opening net book amount	2,865	244	15	164	3,288
Additions	670	101	—	—	771
Written-off	(255)	—	—	—	(255)
Depreciation	(1,999)	(129)	(11)	(55)	(2,194)
Exchange differences	30	—	1	1	32
Closing net book amount	<u>1,311</u>	<u>216</u>	<u>5</u>	<u>110</u>	<u>1,642</u>
As at 31 December 2016 and 1 January 2017					
Cost	5,044	868	149	288	6,349
Accumulated depreciation	(3,733)	(652)	(144)	(178)	(4,707)
Net book amount	<u>1,311</u>	<u>216</u>	<u>5</u>	<u>110</u>	<u>1,642</u>
Six months ended 30 June 2017					
Opening net book amount	1,311	216	5	110	1,642
Additions	60	285	—	—	345
Transfers	(267)	—	—	—	(267)
Depreciation	(264)	(75)	(2)	(23)	(364)
Exchange differences	(12)	—	(1)	—	(13)
Closing net book amount	<u>828</u>	<u>426</u>	<u>2</u>	<u>87</u>	<u>1,343</u>
As at 30 June 2017					
Cost	2,917	1,135	66	288	4,406
Accumulated depreciation	(2,089)	(709)	(64)	(201)	(3,063)
Net book amount	<u>828</u>	<u>426</u>	<u>2</u>	<u>87</u>	<u>1,343</u>

13. INTERESTS IN ASSOCIATES

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
Cost of interests in associates	1,360	991	—
Share of post-acquisition results and other comprehensive expenses	(1,360)	(991)	—
	—	—	—

The following list contains only the particulars of associates, all of which are unlisted corporate entities whose quoted market prices are not available, which in the opinion of the Directors principally affected the results or net assets of the Group as at 31 December 2015 and 2016 and 30 June 2017.

Name of associate	Form of business structure	Place of incorporation and business	Particular of issued capital	Percentage of interest held			Principal activity
				As at 31 December	As at 30 June		
				2015	2016	2017	
Eternal Goldyard Limited ("Eternal Goldyard")	Incorporated	Hong Kong	5,000,000 ordinary shares	25%	25%	N/A (Note b)	Retail of fashion goods
Mercantile Group Limited ("Mercantile")	Incorporated	Hong Kong	1,375,000 ordinary shares	32%	N/A (Note a)	N/A (Note a)	Retail of fashion goods

Note:

- (a) During the year ended 31 December 2016, the Group disposed of its entire equity interests in Mercantile to an independent third party at the consideration of HK\$1.
- (b) During the six months ended 30 June 2017, the Group disposed of its entire equity interests in Eternal Goldyard to an independent third party at the consideration of HK\$1.

Set out below are the summarised financial information of each of the associates which are accounted for using the equity method:

	Eternal Goldyard			Mercantile		
	As at 31 December		As at 30 June	As at 31 December		As at 30 June
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	655	655	—	133	—	—
Current assets	253	253	—	1,953	—	—
Current liabilities	(3,916)	(3,916)	—	(2,399)	—	—
Net liabilities	(3,008)	(3,008)	—	(313)	—	—

	Eternal Goldyard			Mercantile		
	Year ended 31 December		Six months ended	Year ended 31 December		Six months ended
	2015	2016	30 June	2015	2016	30 June
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	725	—	—	4,361	—	—
Total expenses	(3,671)	—	—	(5,766)	—	—
Loss from operations	(2,946)	—	—	(1,405)	—	—
Income tax expense	—	—	—	—	—	—
Loss and total comprehensive expense for the year/period	(2,946)	—	—	(1,405)	—	—

A reconciliation of the above summarised financial information to the carrying amount of each of the interests in associates is set out below:

	Eternal Goldyard			Mercantile		
	As at 31 December		As at	As at 31 December		As at
	2015	2016	30 June	2015	2016	30 June
	2015	2016	2017	2015	2016	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total net liabilities of associates	(3,008)	(3,008)	—	(313)	—	—
Proportion of ownership interests held by the Group	25%	25%	—	32%	—	—
Carrying amount of the interests in associates in the combined statements of financial position	—	—	—	—	—	—

For the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017, the Group has not recognised losses amounted to RMB852,000, RMBNil and RMBNil respectively.

As at 31 December 2015 and 2016 and 30 June 2017, the accumulated losses not recognised were RMB852,000, RMB752,000 and RMBNil respectively.

The Group has not incurred any contingent liabilities or other commitments relating to its interests in associates.

14. INTANGIBLE ASSETS

	Trademark	Computer software	Total
	RMB'000	RMB'000	RMB'000
As at 1 January 2015			
Cost	2,250	287	2,537
Accumulated amortisation	—	(125)	(125)
Net book amount	<u>2,250</u>	<u>162</u>	<u>2,412</u>
Year ended 31 December 2015			
Opening net book amount	2,250	162	2,412
Amortisation	—	(59)	(59)
Closing net book amount	<u>2,250</u>	<u>103</u>	<u>2,353</u>
As at 31 December 2015 and 1 January 2016			
Cost	2,250	287	2,537
Accumulated amortisation	—	(184)	(184)
Net book amount	<u>2,250</u>	<u>103</u>	<u>2,353</u>
Year ended 31 December 2016			
Opening net book amount	2,250	103	2,353
Additions	—	47	47
Amortisation	—	(94)	(94)
Closing net book amount	<u>2,250</u>	<u>56</u>	<u>2,306</u>
As at 31 December 2016 and 1 January 2017			
Cost	2,250	334	2,584
Accumulated amortisation	—	(278)	(278)
Net book amount	<u>2,250</u>	<u>56</u>	<u>2,306</u>
Six months ended 30 June 2017			
Opening net book amount	2,250	56	2,306
Amortisation	—	(36)	(36)
Closing net book amount	<u>2,250</u>	<u>20</u>	<u>2,270</u>
As at 30 June 2017			
Cost	2,250	334	2,584
Accumulated amortisation	—	(314)	(314)
Net book amount	<u>2,250</u>	<u>20</u>	<u>2,270</u>

The carrying amounts of trademark are allocated to Jessie & Jane brand products.

The recoverable amounts were determined based on value in use. The value in use calculations were based on a detailed five-year budget plan followed by an extrapolation of expected cash flows at the growth rates as stated below. The growth rates reflect the average growth rates for the product lines. The management determines the key assumptions including budgeted revenue, cost of sales and operating costs based on past performance, the general price inflation in the PRC and the management's expectation on market development. The discount rates applied to the value in use calculations were a pre-tax rate that reflected current market assessments of time value of money and the risks specific to the assets.

The key assumptions used for the value in use calculations were as follows:

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
			<u>2017</u>
Growth rates	28%	11%	9%
Discount rates	15%	15%	15%

As at 31 December 2015 and 2016 and 30 June 2017, the recoverable amounts of trademark were higher than their carrying amounts, and hence the trademark was not impaired. Any reasonably possible changes in the key assumptions used in the value in use would not affect the management's view on impairment as at 31 December 2015 and 2016 and 30 June 2017.

15. AVAILABLE-FOR-SALE FINANCIAL ASSET

The Group entered into a life insurance policy (the "Policy") with an insurance company to insure Mr. Brian Lee, a director of the Company. The Group is the policy holder and the beneficiary of the Policy. The Group is eligible for surrender the Policy at any time for cash equivalent to the net cash value.

The available-for-sale financial asset represents the carrying amount of the net cash value of the Policy as at 31 December 2016 and 30 June 2017 which comprised of guaranteed cash value of RMB122,000 and RMB118,000 respectively together with accumulated annual dividends and its accrued interests of RMB5,000 and RMB5,000 respectively.

The available-for-sale financial asset is denominated in Hong Kong dollars ("HK\$") and the fair value is determined by reference to the net cash value as provided by the insurance company (Note 28.6).

16. INVENTORIES

	<u>As at 31 December</u>		<u>As at</u>
	<u>2015</u>	<u>2016</u>	<u>30 June</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>2017</u>
			<u>RMB'000</u>
Finished goods	<u>28,323</u>	<u>28,669</u>	<u>26,713</u>

As at 31 December 2015 and 2016 and 30 June 2017, the inventories with carrying amounts of RMB134,000, RMB728,000 and RMB679,000 were carried at fair values less costs to sell respectively.

17. TRADE AND OTHER RECEIVABLES

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade receivables			
— from an associate	196	—	—
— from third parties	20,849	23,692	21,013
	21,045	23,692	21,013
Less: provision for impairment	(867)	(1,030)	(763)
	20,178	22,662	20,250
 Deposits, prepayments and other receivables			
Prepaid expenses			
— to a related company controlled by three of the Controlling Shareholders	—	—	61
— to third parties	3,238	4,080	4,348
	3,238	4,080	4,409
Rental and other deposits	2,606	2,466	1,867
Prepaid listing expenses	—	693	2,096
Other receivables, net of impairment (<i>Note</i>)	7,477	8,151	4,327
	13,321	15,390	12,699
	33,499	38,052	32,949

Note: As at 31 December 2015 and 2016 and 30 June 2017, the Group has determined other receivables of RMBNil, RMB120,000 and RMB120,000 as individually impaired respectively. Based on this assessment, impairment losses of RMBNil, RMB120,000 and RMBNil has been recognised for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively.

The Directors consider that the fair values of trade and other receivables are not materially different from their carrying amounts because these balances have short maturity periods on their inception.

Before accepting any new customer, the Group applied an internal credit assessment policy to assess the potential customer's credit quality. The credit period is generally for a period of 0 to 90 days. Overdue balances are reviewed regularly by senior management.

The ageing analysis of trade receivables at the end of the Track Record Period, based on the revenue recognition dates and net of impairment, is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
0–90 days	14,374	14,657	16,655
91–180 days	3,887	4,569	1,816
181–365 days	1,814	3,152	1,418
Over 365 days	103	284	361
	<u>20,178</u>	<u>22,662</u>	<u>20,250</u>

The movement in the provision for impairment of trade receivables is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
At the beginning of the year/period	670	867	1,030
Impairment losses recognised	188	148	—
Exchange differences	9	15	—
Written-off	—	—	(267)
At the end of the year/period	<u>867</u>	<u>1,030</u>	<u>763</u>

At each reporting date, the Group reviews receivables for evidence of impairment on both an individual and collective basis. As at 31 December 2015 and 2016 and 30 June 2017, the Group has determined trade receivables of RMB867,000, RMB1,030,000 and RMB763,000 as individually impaired respectively. Based on this assessment, impairment losses of RMB188,000, RMB148,000 and RMBNil has been recognised for the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively. The impaired trade receivables are due from customers experiencing financial difficulties that were in default or delinquency of payments.

The ageing analysis of trade receivables that were past due at the end of the Track Record Period but not impaired and net of impairment, bases on due dates is as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Neither past due nor impaired	12,437	11,037	11,354
1–90 days past due	5,297	7,817	6,878
91–365 days past due	2,444	3,524	1,824
Over 365 days past due	—	284	194
	<u>20,178</u>	<u>22,662</u>	<u>20,250</u>

As at 31 December 2015 and 2016 and 30 June 2017, trade receivables of RMB12,437,000, RMB11,037,000 and RMB11,354,000 were neither past due nor impaired respectively. These related to a number of independent customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a number of independent customers that had a good track record of credit with the Group. Based on past credit history, management believe 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. The Group does not hold any collateral or other credit enhancements over these balances.

18. AMOUNTS DUE FROM/(TO) THE THEN IMMEDIATE HOLDING COMPANY/CONTROLLING SHAREHOLDERS/ASSOCIATES/A RELATED COMPANY

Amounts due are non-trade in nature, and unsecured, interest-free and repayable on demand.

(a) Amount due from/(to) the then immediate holding company

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Yen Sheng Factory Limited (“Yen Sheng Factory”)	181	(21)	(10)

(b) Amounts due from Controlling Shareholders

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Yen Sheng BVI	—	—	6
Summit Time	—	—	3
	—	—	9

(c) Amounts due from associates

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Eternal Goldyard	678	725	—
Mercantile	357	—	—
	1,035	725	—
Less: provision for impairment	(1,035)	(725)	—
	—	—	—

The movement in the provision for impairment of amounts due from associates is as follows:

	<u>Eternal Goldyard</u>	<u>Mercantile</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000
As at 1 January 2015	—	—	—
Impairment losses recognised	651	342	993
Exchange differences	27	15	42
	<u>678</u>	<u>357</u>	<u>1,035</u>
As at 31 December 2015 and 1 January 2016	678	357	1,035
Impairment losses recognised	—	279	279
Written-off on disposal	—	(673)	(673)
Exchange differences	47	37	84
	<u>725</u>	<u>—</u>	<u>725</u>
As at 31 December 2016 and 1 January 2017	725	—	725
Written-off on disposal	(725)	—	(725)
	<u>—</u>	<u>—</u>	<u>—</u>
As at 30 June 2017	<u>—</u>	<u>—</u>	<u>—</u>

Note: As at 31 December 2015 and 2016 and 30 June 2017, the Group has determined amounts due from associates of RMB1,035,000, RMB725,000 and RMBNil as impaired respectively. Based on this assessment, impairment losses of RMB993,000, RMB279,000 and RMBNil has been recognised during the years ended 31 December 2015 and 2016 and the six months ended 30 June 2017 respectively.

(d) **Amount due to a related company**

	<u>As at 31 December</u>	<u>As at</u>
	2015	30 June
	RMB'000	2017
	RMB'000	RMB'000
Macia Company Limited (“Macia (Hong Kong)”)	327	17
	<u>—</u>	<u>—</u>

Note: Macia (Hong Kong) is controlled by Mr. Sammy Yau, Mr. Sonny Yau and Ms. Cecilia Hiang.

19. CASH AND CASH EQUIVALENTS

	<u>As at 31 December</u>	<u>As at</u>
	2015	30 June
	RMB'000	2017
	RMB'000	RMB'000
Restricted cash	2,000	786
Cash and cash equivalents	9,140	20,193
	<u>11,140</u>	<u>20,979</u>
	<u>—</u>	<u>35,425</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Included in restricted cash and cash and cash equivalents of the Group of approximately RMB8,855,000, RMB13,737,000 and RMB30,522,000 as at 31 December 2015 and 2016 and 30 June 2017 respectively are the balances denominated in RMB placed with banks and financial institutions in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

20. TRADE AND OTHER PAYABLES

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Trade payables			
— to a related company controlled by three of the Controlling Shareholders	976	1,162	203
— to third parties	8,795	11,478	16,722
	9,771	12,640	16,925
Accrued charges and other payables			
Accrued expenses			
— to a related company significantly influenced by a director	1,117	355	464
— to third parties	12,176	9,095	10,772
	13,293	9,450	11,236
Deposits received	2,094	2,233	1,995
Other tax payables	4,708	5,798	4,102
Receipts in advance	1,411	1,779	1,652
	21,506	19,260	18,985
	31,277	31,900	35,910

The Group was granted by its suppliers credit periods ranging from 0 to 90 days. Based on the date of goods received, the ageing analysis of trade payables as at 31 December 2015 and 2016 and 30 June 2017 is as follows:

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
0–90 days	9,684	12,114	15,873
91–180 days	87	—	586
181–365 days	—	257	—
Over 365 days	—	269	466
	9,771	12,640	16,925

All amounts are short term and hence the carrying values of trade and other payables are considered to be a reasonable approximation of their fair values.

21. BANK BORROWINGS

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Bank loans, wholly repayable within one year or on demand			
— Secured	13,988	23,642	28,161
— Unsecured	<u>12,312</u>	<u>10,970</u>	<u>5,519</u>
	<u>26,300</u>	<u>34,612</u>	<u>33,680</u>

Note:

The details of bank borrowings as at 31 December 2015 are as follows:

- (a) Bank borrowings of RMB13,988,000 (equivalent to approximately HK\$16,700,000) are secured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% per annum over HIBOR and secured by:
- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
 - (ii) Legal charges over certain properties owned by Lee Sang Investment Company Limited and Mega Sun Holdings Limited, the related companies controlled by Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau and Mr. Nicholas Yau.
- (b) Bank borrowings of RMB12,312,000 (equivalent to approximately HK\$14,700,000) are unsecured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.5% per annum over cost of funds of the lender and guaranteed by:
- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
 - (ii) Corporate guarantee given by Yen Sheng Factory.

The details of bank borrowings as at 31 December 2016 are as follows:

- (a) Bank borrowings of RMB23,642,000 (equivalent to approximately HK\$26,400,000) are secured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% per annum over HIBOR and secured by:
- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
 - (ii) Legal charges over certain properties owned by Unigrade International Limited (“Unigrade”), a related company controlled by Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau and Mr. Nicholas Yau.

(b) Bank borrowings of RMB10,970,000 (equivalent to approximately HK\$12,250,000) are unsecured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% per annum over cost of funds of the lender and guaranteed by:

- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
- (ii) Corporate guarantee given by Yen Sheng Factory.

The details of bank borrowings as at 30 June 2017 are as follows:

(a) Bank borrowings of RMB28,161,000 (equivalent to approximately HK\$32,400,000) are secured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% per annum over HIBOR and secured by:

- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
- (ii) Legal charges over certain properties owned by Unigrade.

The above personal guarantees and legal charges will be released and replaced by a corporate guarantee given by the Company upon listing.

(b) Bank borrowings of RMB5,519,000 (equivalent to approximately HK\$6,350,000) are unsecured, repayable within one year or on demand. The bank borrowings bear interest rate at 1.75% per annum over cost of funds of the lender and guaranteed by:

- (i) Personal guarantees given by Mr. Sammy Yau, Mr. Sonny Yau and Mr. Brian Lee; and
- (ii) Corporate guarantee given by Yen Sheng Factory.

The above personal and corporate guarantees will be released and replaced by a corporate guarantee given by the Company upon listing.

22. DEFERRED TAX

The movement in deferred tax assets during the Track Record Period is as follows:

	<u>Provisions</u>	<u>Others</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
As at 1 January 2015	1,846	—	1,846
Recognised in the profit or loss (<i>Note 8</i>)	<u>27</u>	<u>(55)</u>	<u>(28)</u>
As at 31 December 2015 and 1 January 2016	1,873	(55)	1,818
Recognised in the profit or loss (<i>Note 8</i>)	<u>163</u>	<u>(480)</u>	<u>(317)</u>
As at 31 December 2016 and 1 January 2017	2,036	(535)	1,501
Recognised in the profit or loss (<i>Note 8</i>)	<u>(134)</u>	<u>535</u>	<u>401</u>
As at 30 June 2017	<u><u>1,902</u></u>	<u><u>—</u></u>	<u><u>1,902</u></u>

As at 31 December 2015 and 2016 and 30 June 2017, the aggregate amount of temporary differences associated with the undistributed profits of the Company's PRC subsidiaries amounted to approximately RMB12,477,000, RMB20,137,000 and RMB25,083,000 respectively. Deferred income tax liabilities have not been recognised amounting to approximately RMB624,000, RMB1,007,000 and RMB1,254,000 respectively in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries.

23. DEFERRED REVENUE

The Group offers a variety of membership-based customer loyalty programs (the "Programs") to provide incentive to customers to buy their products. Under the Programs, customers who joined the membership are able to accumulate reward points through purchases of goods or promotion activities and could redeem these reward points for free products or vouchers entitling discount immediately or on a subsequent purchase. The reward points are recognised as a separately identifiable component of the initial sale transaction by allocating the fair value of the consideration received or receivable between the reward points and the other components of the sale such that the reward points are initially recognised as deferred revenue at their fair value.

24. SHARE CAPITAL

	<u>The Company</u>	
	<u>No. of shares</u>	<u>RMB'000</u>
Authorised:		
1,000,000 shares of HK\$0.01 each	<u>1,000,000</u>	<u>9</u>
Issued and fully paid:		
1,000,000 shares of HK\$0.01 each, upon incorporation and as at 30 June 2017	<u>1,000,000</u>	<u>9</u>

The Company was incorporated on 6 January 2017 with an authorised share capital of HK\$10,000 divided into 1,000,000 shares of HK\$0.01 each and has not carried on any business since the date of incorporation except for the Reorganisation. On the date of incorporation, one nil-paid share was allotted and issued.

On 28 February 2017, 999,999 nil-paid shares were allotted and issued.

There was no authorised and issued capital as at 31 December 2015 and 2016 since the Company had not yet been incorporated.

25. RESERVES**The Group**

The amounts of the Group's reserves and the movements therein for the Track Record Period are presented in the combined statements of changes in equity of the Historical Financial Information.

Capital reserve

The capital reserve of the Group as at 31 December 2015 and 2016 and 30 June 2017 represents the share capital of entities comprising the Group as a result of the Reorganisation.

The Company

The Company has not commenced any business or operation since its incorporation except for the Reorganisation and therefore does not have any profit or loss or movements in reserves since its incorporation and up to 30 June 2017.

26. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Group under non-cancellable operating leases are as follows:

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Within one year	7,005	6,398	4,814
In the second to fifth years	1,973	4,070	2,043
	8,978	10,468	6,857

The Group leases a number of premises which comprises office, warehouses, retail shops and department store counters under operating leases. The leases run for an initial period of one to three years, with an option to renew and renegotiate the lease terms at the expiry dates or at dates as mutually agreed between the Group and respective landlords.

Certain retail shops and department store counters include payment obligations with rental varied with gross revenue. The contingent lease payments are determined generally by applying pre-determined percentages to realised sales less the basic rentals of the respective leases.

27. RELATED PARTY TRANSACTIONS

In addition to those disclosed in Notes 13, 15, 17, 18, 20 and 21 above, the Group entered into the following material related party transactions during the Track Record Period:

(a) Transactions with related parties

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Sales of goods to associates				
— Eternal Goldyard	249	—	—	—
— Mercantile	332	—	—	—
Purchases of goods from an associate/related companies				
— Mercantile	—	126	—	—
— Macia (Hong Kong)	213	—	—	—
— Dongguan Taiheng Handbags Company Limited 東莞泰亨手袋有限公司 ("Dongguan Taiheng") (Note a)	18,630	19,057	10,265	5,062
Interest income from the then immediate holding company				
— Yen Sheng Factory	—	33	—	—
Storage and logistics fees paid to a related company				
— Shanghai Xuandi Trading Company Limited 上海軒帝貿易有限公司 ("Shanghai Xuandi") (Note b)	2,581	2,537	1,038	952
Commission paid to a related company				
— Shanghai Xuandi	408	781	388	828
Sample costs paid to the then immediate holding company/a related company				
— Yen Sheng Factory	9	193	157	—
— Macia (Hong Kong)	603	615	583	21

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Management fee paid to the then immediate holding company				
— Yen Sheng Factory	32	—	—	—
Operating leases charges paid to the then immediate holding company/related companies				
— Yen Sheng Factory	113	—	—	—
— Unigrade	—	247	121	128
— Shanghai Xuandi	972	1,200	432	702
Building management fee paid to the then immediate holding company				
— Yen Sheng Factory	48	—	—	—
Interest expenses paid to the then immediate holding company/ a director				
— Yen Sheng Factory	156	—	—	—
— Mr. Brian Lee	45	—	—	—

Note:

- (a) Dongguan Taiheng is a related company controlled by Mr. Sammy Yau, Mr. Sonny Yau and Ms. Cecilia Hiang.
- (b) Shanghai Xuandi is a related company significantly influenced by Mr. Brian Lee.

The above transactions with related parties were conducted in the Group's normal course of business and at prices and terms no less than those charged to and contracted with other third party suppliers of the Group.

(b) Key management personnel remuneration

	Year ended 31 December		Six months ended 30 June	
	2015	2016	2016	2017
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Salaries, allowances and other benefits	1,802	1,948	873	1,613
Contributions to retirement benefit schemes	67	159	71	170
	<u>1,869</u>	<u>2,107</u>	<u>944</u>	<u>1,783</u>

28. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENT

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

The Group's overall financial risk management policies focuses on the unpredictability and volatility at financial markets and seeks to minimise potential adverse effects on the financial position, financial performance and cash flows of the Group. No derivative financial instruments are used to hedge any risk exposures.

28.1 Categories of financial assets and liabilities

The carrying amounts presented in the combined statements of financial position relate to the following categories of financial assets and liabilities.

	As at 31 December		As at
	2015	2016	30 June
	RMB'000	RMB'000	2017
			RMB'000
Financial assets			
Available-for-sale financial asset	—	127	123
<i>Loans and receivables:</i>			
— Trade and other receivables	30,261	33,279	26,444
— Amount due from the then immediate holding company	181	—	—
— Amounts due from Controlling Shareholders	—	—	9
— Restricted cash	2,000	786	2,983
— Cash and cash equivalents	9,140	20,193	32,442
	<u>41,582</u>	<u>54,385</u>	<u>62,001</u>
Financial liabilities			
<i>Measured at amortised cost:</i>			
— Trade and other payables	25,158	24,323	30,156
— Bank borrowings	26,300	34,612	33,680
— Amount due to a related company	327	17	—
— Amount due to the then immediate holding company	—	21	10
	<u>51,785</u>	<u>58,973</u>	<u>63,846</u>

28.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to foreign currency risk mainly arise from the Group's operation in Hong Kong which are primarily denominated in HK\$ and the Group's cash and cash equivalents which denominated in United States dollars ("US\$"). These are not the functional currency of the Group to which these transactions relate.

The financial assets and liabilities denominated in HK\$ and US\$, translated into RMB at the closing rates, are as follows:

	<u>HK\$</u>	<u>US\$</u>
	<u>RMB'000</u>	<u>RMB'000</u>
As at 31 December 2015		
Trade and other receivables	172	—
Amount due from the then immediate holding company	181	—
Cash and cash equivalents	2,037	82
Trade and other payables	(1,128)	—
Bank borrowings	(26,300)	—
Amount due to a related company	(327)	—
	<u>(25,365)</u>	<u>82</u>
Overall net exposures	<u>(25,365)</u>	<u>82</u>
As at 31 December 2016		
Available-for-sale financial asset	127	—
Trade and other receivables	6	—
Cash and cash equivalents	2,128	1,425
Trade and other payables	(445)	—
Bank borrowings	(34,612)	—
Amount due to a related company	(17)	—
Amount due to the then immediate holding company	(21)	—
	<u>(32,834)</u>	<u>1,425</u>
Overall net exposures	<u>(32,834)</u>	<u>1,425</u>
As at 30 June 2017		
Available-for-sale financial asset	123	—
Trade and other receivables	9	—
Amounts due from Controlling Shareholders	9	—
Cash and cash equivalents	708	880
Trade and other payables	(1,458)	—
Bank borrowings	(33,680)	—
Amount due to the then immediate holding company	(10)	—
	<u>(34,299)</u>	<u>880</u>
Overall net exposures	<u>(34,299)</u>	<u>880</u>

The following table illustrates the sensitivity of the Group's profit after income tax for the Track Record Period and equity as at 31 December 2015 and 2016 and 30 June 2017 in regards to an appreciation in the Group's functional currency against HK\$ and US\$. The sensitivity rate is the rate used when reporting foreign currency risk internally to key management personnel and represents management's best assessment of the possible change in foreign exchange rate.

	<u>Sensitivity rate</u>	<u>Increase/ (Decrease) in profit for the year/period</u>	<u>Increase/ (Decrease) in equity</u>
	%	RMB'000	RMB'000
Year ended 31 December 2015			
HK\$	5%	1,059	1,059
US\$	5%	(3)	(3)
Year ended 31 December 2016			
HK\$	5%	1,371	1,371
US\$	5%	(53)	(53)
Six months ended 30 June 2017			
HK\$	5%	1,432	1,432
US\$	5%	(33)	(33)

The same percentage depreciation in the Group's functional currency against the foreign currencies would have the same magnitude on the Group's profit after income tax for the Track Record Period and equity as at 31 December 2015 and 2016 and 30 June 2017 but of opposite effect.

The Group does not hedge its foreign currency risk with HK\$ and US\$. However, management monitors the foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

28.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings which bearing variable rates expose the Group to cash flow interest rate risk.

The following table illustrates the sensitivity of the Group's profit after income tax for the Track Record Period and equity as at 31 December 2015 and 2016 and 30 June 2017 to a decrease of 50 basis points in the interest rate, assuming the interest-bearing borrowings outstanding at the reporting year/period were outstanding for the whole year/period and all the variables were held constant.

	<u>Increase in profit for the year/period</u>	<u>Increase in equity</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Year ended 31 December 2015		
Decrease by 50 basis points	<u>110</u>	<u>110</u>
Year ended 31 December 2016		
Decrease by 50 basis points	<u>145</u>	<u>145</u>
Six months ended 30 June 2017		
Decrease by 50 basis points	<u>141</u>	<u>141</u>

An increase in 50 basis points in interest rate of the Group's interest-bearing borrowings would have the same magnitude on the Group's profit after income tax for the Track Record Period and equity as at 31 December 2015 and 2016 and 30 June 2017 but of opposite effect.

The assumed changes in interest rates are considered to be reasonably possible based on observation of current market conditions and represents management's assessment of a reasonably possible change in interest rate over the next twelve month period.

28.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from cash with banks and financial institutions, as well as granting credit to customers in the ordinary course of its operations.

The Group's maximum exposure to credit risk is limited to the carrying amounts of the financial assets at the reporting date as detailed in Note 28.1.

As at 31 December 2015 and 2016 and 30 June 2017, most of the Group's restricted cash and cash and cash equivalents were deposited in the major financial institutions in Hong Kong and the PRC with good credit rating and the Group considers the credit risk to be insignificant.

Credit risk on trade and other receivables and amounts due from the then immediate holding company, Controlling Shareholders and associates are minimised through the Group's ongoing credit evaluation on the financial condition of its debtors and tightly monitors the ageing of the receivable balances. Follow up action is taken in case of overdue balances. In addition, management reviews the recoverable amount of the receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. As at 31 December 2015 and 2016 and 30 June 2017, trade receivables from top five individual customers accounted for 49%, 48% and 58% of the total trade receivables respectively.

None of the Group's financial assets are secured by collateral or other credit enhancements.

28.5 Liquidity risk

Liquidity risk relates to the risk that the Group will not be able to meet its obligations associated with its financial liabilities. The Group is exposed to liquidity risk in respect of settlement of its financing obligations and its cash flow management. The Group's objective is to maintain an appropriate level of liquid assets and committed lines of funding to meet its liquidity requirements in the short and longer term.

When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Group can be required to pay. Where the settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Group is committed to pay.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining contractual maturity as at 31 December 2015 and 2016 and 30 June 2017. The amounts disclosed in the tables are the contractual undiscounted cash flows.

	Within one year or on demand	Total undiscounted amount	Carrying amount
	RMB'000	RMB'000	RMB'000
As at 31 December 2015			
Trade and other payables	25,158	25,158	25,158
Bank borrowings	26,322	26,322	26,300
Amount due to a related company	327	327	327
	<u>51,807</u>	<u>51,807</u>	<u>51,785</u>
As at 31 December 2016			
Trade and other payables	24,323	24,323	24,323
Bank borrowings	34,648	34,648	34,612
Amount due to a related company	17	17	17
Amount due to the then immediate holding company	21	21	21
	<u>59,009</u>	<u>59,009</u>	<u>58,973</u>
As at 30 June 2017			
Trade and other payables	30,156	30,156	30,156
Bank borrowings	33,732	33,732	33,680
Amount due to the then immediate holding company	10	10	10
	<u>63,898</u>	<u>63,898</u>	<u>63,846</u>

As at 31 December 2015 and 2016 and 30 June 2017, the aggregate undiscounted principal and interest of bank borrowings payable were analysed in accordance with the scheduled payment terms. As taking into account of the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Included in the above balances, the Directors believe that such bank borrowings will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

28.6 Fair value measurements of financial instruments

Financial assets measured at fair values in the combined statements of financial position are grouped into three Levels of a fair value hierarchy. The three Levels are defined based on the observability of significant inputs to the measurements, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The fair value measurement hierarchy of the Group's available-for-sale financial asset is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2016				
Financial asset:				
— Available-for-sale financial asset	—	127	—	127
	<u>—</u>	<u>127</u>	<u>—</u>	<u>127</u>
As at 30 June 2017				
Financial asset:				
— Available-for-sale financial asset	—	123	—	123
	<u>—</u>	<u>123</u>	<u>—</u>	<u>123</u>

During the Track Record Period, there were no transfers between Level 1, Level 2 and Level 3.

The fair value of available-for-sale financial asset is determined by reference to the net cash value as provided by the insurance company.

The management considered the carrying amounts of other financial assets and liabilities of the Group are not materially different from their fair values as at 31 December 2015 and 2016 and 30 June 2017 due to immediate or short term of maturity.

29. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it continues to provide returns and benefits for shareholders. The Group manages capital by regularly monitoring its current and expected liquidity requirements.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose debt is defined as bank borrowings net of cash and cash equivalents. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares and raise new debt financing.

The net debt to equity ratio at each reporting date was:

	As at 31 December		As at 30 June
	2015	2016	2017
	RMB'000	RMB'000	RMB'000
Bank borrowings	26,300	34,612	33,680
Less: restricted cash cash and cash equivalents	(2,000) (9,140)	(786) (20,193)	(2,983) (32,442)
Net debts	15,160	13,633	N/A
Total equity	19,333	25,062	28,953
Net debt to equity ratio	78%	54%	N/A

30. NOTE TO THE COMBINED STATEMENTS OF CASH FLOWS

Reconciliations of liabilities arising from financing activities for the Track Record Period, are as follows:

	As at 1 January 2015	Cash flows	Unrealised exchange differences	As at 31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000
	Bank borrowings	17,537	7,884	879
	As at 1 January 2016	Cash flows	Unrealised exchange differences	As at 31 December 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	26,300	6,492	1,820	34,612
	As at 1 January 2017	Cash flows	Unrealised exchange differences	As at 30 June 2017
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	34,612	88	(1,020)	33,680
(Unaudited)	As at 1 January 2016	Cash flows	Unrealised exchange differences	As at 30 June 2016
	RMB'000	RMB'000	RMB'000	RMB'000
Bank borrowings	26,300	3,239	651	30,190

III. SUBSEQUENT EVENTS

The following significant events took place subsequent to 30 June 2017:

(a) Group reorganisation

The companies comprising the Group underwent and completed the Reorganisation in preparation for the listing of the Company's shares on the Stock Exchange. Further details of the Reorganisation are set out in the section headed "History and Development and Reorganisation" in the Prospectus. Upon completion of the Reorganisation on 4 December 2017, the Company became the holding company of the Group.

(b) Statutory reserve

Pursuant to the resolutions of board of directors dated 31 July 2017, 10% of the annual statutory profit after income tax for the year 2016 (after offsetting any prior years' losses) of Senhao Shanghai and Senxuan Shanghai, amounting to approximately RMB220,000 in aggregate, was transferred from retained profits to statutory reserve. Statutory reserve is not distributable as cash dividends, but it can be used to increase the registered capital and eliminate future losses in excess of retained profits.

IV. SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2017. No dividend has been declared or made by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2017.

The information set forth in this appendix does not form part of the Accountants' Report prepared by Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an illustrative unaudited pro forma statement of adjusted combined net tangible assets of the Group which has been prepared in accordance with paragraph 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Share Offer on the combined net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2017, as if the Share Offer had taken place on 30 June 2017.

The unaudited pro forma statement of 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 equity holders of the Company had the Share Offer been completed as at 30 June 2017 or at any future dates. It is prepared based on the audited combined net tangible assets of the Group attributable to equity holders of the Company as at 30 June 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 equity holders of the Company as at 30 June 2017	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company per Share	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 5)</i>
Based on the Offer Price of HK\$0.43 per Share	<u>26,683</u>	<u>39,522</u>	<u>66,205</u>	<u>0.12</u>	<u>0.14</u>

Notes:

- (1) The audited combined net tangible assets attributable to equity holders of the Company as at 30 June 2017 is extracted from the Accountants' Report in Appendix I to this prospectus, which is based on the audited combined net assets of the Group attributable to equity holders of the Company as at 30 June 2017 of approximately RMB28,953,000 less intangible assets as at 30 June 2017 of approximately RMB2,270,000.
- (2) The estimated net proceeds from the Share Offer are based on 140,000,000 Offer Shares at the Offer Price of HK\$0.43 per Share, after deduction of relevant estimated underwriting commissions and fees and other related fees expected to be incurred by the Group subsequent to 30 June 2017.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company per Share is determined on the basis that 560,000,000 Shares, being the number of Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Share Offer.
- (4) No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2017 to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2017.
- (5) In connection with the preparation of this unaudited pro forma statement of adjusted combined net tangible assets, the translation of Renminbi into Hong Kong dollars has been made at a rate of RMB0.8868 to HK\$1.00.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from Grant Thornton Hong Kong Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.



29 December 2017

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**TO THE DIRECTORS OF SLING GROUP HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Sling Group Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company (the “Directors”) for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 30 June 2017 and related notes as set out on pages II–1 to II–2 of Appendix II to the prospectus issued by the Company dated 29 December 2017 (the “Prospectus”). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on Section A of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the share offer of the Company’s shares (the “Share Offer”) on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on the Group’s financial position as at 30 June 2017 as if the Share Offer had taken place at 30 June 2017. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial information for the six months ended 30 June 2017, on which an accountants’ report set out in Appendix I to the Prospectus has been published.

Directors’ Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and

with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” (“AG7”) issued by the Hong Kong Institute of Certified Public Accountants (“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.

The firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG7 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 unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Grant Thornton Hong Kong Limited

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

Lin Ching Yee Daniel

Practising Certificate No.: P02771

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" specified in appendix V to this prospectus. As an exempted company, 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.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "Articles") were conditionally adopted on 15 December 2017 and will take effect on the Listing Date. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time 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 Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors 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 relevant statutes of the Cayman Islands to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of the Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) *Financial assistance to purchase shares of the Company or its holdings company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or 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, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors 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 they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto 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 or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his close associate(s) (as defined in the Articles) is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his close associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or any company in which the Company has an interest for which the Director or his close associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his close associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director and his close associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company 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 and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which the Director or his close associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his close associate(s) and employees of the Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, close associate(s) of Directors and employees of the Company or

any of its subsidiaries and does not give the Director or his close associate(s) any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;

(gg) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director or his close associate(s) may benefit; and

(hh) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his close associate(s), officer or employee pursuant to the Articles.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they

may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed 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 Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or 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.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing 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;
- (v) sub divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

The Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. The Company may apply its share premium account in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, 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 meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, 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, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice of has been duly given in accordance with the Articles 2(i) below for further details).

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member 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 for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the GEM Listing Rules (as defined in the Articles), 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 (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of

hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation including, where a show of hands is allowed, the right to vote individually on a show of hands.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or are 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 are to be kept at the principal office of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or 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 Directors or by the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange,

the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not prohibited by the Companies Law and instead of such copies, a summary financial statement derived from the Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of the Company and the directors' report thereon may, if he so requires by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other extraordinary general meetings (including an extraordinary general meeting) must be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in the Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors 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 or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in 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 to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy 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 as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think 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 thereof 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 cent. per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think 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 cent. per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him 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 will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will 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 time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

(q) Inspection of register of members

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 622) of the laws of Hong Kong.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (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 convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to 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, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to 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 one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall,

according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days’ notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together representing not less than 95 per cent. of the total voting rights at the meeting of all the members.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law; or
- (iv) in writing off
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. Purchases and redemptions may only be effected out of the profits of the company or the share premium account of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (2011 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

(m) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY
AND CAYMAN ISLANDS COMPANY LAW**

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Companies Law on 6 January 2017 with an authorised share capital of HK\$10,000 divided into 1,000,000 Shares of HK\$0.01 each. On 6 January 2017, one nil-paid share was allotted and issued to an Independent Third Party, which was transferred at nil consideration to Mr. Sonny Yau on the same date. Our Company allotted and issued 694,854 nil-paid shares to Yen Sheng BVI and 305,145 nil-paid shares to Summit Time on 28 February 2017. The said 1,000,000 nil paid Shares were subsequently paid up in the manner set out in the section headed “History and development and Reorganisation — Reorganisation — (5) Acquisition of Sling BVI by our Company” of this prospectus. Our Company was registered under Part 16 of the Companies Ordinance on 8 March 2017.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises the Memorandum and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company’s constitution is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company**(a) Increase in authorised share capital**

The authorised share capital of our Company was increased from HK\$10,000 to HK\$11,100,000 by the creation of 1,109,000,000 new Shares pursuant to a resolution passed by our Shareholders referred to in paragraph 3 below.

Immediately following completion of the Capitalisation Issue and the Share Offer (taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), our authorised share capital will be HK\$11,100,000 divided into 1,110,000,000 Shares, of which 560,000,000 Shares will be issued fully paid or credited as fully paid, and 550,000,000 Shares will remain unissued. Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in the paragraphs headed “1. Incorporation of our Company” and “3. Resolutions of our Shareholders” of this Appendix and the section headed “History and development and Reorganisation” in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

(b) *Founder shares*

Our Company has no founder shares, management shares or deferred shares.

3. Resolutions of our Shareholders

By resolutions in writing of all of our Shareholders passed on 15 December 2017, pursuant to which, among other matters:

- (a) our Company conditionally approved and adopted the Articles which will take effect on the Listing Date, the terms of which are summarised in Appendix III to this prospectus;
- (b) the authorised share capital of our Company was increased from HK\$10,000 to HK\$11,100,000 by the creation of 1,109,000,000 new Shares;
- (c) conditional on (i) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned in this prospectus including any Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of the issue of this prospectus:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer;
 - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “18. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion, subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights under any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
 - (iii) conditional on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to capitalise HK\$4,190,000 standing to the credit of the share premium account of our Company by applying that sum in paying up in full at par 419,000,000 Shares for allotment and issue to the holders of Shares whose names appear on the register of members of our Company at the close of business on 15 December 2017 (or as they may direct) in proportion (as nearly as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in

our Company and so that the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to our Directors to exercise all the powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme or under the Share Offer or the Capitalisation Issue, Shares with an aggregate number of not exceeding the sum of (aa) 20% of the aggregate number of issued Shares immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme; (bb) the number of issued Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (v) below, until the conclusion of the next general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
 - (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, in accordance with all applicable laws and requirements of the GEM Listing Rules (or of such other stock exchange), such number of Shares as will represent up to 10% of the aggregate number of the issued Shares immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
 - (vi) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iv) above to include the number of Shares which may be purchased or repurchased pursuant to (v) above.
- (d) the form and substance of each of the service agreements made between our executive Directors and our Company and the form and substance of each of the appointment letters made between each of our non-executive Directors and independent non-executive Directors with our Company were approved and ratified.

4. Subsidiaries of our Company

Unless otherwise specified, the consideration of all the share transfers below was determined based on arms-length negotiation between the parties.

(a) *Sling Incorp*

On 20 January 1999, Sling Incorp was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 20 January 1999, one share of HK\$1.00 was allotted and issued to each of Gateway Registrations Limited and Fortune Corporate Services Limited, which are Independent Third Parties. As at 22 January 1999, the shareholding structure of Sling Incorp was set out below:

Name of shareholder	Number of share(s)	%
Gateway Registrations Limited	1	50.00
Fortune Corporate Services Limited	1	50.00
Total:	2	100.00

On 19 May 1999, Gateway Registrations Limited transferred its one share of Sling Incorp to Yen Sheng Factory at par and Fortune Corporate Services Limited transferred its one share of Sling Incorp to Kingsway (China) Group Limited at par. On the same day, 5,009 shares, 3,999 shares and 900 shares of Sling Incorp were allotted and issued to Yen Sheng Factory, Kingsway (China) Group Limited and Macia (Hong Kong) respectively at HK\$1.00 per share. As at 19 May 1999, the shareholding structure of Sling Incorp was set out below:

Name of shareholder	Number of share(s)	%
Yen Sheng Factory	5,100	51.00
Kingsway (China) Group Limited (<i>Note</i>)	4,000	40.00
Macia (Hong Kong)	900	9.00
Total:	10,000	100.00

Note: Kingsway (China) Group Limited is now known as Shopall Corporation Limited and is independent from and has no relations with the Sole Sponsor. As at 19 May 1999, Kingsway (China) Group Limited was owned by Mr. Brian Lee and Independent Third Parties as to approximately 30% and 70%, respectively.

On 8 May 2002, 46,973 shares, 36,842 shares and 8,289 shares of Sling Incorp were allotted and issued to Yen Sheng Factory, Shopall Corporation Limited (previously known as Kingsway (China) Group Limited) and Macia (Hong Kong) respectively at HK\$38 per share. The consideration was determined based on the capital requirement for Sling Incorp of approximately HK\$3,500,000 as at the date of allotment. As at 8 May 2002, the shareholding structure of Sling Incorp was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng Factory	52,073	51.00
Shopall Corporation Limited (<i>Note</i>)	40,842	40.00
Macia (Hong Kong)	<u>9,189</u>	<u>9.00</u>
Total:	<u><u>102,104</u></u>	<u><u>100.00</u></u>

Note: Shopall Corporation Limited was owned by Mr. Brian Lee and Shopall Corporation (Group) Limited as to approximately 0.00004% and 99.99996%, respectively, as at 8 May 2002, while Shopall Corporation (Group) Limited was owned by Mr. Brian Lee together with Independent Third Parties as at 8 May 2002.

On 5 June 2002, 600,000 shares and 125,000 shares of Sling Incorp were allotted and issued to Yen Sheng Factory and Mr. Brian Lee respectively at HK\$1.00 per share. As at 5 June 2002, the shareholding structure of Sling Incorp was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng Factory	652,073	78.84
Shopall Corporation Limited (<i>Note</i>)	40,842	4.94
Macia (Hong Kong)	9,189	1.11
Mr. Brian Lee	<u>125,000</u>	<u>15.11</u>
Total:	<u><u>827,104</u></u>	<u><u>100.00</u></u>

Note: Shopall Corporation Limited was owned by Mr. Brian Lee and Shopall Corporation (Group) Limited as to approximately 0.00004% and 99.99996%, respectively, as at 5 June 2002, while Shopall Corporation (Group) Limited was owned by Mr. Brian Lee together with Independent Third Parties as at 5 June 2002.

On 23 December 2010, 5,800,000 shares and 1,310,327 shares of Sling Incorp were allotted and issued to Yen Sheng Factory and Mr. Brian Lee respectively at HK\$1.00 per share credited as fully paid at the consideration of full payment of the loan in the book of Sling Incorp. As at 23 December 2010, the shareholding structure of Sling Incorp was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng Factory	6,452,073	81.29
Shopall Corporation Limited (<i>Note</i>)	40,842	0.51
Macia (Hong Kong)	9,189	0.12
Mr. Brian Lee	<u>1,435,327</u>	<u>18.08</u>
Total:	<u><u>7,937,431</u></u>	<u><u>100.00</u></u>

Note: Shopall Corporation Limited was owned by Mr. Brian Lee and Shopall Corporation (Group) Limited as to approximately 0.00004% and 99.99996%, respectively, as at 23 December 2010, while Shopall Corporation (Group) Limited was owned by Mr. Brian Lee together with Independent Third Parties as at 23 December 2010.

On 5 January 2011, Yen Sheng Factory transferred 945,902 shares of Sling Incorp to Mr. Brian Lee at the consideration of HK\$1,765,030.00. As at 5 January 2011, the shareholding structure of Sling Incorp was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng Factory	5,506,171	69.37
Shopall Corporation Limited (<i>Note</i>)	40,842	0.51
Macia (Hong Kong)	9,189	0.12
Mr. Brian Lee	<u>2,381,229</u>	<u>30.00</u>
Total:	<u><u>7,937,431</u></u>	<u><u>100.00</u></u>

Note: Shopall Corporation Limited was owned by Mr. Brian Lee and Shopall Corporation (Group) Limited as to approximately 0.00004% and 99.99996%, respectively, as at 5 January 2011, while Shopall Corporation (Group) Limited was owned by Mr. Brian Lee together with Independent Third Parties as at 5 January 2011.

On 28 April 2014, Shopall Corporation Limited transferred 40,842 shares of Sling Incorp to Mr. Brian Lee at the consideration of HK\$1.00. Following the transfer, Shopall Corporation Limited ceased to be a shareholder of Sling Incorp. As at 28 April 2014, the shareholding structure of Sling Incorp was set out below:

Name of shareholder	Number of share(s)	Approximate percentage of shareholding (%)
Yen Sheng Factory	5,506,171	69.37
Macia (Hong Kong)	9,189	0.12
Mr. Brian Lee	2,422,071	30.51
Total:	7,937,431	100.00

On 14 December 2015, for the purpose of restructuring the investment portfolio of Mr. Brian Lee and his family members in our Group as private family wealth arrangement, Mr. Brian Lee transferred 1,422,071 shares of Sling Incorp to Ms. Jiang at the consideration of HK\$1.00 and 1,000,000 shares of Sling Incorp to Summit Time at the consideration of HK\$1.00. Following the transfer, Mr. Brian Lee ceased to be a shareholder of Sling Incorp. Despite ceasing to be a shareholder of Sling Incorp, Mr. Brian Lee has remained as a director of Sling Incorp since 14 December 2015 and he intends to continue serving our Group as executive Director and chief executive officer of our Company going forward. As at 14 December 2015, the shareholding structure of Sling Incorp was set out below:

Name of shareholder	Number of share(s)	Approximate percentage of shareholding (%)
Yen Sheng Factory	5,506,171	69.37
Macia (Hong Kong)	9,189	0.11
Ms. Jiang	1,422,071	17.92
Summit Time	1,000,000	12.60
Total:	7,937,431	100.00

On 18 January 2017, Ms. Jiang transferred 1,422,071 shares of Sling Incorp to Summit Time at the consideration of HK\$1.00. Such consideration was consistent with the consideration of the abovementioned consideration for the transfer of the same shares from Mr. Brian Lee to Ms. Jiang on 14 December 2015. Following the transfer, Ms. Jiang ceased to

be a shareholder of Sling Incorp. As at 18 January 2017, the shareholding structure of Sling Incorp was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng Factory	5,506,171	69.37
Macia (Hong Kong)	9,189	0.12
Summit Time	<u>2,422,071</u>	<u>30.52</u>
Total:	<u><u>7,937,431</u></u>	<u><u>100.00</u></u>

On 31 May 2017, Macia (Hong Kong), Yen Sheng Factory and Summit Time transferred 9,198, 5,506,171 and 2,422,071 shares of Sling Incorp to Sling BVI at the consideration of HK\$30,898.00, HK\$18,514,491.85 and HK\$8,144,210.16 respectively based on the net asset value of Sling Incorp as at 31 December 2016. Since the transfer, Sling Incorp has become a wholly-owned subsidiary of Sling BVI.

As at the Latest Practicable Date, Sling Incorp was principally engaged in design, marketing, sourcing and procurement of women's handbags, small leather goods and travel goods.

(b) Sling BVI

On 13 January 2017, Sling BVI was incorporated in the BVI with limited liability and it was authorised to issue a maximum of 1,000,000 shares with a par value of HK\$0.01 each. One share in Sling BVI was issued and allotted to Mr. Sonny Yau at par on 26 January 2017.

On 23 February 2017, (i) Mr. Sonny Yau transferred the entire issued share capital of Sling BVI to Yen Sheng BVI at par; and (ii) 694,854 shares and 305,145 shares were subscribed by each of Yen Sheng BVI and Summit Time, respectively.

As at the Latest Practicable Date, Sling BVI was an investment holding company.

(c) Senhao Shanghai

On 19 October 2005, Senhao Shanghai was established by Sling Incorp in the PRC with registered capital of US\$300,000 which was paid up by Sling Incorp.

On 18 November 2006, it was resolved that the registered capital of Senhao Shanghai shall be increased to US\$550,000, pursuant to which additional capital of US\$250,000 shall be contributed by Sling Incorp. As advised by our PRC Legal Advisers, approval for such increase in registered capital was obtained on 2 July 2008 from the relevant PRC regulatory authorities and the increase in registered capital had complied with the relevant PRC laws and regulations.

On 8 July 2008, it was resolved that the registered capital of Senhao Shanghai shall be increased to US\$800,000, pursuant to which additional capital of US\$250,000 shall be contributed by Sling Incorp. As advised by our PRC Legal Advisers, approval for such increase in registered capital was obtained on 26 September 2008 from the relevant PRC regulatory authorities and the increase in registered capital had complied with the relevant PRC laws and regulations.

On 18 September 2015, it was resolved that the registered capital of Senhao Shanghai shall be increased to US\$2,000,000, pursuant to which additional capital of US\$1,200,000 shall be contributed by Sling Incorp. As advised by our PRC Legal Advisers, approval for such increase in registered capital was obtained on 4 November 2015 from the relevant PRC regulatory authorities and the increase in registered capital had complied with the relevant PRC laws and regulations.

As at the Latest Practicable Date, Senhao Shanghai was principally engaged in wholesale and retail of handbags, wallets and luggage.

(d) Senxuan Shanghai

On 17 April 2016, Senxuan Shanghai was established by Sling Incorp in the PRC with registered capital of US\$100,000 which was paid up by Sling Incorp.

As at the Latest Practicable Date, Senxuan Shanghai was principally engaged in the business of retail and export of handbags, wallets and luggage.

(e) Shenzhen Yaying

On 7 July 2016, Shenzhen Yaying was established by Sling Incorp in the PRC with registered capital of RMB50,000 which was to be paid up by Sling Incorp before 31 December 2027.

As at the Latest Practicable Date, Shenzhen Yaying was inactive.

(f) Elite Grand

On 30 October 2009, Elite Grand was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On 30 October 2009, one share of HK\$1.00 was allotted and issued to GNL09 Limited, which is an Independent Third Party.

On 26 April 2010, 9,499 shares and 500 shares of Elite Grand were allotted and issued to Sling Incorp and an Independent Third Party. On the same day, GNL09 Limited transferred its one share of Elite Grand to Sling Incorp at par. As at 26 April 2010, the shareholding structure of Elite Grand was set out below:

<u>Name of shareholder</u>	<u>Number of share(s)</u>	<u>Approximate percentage of shareholding (%)</u>
Sling Incorp	9,500	95.00%
An Independent Third Party	<u>500</u>	<u>5.00%</u>
Total:	<u><u>10,000</u></u>	<u><u>100.00</u></u>

On 2 November 2016, the Independent Third Party transferred its 500 shares of Elite Grand to Sling Incorp at the consideration of HK\$500.00. Since the transfer, Elite Grand has become a wholly-owned subsidiary of Sling Incorp.

As at the Latest Practicable Date, Elite Grand was dormant.

5. Associate corporations of our Company during the Track Record Period

(a) *Eternal Goldyard Limited*

On 21 February 2014, Eternal Goldyard Limited was incorporated in Hong Kong with limited liability, with the share capital of HK\$5,000,000 divided into 5,000,000 shares of HK\$1.00 each. Eternal Goldyard was owned as to 25% by Sling Incorp and 75% by Independent Third Parties during the Track Record Period. On 21 March 2017, Sling Incorp transferred all its shares in Eternal Goldyard Limited to an Independent Third Party at a consideration of HK\$1.00.

(b) *Mercantile Group Limited*

On 21 February 2014, Mercantile Group Limited was incorporated in Hong Kong with limited liability, with the share capital of HK\$1,375,000 divided into 1,375,000 shares of HK\$1.00 each. Mercantile Group was owned as to 32% by Sling Incorp and 68% by Independent Third Parties during the Track Record Period. On 14 September 2016, Sling Incorp transferred all its shares in Mercantile Group Limited to an Independent Third Party at a consideration of HK\$1.00.

6. Changes in share capital of the subsidiaries of our Company

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this prospectus.

Save for the alterations described in the paragraph headed "4. Subsidiaries of our Company" above and the section headed "History and development and Reorganisation" of this prospectus, there is no alteration in the share capital of our subsidiaries which took place within the two years immediately preceding the date of this prospectus.

7. Subsidiary which was deregistered

Senqing Shanghai

Senqing Shanghai was established in the PRC on 18 September 2012 with a registered capital of RMB500,000. Senqing Shanghai was wholly owned by Sling Incorp. Senqing Shanghai was originally established with the intention to engage in online sales business. Due to the cessation of the plan to establish a new entity to cater the online business of a specific e-commerce platform in the PRC, Senqing Shanghai was deregistered by our Group on 22 January 2017.

Our Directors confirm that there are no material contingent liabilities during the deregistration process of Senqing Shanghai.

8. Group Reorganisation

The companies comprising our Group underwent a Reorganisation to rationalise our Group's structure in preparation for Listing, steps of our Reorganisation are set out in the section headed "History and development and Reorganisation" of this prospectus.

9. Further information about our Group's PRC establishment

Our Group has interest in the registered capital of the following establishments in the PRC. A summary of the corporate information of such companies are set out as follows:

Senhao Shanghai

- | | | |
|-------|-------------------------|---|
| (i) | Name of the enterprise: | Senhao Shangmao (Shanghai) Company Limited*
(森浩商貿(上海)有限公司) |
| (ii) | Economic nature: | Wholly foreign-owned enterprise |
| (iii) | Registered owner: | Sling Incorp |
| (iv) | Total investment: | US\$2,749,000 |

- | | | |
|--------|-------------------------------------|--|
| (v) | Registered capital: | US\$2,000,000 |
| (vi) | Attributable interest to our Group: | 100% |
| (vii) | Term of operation: | From 19 October 2005 to 18 October 2035 |
| (viii) | Scope of business: | Wholesale and retail of handbags and bags (including luggage), clothing, accessories and general merchandises; import and export of self-produced goods; commission agent (excluding auction); and related supporting services (including distribution, consulting services and after-sale services, etc. related to goods sold) |

Senxuan Shanghai

- | | | |
|--------|-------------------------------------|---|
| (i) | Name of the enterprise: | Senxuan Shangmao (Shanghai) Company Limited*
(森渲商貿(上海)有限公司) |
| (ii) | Economic nature: | Wholly foreign-owned enterprise |
| (iii) | Registered owner: | Sling Incorp |
| (iv) | Total investment: | US\$140,000 |
| (v) | Registered capital: | US\$100,000 |
| (vi) | Attributable interest to our Group: | 100% |
| (vii) | Term of operation: | From 17 April 2016 to 16 April 2046 |
| (viii) | Scope of business: | Wholesale and retail (only by branch offices out of the China (Shanghai) Pilot Free Trade Zone) of packaging materials, handbags and bags, clothing, jewellery (excluding rough and loose diamonds); import and export; commission agent (excluding auction); and related supporting services |

Shenzhen Yaying

- | | | |
|--------|-------------------------------------|--|
| (i) | Name of the enterprise: | Shenzhen Yaying Design Company Limited*
(深圳雅盈設計有限公司) |
| (ii) | Economic nature: | Wholly foreign-owned enterprise |
| (iii) | Registered owner: | Sling Incorp |
| (iv) | Total investment: | RMB50,000 |
| (v) | Registered capital: | RMB50,000 |
| (vi) | Attributable interest to our Group: | 100% |
| (vii) | Term of operation: | From 7 July 2016 to 7 July 2046 |
| (viii) | Scope of business: | Design of apparel, packaging and decoration, accessories; wholesale and retail of general merchandise, apparel and jewellery (excluding loose diamonds); commission agent (excluding auction); import and export and related supporting services (excluding merchandise managed by state-owned trading enterprises; the company is required to apply to the relevant authorities for relevant quota, licence and other approvals if applicable)* |

* *It is currently inactive*

10. Repurchase by our Company of our own securities

This section includes information relating to the repurchase of securities, including information required by the GEM Listing Rules to be included in this prospectus concerning such repurchase. The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarised below:

(a) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholder, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by our Shareholders on 15 December 2017, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or 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, of up to 10% of the aggregate number of issued Shares immediately following completion of the Capitalisation Issue and the Share Offer but excluding any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first (Please refer to the above paragraph headed “3. Resolutions of our Shareholders” in this Appendix for further details).

(b) *Source of funds*

Any repurchases must be paid out of funds legally available for the purpose in accordance with the Articles, GEM Listing Rules and all the applicable Cayman Companies Law. We may not repurchase our 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. Under the Cayman Islands laws, any repurchases by us may be made out of our profits, our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Cayman Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the Shares to be repurchased must be provided for out of either or both of our profits or our share premium account or, if authorised by the Articles and subject to the Cayman Companies Law, out of capital.

(c) *Connected parties*

The GEM Listing Rules prohibit our Company from knowingly repurchasing its Shares on GEM from a core connected person and a core connected person shall not knowingly sell his/her/its Shares to our Company.

No core connected person has notified our Company that he/she/it has a present intention to sell his/her/its Shares to our Company, or has undertaken not to do so, if any repurchase mandate is exercised.

(d) *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. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(e) *Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

(f) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles, and the applicable laws of the Cayman Islands.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

Our Company has not made any repurchase of its own securities since its incorporation.

(g) *Takeovers Code*

If, as a result of any repurchase of Shares, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

11. Registration of Part 16 of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part 16 of the Companies Ordinance on 8 March 2017. Our Company has been registered as non-Hong Kong company under Part 16 of the Companies Ordinance. Mr. Sonny Yau has been appointed as an agent of our Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

12. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) a share purchase agreement dated 4 December 2017 and entered into among our Company (as purchaser), and Yen Sheng BVI and Summit Time (as vendors and warrantors), pursuant to which the entire issued share capital of Sling BVI held by Yen Sheng BVI and Summit Time was transferred to our Company in return for 1,000,000 nil-paid Shares registered in the names of Yen Sheng BVI and Summit Time to be credited as fully paid;
- (b) a deed of indemnity dated 28 December 2017 executed by our Controlling Shareholders (namely (i) Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI, and (ii) Ms. Agnes Li and Summit Time) in favour of our Company (for ourselves and as trustee for our subsidiaries stated therein) containing the indemnities more particularly referred to in the paragraph headed "19. Estate duty, tax and other indemnities" of this Appendix; and
- (c) the Underwriting Agreement.

13. Intellectual property rights of our Group

Trademark

As at the Latest Practicable Date, members of our Group had registered/applied for the following trademarks which we considered material to our business and operations:

(a) *Registered trademarks*

No.	Trademark	Place of registration	Class	Registration No.	Expiry date
1.	杰茜简恩	PRC	25 (Notes 1 and 2)	15343389	27 October 2025
2.	杰茜简恩	PRC	14 (Notes 1 and 2)	15343202	27 October 2025
3.	及简	PRC	25 (Notes 1 and 2)	15343133	27 January 2026
4.	及简	PRC	18 (Notes 1 and 2)	15338408	27 September 2026
5.	杰茜简恩	PRC	18 (Notes 1 and 2)	15343315	27 October 2025
6.	及简	PRC	14 (Notes 1 and 2)	15338311	20 October 2025
7.	 JESSIE & JANE	PRC	18 (Notes 1 and 2)	7443014	20 October 2020
8.	 JESSIE & JANE	PRC	14 (Notes 1 and 2)	7443004	6 October 2020
9.		Hong Kong	18 (Note 3)	304004216	27 December 2026
10.		Hong Kong	18 (Note 3)	304004225	27 December 2026
11.	JESSIE & JANE •	PRC	14 (Notes 1 and 2)	19575224	27 May 2027
12.	JESSIE & JANE •	PRC	18 (Notes 1 and 2)	19575214	27 May 2027
13.	JESSIE & JANE •	PRC	35 (Notes 1 and 2)	20496297	20 August 2027

(b) *Trademarks in application*

<u>No.</u>	<u>Trademark</u>	<u>Place of registration</u>	<u>Class</u>	<u>Application No.</u>
14.	JESSIE & JANE •	PRC	25 (Notes 1 and 2)	19575418

Pursuant to the “Amended and Restated Licence Agreement” entered into between Senhao Shanghai and Hachette Filipacchi Presse, S.A. and dated 31 December 2015, our Group had been granted the licence to use the following trademarks which are all owned by Hachette Filipacchi Presse, S.A.:

<u>No.</u>	<u>Trademark</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration No.</u>	<u>Expiry date</u>
15.	ELLE	PRC	18 (Notes 1 and 2)	320066	29 July 2018
16.	ELLE	PRC	18 (Notes 1 and 2)	1106144	20 September 2027

Notes:

- The specific goods or services (as the case may be) under the respective classes in respect of which these trademarks were registered for/applied with (where applicable) under the PRC trademark law are as follows:

<u>Class</u>	<u>Goods/Services</u>
14	Precious metals and their alloys; jewellery and accessories; gem; watches and clocks and timers.
18	Leather and imitation of leather; animal fur and skin; luggage and travel bags; umbrella; walking sticks; whip and harness.
25	Clothing; shoes and hat.
35	advertising; business operations; business management and office matters.

- The actual specifications under the respective classes in respect of which these trademarks were registered for/applied with (where applicable) are as follows:

<u>No.</u>	<u>Class</u>	<u>Goods/Services</u>
1, 14	25	clothing; baby bodysuits; shoes; hat; socks; gloves; tie; scarf; belt; wedding gown.
2, 6, 11	14	unprocessed or semi-processed precious metals and their alloys; jewellery box; accessories (jewellery); jewellery; precious metal art works; jade; silver art works; accessories, jewellery and art works made of horns, bones, teeth and watches.
3	25	wedding gown

<u>No.</u>	<u>Class</u>	<u>Goods/Services</u>
4	18	unprocessed or semi-processed leather; leather accessories for domestic use and leather lace.
5, 12	18	unprocessed or semi-processed leather; bags; leather accessories for domestic use; key wallets; shopping bags; briefcase; luggage; carrying bags; leather lace and umbrella.
7	18	backpacks; shopping bags; briefcase; luggage; key box (leather); wallets; umbrella and walking stick.
8	14	precious metal alloys; jewellery; precious metals art works; accessories (jewellery); silver art works; metals; diamonds; watches and clocks.
13	35	displaying products on mass media for retail purposes; advertising; franchising business management; business management assistance; marketing; promotion for third parties; import and export agency service; human resources management consultation service and sponsorship.
15	18	leather (animal); imitation of leather; box (imitation of leather); leather accessories; leather for industrial use.
16	18	leather and imitations of leather; animal skins and hides; luggage and carrying bags; umbrellas and parasols; walking sticks; whips, harness and saddlery; collars, leashes and clothing for animals.

3. Under the Hong Kong trademark law, the specific goods or services (as the case may be) under class 18 in respect of which these trademarks were registered for are: leather and imitations of leather; animal skins and hides; luggage and carrying bags; umbrellas and parasols; walking sticks; whips, harness and saddler; collars, leashes and clothing for animals.

Domain names

As at the Latest Practicable Date, members of our Group had registered the following domain names:

<u>No.</u>	<u>Domain name</u>	<u>Registration date</u>	<u>Expiry date</u>
1.	jessiejanebag.com	19 October 2016	19 October 2021
2.	sling-inc.com	18 December 2015	18 December 2025

14. Related party transactions

Save as disclosed in note 27 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, we have not engaged in any other material related party transactions.

FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS**15. Directors****(a) *Disclosure of interests of Directors***

- (i) Mr. Sonny Yau, Mr. Sammy Yau and Mr. Fred Yau are interested in our Reorganisation.
- (ii) Save as disclosed in this prospectus, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 15 December 2017. The terms and conditions of each of such service agreements are similar in all material aspects. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing term.

Each of our executive Directors is entitled to a basic salary as set out below (subject to an annual increment after 15 December 2017 at the discretion of our Directors of not more than 5% of the annual salary immediately prior to such increase). In addition, each of our executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all our executive Directors for any financial year of our Company may not exceed 10% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director is required to abstain from voting and is not counted towards the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current basic annual salaries (excluding discretionary bonus) of our executive Directors are as follows:

<u>Name</u>	<u>Annual salary</u> HK\$'000
Mr. Fred Yau	390
Mr. Brian Lee	1,638
Mr. Yip Chun Wai	520

Non-executive Directors and independent non-executive Directors

Each of our non-executive Directors and independent non-executive Directors has been appointed for an initial term of two years commencing from 15 December 2017 renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by our non-executive Directors or independent non-executive Directors or our Company expiring at the end of the initial term or at any time thereafter. Each of our non-executive Directors and independent non-executive Directors is entitled to a director's fee of HK\$120,000 per annum and HK\$200,000 per annum, respectively. Save for directors' fees, none of our non-executive Directors and independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) *Remunerations of Directors*

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of each of the two years ended 31 December 2016 and the six months ended 30 June 2017 was approximately RMB1,269,000, RMB1,180,000 and RMB965,000 respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our non-executive Directors and independent non-executive Directors) for the year ending 31 December 2017, are expected to be approximately RMB2,106,000.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the two years ended 31 December 2016 and the six months ended 30 June 2017 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2016 and the six months ended 30 June 2017.

(d) *Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Share Offer*

Immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, the interests or short positions of our Directors in the Shares, underlying Shares and debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors required to be notified to our Company and the Stock Exchange, will be as follows:

(i) *Interest in our Company*

<u>Name of Director</u>	<u>Capacity/nature of interest</u>	<u>Number of shares (Note 1)</u>	<u>Approximate percentage of shareholding (%)</u>
Mr. Sammy Yau	Interest of controlled corporation	291,838,960 (L) (Note 2)	52.1141
Mr. Sonny Yau	Interest of controlled corporation	291,838,960 (L) (Note 2)	52.1141

Notes:

- The letter "L" denotes long position in our Shares.
- These Shares consist of 291,838,960 Shares held by Yen Sheng BVI. As at the Latest Practicable Date, Yen Sheng BVI was owned as to approximately 49.3120% by Mr. Sammy Yau and approximately 49.2321% by Mr. Sonny Yau.

(ii) *Interest in Yen Sheng BVI*

<u>Name of Director</u>	<u>Capacity/nature of interest</u>	<u>Number of shares (Note)</u>	<u>Approximate percentage of shareholding (%)</u>
Mr. Sammy Yau	Beneficial owner	493,120 (L)	49.3120%
Mr. Sonny Yau	Beneficial owner	492,321(L)	49.2321%
Mr. Fred Yau	Beneficial owner	6,863 (L)	0.6863%

Note: The letter "L" denotes long position in the shares of Yen Sheng BVI.

16. Interests discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer and taking no account of any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, other than a Director or chief executive of our Company whose interests are disclosed under the sub-paragraph headed “Interests and short positions of our Directors in the Shares, underlying Shares or debentures of our Company and our associated corporations following the Share Offer” above, the following persons will have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of our Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of our Group will be as follows:

<u>Name of Substantial Shareholder</u>	<u>Nature of interest and capacity</u>	<u>Number of Shares (Note 1)</u>	<u>Approximate percentage of shareholding (%)</u>
Yen Sheng BVI	Beneficial owner	291,838,960 (L)	52.1141
Ms. Chan Yee Ling Elaine (Note 2 & 3)	Interest of spouse	291,838,960 (L)	52.1141
Ms. Cecilia Hiang (Note 2 & 4)	Interest of spouse	291,838,960 (L)	52.1141
Summit Time	Beneficial owner	128,161,040 (L)	22.8859
Ms. Agnes Li (Note 5)	Interest in controlled corporation	128,161,040 (L)	22.8859
Mr. Lee Shui Kwai Victor (Note 6)	Interest of spouse	128,161,040 (L)	22.8859

Notes:

1. The Letter “L” denotes the individual’s/corporations long position in our Shares.
2. Yen Sheng BVI was beneficially owned by Mr. Sammy Yau and Mr. Sonny Yau as to approximately 49.3120% and 49.2321%, respectively, as at the Latest Practicable Date. By virtue of the SFO, Mr. Sammy Yau and Mr. Sonny Yau are deemed to be interested in all the Shares held by Yen Sheng BVI.
3. Ms. Chan Yee Ling Elaine is the spouse of Mr. Sammy Yau. By virtue of the SFO, Ms. Chan Yee Ling Elaine is deemed to be interested in all the Shares held by Mr. Sammy Yau.
4. Ms. Cecilia Hiang is the spouse of Mr. Sonny Yau. By virtue of the SFO, Ms. Cecilia Hiang is deemed to be interested in all the Shares held by Mr. Sonny Yau.
5. Summit Time was beneficially wholly owned by Ms. Agnes Li as at the Latest Practicable Date. By virtue of the SFO, Ms. Agnes Li is deemed to be interested in all the Shares held by Summit Time.
6. Mr. Lee Shui Kwai Victor is the spouse of Ms. Agnes Li. By virtue of the SFO, Mr. Lee Shui Kwai Victor is deemed to be interested in all the Shares held by Ms. Agnes Li.

17. Disclaimers

Save as disclosed in this prospectus:

- (a) taking no account of any Shares which may be taken up or acquired under the Share Offer or any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, our Directors are not aware of any person who immediately following completion of the Capitalisation Issue and the Share Offer will have an interest or short position in our Shares and underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other members of our Group;
- (b) none of our Directors or chief executive of our Company has for the purpose of Divisions 7 and 8 of Part XV of the SFC or the GEM Listing Rules, nor is any of them taken to or deemed to have under Divisions 7 and 8 of Part XV of the SFC, an interest or short position in our Shares, underlying Shares and debentures of our Company or any associated corporations (within the meaning of the SFO) or any interest which will have to be entered in the register of to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant Rules 5.46 to 5.67 of the GEM Listing Rules once our Shares are listed on the Stock Exchange;
- (c) none of our Directors nor any of the experts listed in paragraph headed “25. Qualification of experts” below has been interested, directly or indirectly, in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) 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; and
- (e) save in connection with the Underwriting Agreement, none of the experts listed in paragraph headed “25. Qualifications of experts” below:
 - i. is interested legally or beneficially in any securities of any member of our Group; or
 - ii. has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

OTHER INFORMATION

18. Share Option Scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all Shareholders on 15 December 2017:

(i) *Purpose of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the GEM Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) *Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 18, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the “**Invested Entity**”) in which our Group holds an equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;

- (ee) any person or entity that provide research, development or other technological support to any member of our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group,

and, for the purpose of the Share Option Scheme, the options may be granted to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the above class of participants to the grant of any option shall be determined by our Directors from time to time on the basis of our Directors' option as to his contribution to the development and growth of our Group.

(iii) *Maximum number of Shares*

- (aa) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the issued share capital of our Company from time to time.
- (bb) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which trading of the Shares commence on GEM (the “**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option

Scheme and any other share options scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to our Shareholders shall contain, among other information, the information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

- (dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above 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 general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(iv) *Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 23.03(9) of the GEM Listing Rules.

(v) *Grant of options to connected persons*

- (aa) Any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the GEM Listing Rules) must be approved by independent non-executive Directors (excluding any independent non-executive Director who or whose associates is the grantee of the options).
- (bb) Where any grant of options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting. Our Company must send a circular to our Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by our Shareholders in general meeting.

(vi) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) *Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) *Subscription price for Shares and consideration for the option*

The subscription price for Shares under the Share Option Scheme will be a price determined by our Directors, but shall not be less than the higher of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of our Shares on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) *Ranking of Shares*

- (aa) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been only entered on the register of members of our Company as the holder thereof.
- (bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, reclassification or reduction of the share capital of our Company from time to time.

(x) *Restrictions on the time of grant of options*

No offer for grant of options shall be made after inside information has come to the knowledge of our Company until we have announced the information in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the meeting of our Directors for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules); and (bb) the last date on which our Company must publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the announcement of the results, no option may be granted.

Our Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) *Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive Director but not any non-executive Director) of our Company, any of our subsidiaries or any Invested Entity.

(xiii) *Rights on death, ill-health or retirement*

If the grantee of an option is an Eligible Employee and in the event of him ceasing to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine or, if any of the events referred to in subparagraph (xvi) or (xvii) occur during such period, within the period so requires.

(xiv) *Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) *Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and any member of our Group or any Invested Entity on the other part; or (2) the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of any member of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the option granted to the grantee under the Share Option scheme shall lapse as a result of (1), (2) or (3) above.

(xvi) *Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, *mutatis mutandis*, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, a

grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(xvii) *Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) *Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant eligible participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalisation issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares to which the Share Option Scheme or any option relates (insofar as it is/they are unexercised) and/or the subscription price of the option concerned and/or (unless the grantee of the option elects to waive such adjustment) the number of Shares comprised in an option, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant subparagraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii); and
- (cc) the date on which our Directors exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) above by the grantee.

(xxiv) Others

- (aa) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares representing the General Scheme Limit to be allotted and issued by our Company pursuant to the exercise of any options in accordance with the terms and conditions of the Share Option Scheme.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees of the options except with prior sanction of a resolution of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature of options granted must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in general meeting.

(b) *Present status of the Share Option Scheme**(i) Approval of the Listing Committee required*

The Share Option Scheme is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options in accordance with the terms and conditions of the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) *Application for approval*

Application has been made to the Listing Committee for the listing of and permission to deal in our Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) *Grant of option*

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) *Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

19. Estate duty, tax and other indemnities

Our Controlling Shareholders (including (i) Ms. Cecilia Hiang, Mr. Sammy Yau, Mr. Sonny Yau, Mr. Fred Yau, Mr. Nicholas Yau and Yen Sheng BVI, and (ii) Ms. Agnes Li and Summit Time) (together, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for ourselves and as trustee for each of our present subsidiaries) (being the material contract referred to in paragraph 12 above) to provide indemnities on a joint and several basis in respect of, among other matters:

- (a) any liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing; and
- (b) tax liabilities (including all fines, penalties, costs, charges, expenses and interests incidental or relating to taxation) which might be payable by any member of our Group in respect of any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into or occurring on or before the Listing Date, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such tax liabilities are chargeable against or attributable to any other person, firm, company or corporation.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of any member of our Group for any accounting period up to 30 June 2017;
- (b) to the extent that such taxation or liability falling on any of the members of our Group in respect of any accounting period commencing on or after 1 July 2017 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, otherwise than any such act, omission or transaction:
 - (i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or after 1 July 2017; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2017 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation liabilities or claim arises or are incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong, or any other relevant authority (whether in Hong Kong or the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or
- (d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of our Group up to 30 June 2017 and which is finally established to be an overprovision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Under the deed of indemnity, each of the Indemnifiers has also undertaken to us that he/she/it will indemnify and at all times keeps us fully indemnified, on a joint and several basis, from any losses arising from our Reorganisation.

20. Litigation

As at the Latest Practicable Date, no member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operation or financial condition of our Company.

21. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$5,460 and are payable by our Company.

22. Promoter

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters of our Company in connection with the Share Offer or the related transactions in this prospectus.

23. Agency fees or commissions received

Except as disclosed in the section headed “Underwriting — Commission and expenses” of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of any member of our Group within the two years immediately preceding the date of this prospectus.

24. Sole Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued upon the exercise of any option which may be granted under the Share Option Scheme, being 10% of the Shares in issue on the Listing Date, on the Stock Exchange. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor is independent from our Company pursuant to Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor’s fees payable by us in respect of the Sole Sponsor’s services as sponsor for Listing is HK\$4.3 million.

25. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Kingsway Capital Limited	Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Grant Thornton Hong Kong Limited	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Dixon Y.T. Co	Barrister-at-law in Hong Kong
Commerce & Finance Law Offices	Qualified PRC lawyers
Frost & Sullivan	Industry expert
Grant Thornton Tax Services Limited	Tax adviser

26. Consents of experts

Each of the experts named in paragraph 25 of this Appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their report and/or letter and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

27. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of it, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

28. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in 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.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty so long as our Company does not hold any interest in land in the Cayman Islands.

29. Miscellaneous

- (a) Save as disclosed in this prospectus
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of our Company or any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries; and
 - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
 - (ii) no part of the shares or loan capital of our Company is listed, traded or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek listing of, or permission to deal in, any part of the shares or loan capital on any other stock exchange;
 - (iii) our Company has no outstanding convertible debt securities; and
 - (iv) 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;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 30 June 2017 (being the date to which the latest audited combined financial statements of our Group were made up); and
- (c) our Directors confirm that 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 12 months preceding the date of this prospectus.

30. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and the Chinese language version, the English language version shall prevail.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents, copies of the Application Forms, the written consents referred to in the paragraph headed “Other information — 26. Consents of experts” of Appendix IV to this prospectus and certified copies of the material contracts referred to in the paragraph headed “Further information about the business of our Company — 12. Summary of material contracts” of Appendix IV to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Chiu & Partners of 40th Floor, Jardine House, 1 Connaught Place, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the accountants’ report of our Group prepared by Grant Thornton Hong Kong Limited, the text of which is set out in Appendix I to this prospectus;
- (c) the letter from Grant Thornton Hong Kong Limited on unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (d) the audited statutory financial statements of each of the companies comprising our Group for the two years ended 31 December 2016;
- (e) the Cayman Companies Law;
- (f) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix III to this prospectus;
- (g) the legal opinion prepared by our PRC Legal Advisers in respect of certain aspects of our Group in the PRC;
- (h) the legal opinion prepared by our Hong Kong Legal Adviser in respect of (1) our compliance with the Companies Ordinance; and (2) our compliance to relevant laws and regulations of Hong Kong regarding our Group’s business;
- (i) the industry report prepared by Frost & Sullivan referred to in the section headed “Industry overview” in this prospectus;
- (j) the tax report prepared by Grant Thornton Tax Services Limited;

- (k) the material contracts referred to in the paragraph headed “Further information about the business of our Company — 12. Summary of material contracts” in Appendix IV to this prospectus;
- (l) the written consents referred to in the paragraph headed “Other information — 26. Consents of experts” in Appendix IV to this prospectus;
- (m) the rules of the Share Option Scheme; and
- (n) the service contracts and letters of appointment referred to in the paragraph headed “Further information about Directors, substantial shareholders and experts — 15. Directors — (b) Particulars of Directors’ service contracts” in Appendix IV to this prospectus.

SLING GROUP HOLDINGS LIMITED
森浩集團股份有限公司