

ST International Holdings Company Limited 智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8521

SHARE OFFER

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



IMPORTANT

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

ST International Holdings Company Limited 智紡國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON GEM OPERATED BY THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 120,000,000 Shares (subject to the Offer Size Adjustment Option)
Number of Public Offer Shares	: 12,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 108,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)
Offer Price	: Not more than HK\$0.60 per Offer Share and expected to be not less than HK\$0.50 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	: HK\$0.01 each
Stock Code	: 8521

Sole Sponsor



Joint Bookrunners



Joint Lead Managers



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 of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by the Price Determination Agreement between the Joint Bookrunners (acting for themselves and on behalf of the Underwriters) and the Company on or about Monday, 7 May 2018 and in any event, not later than Monday, 14 May 2018. If, for any reason, the Joint Bookrunners (acting for themselves and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Offer Price by that date or such later date as agreed by the Company and the Joint Bookrunners (acting for themselves and on behalf of the Underwriters), the Share Offer will not become unconditional and will lapse. The Offer Price will not be more than HK\$0.60 per Offer Share and not less than HK\$0.50 per Offer Share, unless otherwise announced. The Joint Bookrunners (acting for themselves and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that as stated in this prospectus at any time prior to the Price Determination Date. In such a case, notice of the reduction in the indicative Offer Price range will be available on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.smart-team.cn.

The Offer Shares have not been and will not be registered under the US Securities Act and may not be offered, sold, pledged or transferred, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US state securities laws. The Offer Shares are being offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

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" in this prospectus. Pursuant to the termination provisions contained in the Underwriting Agreements, the Joint Bookrunners (acting for themselves and on behalf of the Underwriters) has the right in certain circumstances, in its joint and absolute discretion, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Further details of the terms of the termination provisions are set out in the sub-section headed "Underwriting – Underwriting arrangements and expenses – Grounds for termination" in this prospectus. It is important that you refer to the said sub-section for further details.

30 April 2018

CHARACTERISTICS OF GEM

GEM has been positioned as a market designed to accommodate small and mid-sized 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.

Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

EXPECTED TIMETABLE

If there is any change in the following expected timetable, we will issue an announcement on the website of our Company at www.smart-team.cn 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 ^(Note 2)	11:30 a.m. on Friday, 4 May
Application lists for Public Offer open ^(Note 3)	11:45 a.m. on Friday, 4 May
Latest time for lodging WHITE and YELLOW Application Forms and to give electronic application instructions to HKSCC ^(Note 4)	12:00 noon on Friday, 4 May
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Friday, 4 May
Application lists for Public Offer close ^(Note 3)	12:00 noon on Friday, 4 May
Expected Price Determination Date on or about ^(Note 5)	Monday, 7 May
Announcement of the final Offer Price, indication of the level of interest in the Placing, the level of applications of the Public Offer, the basis of allocation of the Public Offer Shares to be published in the Company's website at www.smart-team.cn and the website of the Stock Exchange at www.hkexnews.hk on or before	Tuesday, 15 May

EXPECTED TIMETABLE

Announcement of results of allocations in the Public Offer
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of
channels including the Company's website at **www.smart-team.cn**
and the website of the Stock Exchange at **www.hkexnews.hk**
(for further details, please see the section headed "How to apply
for Public Offer Shares – 11. Publication of results"
of this prospectus) on or before Tuesday, 15 May

Results of allocations in the Public Offer will be available
at **www.tricor.com.hk/ipo/result** with
a "search by ID" function from Tuesday, 15 May

Despatch/collection of the **HK eIPO White Form** e-Auto Refund
payment instructions and refund cheques in respect of wholly
or partially unsuccessful applications and wholly or
partially successful applications (if applicable) in case
the final Offer Price is less than the maximum Offer Price paid
for the applications pursuant to the Public Offer on or before
(*Note 7 & Note 8*) Tuesday, 15 May

Despatch/collection of Share certificates in respect of wholly or
partially successful applications pursuant to the Public Offer
on or before (*Note 7 & Note 8*) Tuesday, 15 May

Dealings in Shares on GEM expected to commence
at 9:00 a.m. on Wednesday, 16 May

Notes:

1. All times and dates refer to Hong Kong local time, 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" in this prospectus.
2. You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.

EXPECTED TIMETABLE

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 Friday, 4 May 2018, the application lists will not open on that day. For further details, please see the section headed “How to apply for Public Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply by giving electronic application instructions to HKSCC should refer to the subsection headed “How to Apply for Public Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on or about Monday, 7 May 2018 and in any event, not later than Monday, 14 May 2018. If, for any reason, the Offer Price is not agreed on or before the Price Determination Date between the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Share Offer will not proceed and will lapse accordingly.
6. Share certificates for the Public Offer Shares are expected to be issued on or before Tuesday, 15 May 2018 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 16 May 2018 provided that (a) the Share Offer has become unconditional in all respects; and (b) none of the Underwriting Agreements has been terminated in accordance with its terms.
7. Applicants who have applied on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares under the Public Offer and have provided all required information may collect their refund cheques and share certificates (as applicable) in person from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong on Tuesday, 15 May 2018. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorisation from their corporation stamped with the corporation’s chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to our Hong Kong Branch Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques (where relevant) in person but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection on the date of despatch of refund cheque as described in the subsection headed “How to apply for Public Offer Shares – 14. Despatch/Collection of share certificates and refund monies” in this prospectus.

EXPECTED TIMETABLE

8. e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful application and also in respect of successful applications in the event that the final Offer Price is less than the price per Public Offer Share payable on application. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) despatched to their application payment bank account on Tuesday, 15 May 2018. Applicants who have applied through the **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) despatched to the address specified in their application instructions through the **HK eIPO White Form** service, on or before Tuesday, 15 May 2018, by ordinary post and at their own risk.

9. Share certificates will only become valid certificates of title provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of their Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

The above expected timetable is a summary only. For further details of the structure and conditions of the Share Offer, you should see the section headed “Structure and conditions of the Share Offer” in this prospectus. You should also see the section headed “How to apply for Public Offer Shares” for the procedures for application for the Public Offer Shares.

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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 or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus to make your investment decision. We 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 us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer.

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SUMMARY

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

OVERVIEW

We are a provider of functional knitted fabrics in the PRC. Our products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. We design functional knitted fabrics through our product innovation capabilities, source our raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing for our direct sales of functional knitted fabrics to our customers. With a view to diversifying our source of revenue and creating cross-selling opportunity, we also engage in the sales of apparel made of our functional knitted fabrics for our customers which are lingerie and apparel brand owners. Sales of functional knitted fabrics and apparel represented approximately 97.4% and 0.2%, 87.3% and 3.0% and 88.6% and 10.2% of our total revenue for the years ended 31 December 2015, 2016 and 2017, respectively.

We have established relationships with major lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife, and sourcing agents such as Itochu who on-sell to its customers which are lingerie and apparel brand owners and garment manufacturers.

For the years ended 31 December 2015, 2016 and 2017, our revenue was approximately HK\$64.1 million, HK\$80.3 million and HK\$125.3 million, respectively. Our profit for the years ended 31 December 2015, 2016 and 2017 was approximately HK\$12.1 million, HK\$18.5 million and HK\$20.2 million, respectively.

OUR PRODUCTS

Our success and growth largely depend on our ability to improve our existing products and to develop new products which meet customers' needs. As a result of our effort and capabilities in the research and development, by combining different fibres mixtures and using different knitting methods, we are able to offer a range of functional knitted fabrics with different features. As at the Latest Practicable Date, we had a research and development team comprising 17 skilled technicians and we possessed eight registered patents in functional knitted fabrics as well as production and dyeing processes. For details of our research and development team, please refer to the section headed “Business – Research and development” of this prospectus. Our functional

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knitted fabrics carry different features such as stretch, skin-care, anti-bacterial, rapid drying and moisture management. We make use of the synthetic fibres with special functions such as temperature regulation and moisture absorption to produce fabrics with different function. We add value to our functional knitted fabrics by embedding different functional properties in the fabrics. We strategically focus on the sales of functional knitted fabrics, which command higher selling prices and generate higher profit margins. We believe that our product offerings enable us to better serve our existing customers and attract new customers by effectively adapting to product and technical adjustments according to the changes in their needs. With our strong research, development and technical capabilities, we will be able to further expand our product offerings, improve our product quality as well as strengthen and maintain our collaborations with our customers.

We offer functional knitted fabrics which fall into two main categories, namely (i) thermal fabrics; and (ii) cooling fabrics. Sales of thermal fabrics accounted for approximately 91.0%, 93.7% and 91.5% of our total sales of functional knitted fabrics for the years ended 31 December 2015, 2016 and 2017, respectively. For further details of our products, please see the section headed “Business – Our products”.

OUR CUSTOMERS

The following table sets out the breakdown of our revenue by customer type during the Track Record Period:–

Customer type	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	% to total revenue	HK\$'000	% to total revenue	HK\$'000	% to total revenue
Lingerie and apparel brand owners	50,224	78.3	43,330	54.0	82,935	66.2
Sourcing agents	9,786	15.3	30,698	38.3	34,618	27.6
Garment manufacturers	<u>4,094</u>	<u>6.4</u>	<u>6,222</u>	<u>7.7</u>	<u>7,722</u>	<u>6.2</u>
Total	<u>64,104</u>	<u>100.0</u>	<u>80,250</u>	<u>100.0</u>	<u>125,275</u>	<u>100.0</u>

We have established relationships with major lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife, as well as sourcing agents such as Itochu who on-sell to its customers which are lingerie and apparel brand owners and garment manufacturers. As at the Latest Practicable Date, we did not enter into long-term sales agreements with our major customers. For the years ended 31 December 2015, 2016 and 2017, revenue attributable to our five largest customers accounted for approximately 89.2%, 71.2% and 66.5% of our total revenue, respectively. For further details in relation to our customers concentration, please see the section headed “Business – Customers, sales and marketing – Our customers – Customer concentration”.

SUMMARY

THIRD PARTY FACTORIES AND OUR RAW MATERIAL SUPPLIERS

We rely on third party factories and raw material suppliers for our operation. During the Track Record Period, we outsourced the production processes to more than 40 third party factories. For the years ended 31 December 2015, 2016 and 2017, our processing fees amounted to approximately HK\$18.1 million, HK\$21.3 million and HK\$39.3 million, respectively. We procure synthetic fibres, being one of the major raw materials for production of our functional knitted fabrics, directly from Toyobo based in Japan. We also procure yarns from our yarn spinning factories which source other kinds of synthetic fibres and natural fibres and process them into yarns. For the years ended 31 December 2015, 2016 and 2017, total purchases from and processing fees to the five largest suppliers of our Group accounted for approximately 61.2%, 66.8% and 67.1% of our total purchases and processing fees, respectively. For further details in relation to our supplier reliance, please see the section headed “Business – Third party factories and raw materials suppliers – Supplier concentration”.

OUR COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths which differentiate us from our fellow competitors: (i) we have established relationships with major and reputable lingerie and apparel brand owners who are our direct customers as well as sourcing agents who are our direct customers; (ii) we possess strong product innovation capabilities with strategic focus on functional knitted fabrics; (iii) we adopt a streamlined business model which allows us to effectively manage our costs; (iv) we adopt stringent quality assurance and control measures so as to ensure our product quality; and (v) we possess an experienced and committed senior management team with extensive industry experience. Please see the section headed “Business – Our competitive strengths” for further details of our competitive strengths.

OUR BUSINESS STRATEGIES

Our principal strategies and future plans are: (i) to focus on functional knitted fabrics and continue to improve and widen our product offerings; (ii) to increase our market coverage in the PRC by intensifying our sales efforts through (a) expansion of our current operations in Beijing and Shanghai and (b) engaging in marketing activities through participation in trade shows, industry exhibitions and networking events; (iii) to strengthen our innovation capabilities and increase research and development as well as product testing resources; and (iv) to enhance our information technology infrastructure. Please see the section headed “Business – Our business strategies” for further details of our future plans and business strategies.

SUMMARY

HIGHLIGHTS OF RISK FACTORS

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. The following highlights some of the risks which are considered material by our Directors: (i) we are dependent on third party factories for the production of our products; (ii) we are exposed to customer concentration risk and we do not enter into long-term sales agreements with any of our major customers; (iii) any issues with product quality could result in defective or unsatisfactory products, which may lead to loss of customers and sales and may subject us to product liability claims; and (iv) we do not enter into long-term agreements with some of our raw materials suppliers, which exposes us to uncertainty and potential volatility in our cost and supply raw materials. Please see the section headed “Risk factors” for further details of the risks and uncertainties which our business and operations are subject to.

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Share Offer and the Capitalisation Issue (assuming that the Offer Size Adjustment Option is not exercised), our Company will be owned as to 75% by Cosmic Bliss, which is in turn wholly owned by Mr. Wong. Apart from the interests of the business of the Group, Mr. Wong holds a minority interest in a number of companies in Hong Kong and the PRC which are principally engaged in, among other businesses, textile related businesses and controlled by certain of his family members (“**Family Textile Business**”).

The Family Textile Business includes (i) sale of garment products manufactured by a related party; (ii) manufacturing and sale of garment on an original equipment manufacturer (OEM) basis; (iii) sale of dyed fabrics (such business has ceased since January 2016) and yarns; and (iv) dyeing of fabrics and yarns. Having considered the differences in the business nature, the difference in products/services provided, the independent operations, the separate facilities and the difference in customers between our Group and the Family Textile Business, we confirmed that none of the Family Textile Business is in competition with the business of our Group. Our Controlling Shareholders have entered into the Deed of Non-Competition with our Company, pursuant to which each of our Controlling Shareholders shall, and shall procure their respective close associates and/or companies controlled by them not to, directly and indirectly participate in, or hold any right or interest or otherwise involved in, any business which may be in competition with our businesses. Please see the section headed “Relationship with our Controlling Shareholders” for further details.

SUMMARY

Mr. Wong was a director of 利興強(恩平)紡織有限公司 (Li Xingqiang (Enping) Textile Co., Ltd.*) (“**Li Xingqiang**”) during the period from 25 September 2003 to 6 December 2016. In March 2016, Li Xingqiang was found guilty by Zhuhai Intermediate People’s Court of Guangdong Province for smuggling of common goods during the period from October 2010 to August 2014 (the “**Case**”). As a result, Li Xingqiang was ordered to pay fine and evaded duties of approximately RMB57 million and three personnel of Li Xingqiang were sentenced to prison. As at the Latest Practicable Date, Li Xingqiang was waiting for the result of the appeal against the first instance decision. As advised by the PRC Legal Advisers, the first instance decision of the Case is subject to the decision of the appeal and has not been enforced. The Case was not related to the Group and Mr. Wong was not a defendant of the Case and had not been asked to assist in the investigation of the Case by the relevant authorities. Please see the section headed “Directors, senior management and employees – Directors” for further details of the Case.

SUMMARY FINANCIAL INFORMATION

The following table summarises the selected items in our combined statements of profit or loss and other comprehensive income for the years ended 31 December 2015, 2016 and 2017. For more details, please see the section headed “Financial information”.

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Revenue	64,104	80,250	125,275
Gross profit	23,170	35,216	44,896
Profit for the year	12,120	18,544	20,175
Profit (loss) for the year attributable to:			
– Owners of the Company	12,051	18,895	20,252
– Non-controlling interests	<u>69</u>	<u>(351)</u>	<u>(77)</u>
	<u>12,120</u>	<u>18,544</u>	<u>20,175</u>

SUMMARY

The following tables set forth an analysis of our revenue, gross profit and gross profit margin by customer types and products during the Track Record Period:–

Customer type	Year ended 31 December											
	2015			2016			2017					
	Revenue	% to total	Gross profit	Gross profit margin	Revenue	% to total	Gross profit	Gross profit margin	Revenue	% to total	Gross profit	Gross profit margin
HK\$'000	revenue	HK\$'000	%	HK\$'000	revenue	HK\$'000	%	HK\$'000	revenue	HK\$'000	%	
Lingerie and apparel brand owners	50,224	78.3	18,391	36.6	43,330	54.0	18,249	42.1	82,935	66.2	27,713	33.4
Sourcing agents	9,786	15.3	2,602	26.6	30,698	38.3	13,648	44.5	34,618	27.6	14,785	42.7
Garment manufacturers	4,094	6.4	2,177	53.2	6,222	7.7	3,319	53.3	7,722	6.2	2,398	31.0
Total	64,104	100.0	23,170	36.1	80,250	100.0	35,216	43.9	125,275	100.0	44,896	35.8

Product	Year ended 31 December											
	2015			2016			2017					
	Revenue	% to total	Gross profit	Gross profit margin	Revenue	% to total	Gross profit	Gross profit margin	Revenue	% to total	Gross profit	Gross profit margin
HK\$'000	revenue	HK\$'000	%	HK\$'000	revenue	HK\$'000	%	HK\$'000	revenue	HK\$'000	%	
Functional knitted fabrics												
Thermal fabrics	56,851	88.7	21,611	38.0	65,621	81.8	30,208	46.0	101,498	81.0	42,581	42.0
Cooling fabrics	5,615	8.7	1,402	25.0	4,413	5.5	1,087	24.6	9,463	7.6	951	10.0
	62,466	97.4	23,013	36.8	70,034	87.3	31,295	44.7	110,961	88.6	43,532	39.2
Apparel	137	0.2	83	60.6	2,446	3.0	860	35.2	12,760	10.2	1,313	10.3
Others	1,501	2.4	74	4.9	7,770	9.7	3,061	39.4	1,554	1.2	51	3.3
Total	64,104	100.0	23,170	36.1	80,250	100.0	35,216	43.9	125,275	100.0	44,896	35.8

For the years ended 31 December 2015 and 2016, our revenue was approximately HK\$64.1 million and HK\$80.3 million, respectively, representing an increase of approximately 25.3%. In terms of revenue by products, revenue from sales of functional knitted fabrics increased from approximately HK\$62.5 million in 2015 to approximately HK\$70.0 million in 2016. Sales made to lingerie and apparel brand owners decreased from approximately HK\$50.2 million in 2015 to HK\$43.3 million in 2016 which was overwhelmed by the significant increase in the sales made to sourcing agents that increased from approximately HK\$9.8 million in 2015 to HK\$30.7 million in 2016. Decreasing revenue made to the lingerie and apparel brand owners was mainly attributed to the decrease in the sales to Aimer which was mainly due to the decrease in their demand on thermal fabrics resulted from change in their business strategy that less thermal intimate wear products were introduced in 2016. Our revenue increased from approximately HK\$80.3 million for the year ended 31 December 2016 to approximately HK\$125.3 million for the year ended 31 December 2017, representing an increase of approximately 56.0%. The increase in revenue was mainly attributable to the increase in revenue derived from some of our major customers, namely Itochu, Embry, Aimer, Customer B and Beijing Cherishlife of approximately HK\$12.8 million, HK\$9.2 million, HK\$8.2 million, HK\$8.0 million and HK\$5.9 million, respectively. With our intensified effort in the sale of apparel and increased variety of the product offerings of our apparel products, Aimer increased its purchase of our apparel products in the year ended 31 December 2017, which outweighed its reduced demand on thermal product.

SUMMARY

Selected items of combined statements of financial position

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-current assets	3,097	2,840	3,780
Current assets	39,500	58,316	98,874
Current liabilities	25,591	27,675	44,958
Non-current liabilities	171	105	1,070
Net current assets	13,909	30,641	53,916

Our current assets increased from approximately HK\$39.5 million as at 31 December 2015 to approximately HK\$58.3 million as at 31 December 2016 mainly because of the increase in (i) amounts due from a related company of approximately HK\$7.3 million; (ii) bank balances and cash of approximately HK\$4.7 million; and (iii) pledged bank deposits of approximately HK\$2.8 million. Our current assets increased from approximately HK\$58.3 million as at 31 December 2016 to approximately HK\$98.9 million as at 31 December 2017 mainly because of the (i) increase in trade and bills receivables of approximately HK\$33.5 million; (ii) increase in deposits, prepayments and other receivables of approximately HK\$11.6 million; and (iii) increase in inventories of approximately HK\$10.4 million, net of (i) decrease in bank balances and cash of approximately HK\$7.9 million; and (ii) decrease in amounts due from related companies of approximately HK\$7.3 million.

Our net current assets increased by approximately HK\$16.7 million or approximately 120.1% from approximately HK\$13.9 million as at 31 December 2015 to approximately HK\$30.6 million as at 31 December 2016, primarily due to (i) the increase in amounts due from a related company of approximately HK\$7.3 million; (ii) the increase in trade and bills receivables of approximately HK\$2.5 million; and (iii) the increase in both of the bank balances and cash and pledged bank deposits in total of approximately HK\$7.5 million, which was a result of the growth of our business and cash generated from our operations for the year ended 31 December 2016.

Our net current assets increased by approximately HK\$23.3 million or approximately 76.1% from approximately HK\$30.6 million as at 31 December 2016 to HK\$53.9 million as at 31 December 2017 primarily due to (i) the increase in trade and bills receivables of approximately HK\$33.5 million; (ii) the increase in deposits, prepayments and other receivables of approximately HK\$11.6 million; (iii) the increase in inventories of approximately HK\$10.4 million; and (iv) the decrease in amounts due to a director of approximately HK\$6.6 million, net of (i) increase in other payables and accruals of approximately HK\$11.5 million; and (ii) decrease in bank balances and cash of approximately HK\$7.9 million.

SUMMARY

Selected items of combined statements of cash flow

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating cash flows before movements in working capital	<u>14,574</u>	<u>23,636</u>	<u>25,489</u>
Net cash from/(used in) operating activities	12,945	8,501	(7,549)
Net cash used in investing activities	(1,779)	(3,316)	(1,013)
Net cash flows (used in) from in financing activities	<u>(10,277)</u>	<u>572</u>	<u>(5,711)</u>
Net increase/(decrease) in cash and cash equivalents	889	5,757	(14,273)
Cash and cash equivalents at the beginning of the year	11,500	11,984	16,657
Effect of foreign exchange rate changes	<u>(405)</u>	<u>(1,084)</u>	<u>735</u>
Cash and cash equivalents at the end of the year	<u>11,984</u>	<u>16,657</u>	<u>3,119</u>

For the year ended 31 December 2017, our net cash used in operating activities of approximately HK\$7.5 million, primarily reflecting (i) profit before tax for the period of approximately HK\$25.8 million; (ii) increase in trade and other payables of approximately HK\$15.6 million; (iii) increase in inventories of approximately HK\$9.9 million, net of (i) increase in the trade and bills receivables of approximately HK\$24.2 million; and (ii) increase in deposits, prepayment and other receivables of approximately HK\$10.9 million that mainly attributable to prepayment for processing fee and professional fee for the Listing. The negative operating cash flow in 2017 was mainly due to (i) increase in trade and bills receivables as a result of significant increase in sales of functional knitted fabrics in the fourth quarter of 2017 as compared to that in 2016 which had not been settled as at 31 December 2017; and (ii) increase in prepayment to third party factories of approximately HK\$15.2 million mainly for procurement of synthetic fibres for their production of yarns supplying to us taking into account the expected increase in price of synthetic fibres in 2018 and the expected increase in demand in our products of the year. We recorded negative operating cash flow for the year ended 31 December 2017. See the paragraph headed “Risk Factors – We recorded negative operating cash flow for the year ended 31 December 2017” for further details.

SUMMARY

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios as at each of the dates indicated:–

	As at or for the year ended 31 December		
	2015	2016	2017
<i>Profitability ratios</i>			
Gross profit margin (%) ^(Note 1)	36.1%	43.9%	35.8%
Net profit margin (%) ^(Note 2)	18.9%	23.1%	16.1%
Return on equity (%)	72.0%	55.6%	35.6%
Return on total assets (%)	28.5%	30.3%	19.7%
<i>Liquidity ratio</i>			
Current ratio (times)	1.5 times	2.1 times	2.2 times
<i>Capital sufficiency ratios</i>			
Interest coverage ratio (times) ^(Note 3)	N/A	239.5 times	120.9 times
Gearing ratio (%) ^(Note 4)	N/A	9.0%	15.3%

Note 1: Gross profit margin is calculated by gross profit divided by revenue for the respective year and multiplied by 100%. Gross profit margin increased from 36.1% in 2015 to 43.9% in 2016 which was mainly due to the decrease in average purchase price of acrylic fibres in 2016. Gross profit margin then decreased to 35.8% resulted from the decrease in gross profit margin recorded from sales of cooling fabrics and apparel in which we increased in sales of cooling fabrics that are at lower margin with less functionalities, properties and specifications as requested by these new customers and more favorable terms were offered to attract new customers in 2017.

Note 2: Net profit margin is calculated by profit for the year divided by revenue for the respective year and multiplied by 100%. Net profit margin increased from 18.9% in 2015 to 23.1% in 2016 which was in line with the increase in the revenue and gross profit in 2016. Decrease in net profit margin to 16.1% in 2017 was mainly the combined effect of (i) increase in gross profit of approximately HK\$9.7 million; (ii) increase in Listing expenses of approximately HK\$5.4 million; and (iii) rise in staff costs of approximately HK\$1.8 million resulted from increase in number of administrative staff and directors' emoluments during in 2017.

Note 3: Interest coverage ratio is calculated by profit before interest and tax divided by interest for the respective year. The interest coverage ratio increased from nil in 2015 to 239.5 times in 2016 was mainly due to the new bank borrowing of HK\$3.0 million raised as at 31 December 2016. Interest coverage ratio decreased to 120.9 times in 2017 which was mainly due to increase in finance cost resulted from increase in bank overdrafts of approximately HK\$5.6 million.

Note 4: Gearing ratio is calculated based on total debt divided by total equity as at the respective year end and multiplied by 100%. Debts are defined to include payables incurred not in the ordinary course of business. Our gearing ratio increased from nil as at 31 December 2015 to 9.0% as at 31 December 2016 mainly due to the new bank borrowing of HK\$3.0 million raised as at 31 December 2016. It further increased to 15.3% as at 31 December 2017 mainly due to increase in bank overdrafts of approximately HK\$5.6 million.

SUMMARY

For further details of the fluctuation of the key financial ratios and their respective basis of calculation, please see the section headed “Financial Information – Selected key financial ratios”.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the date of this prospectus, there had not been any material changes to our business model, revenue structure and cost structure. Based on the unaudited combined management account for the two months ended 28 February 2018, revenue derived from new customers who have not purchased from us before represents approximately 4.3% of our total revenue for the corresponding period. These new customers mainly include lingerie and apparel brand owners, sourcing agents and some garment manufacturers. Further, based on our unaudited combined management account for the two months ended 28 February 2018, our revenue and gross profit were approximately 52.8% and 5.8% higher compared to that for the same period in 2017 primarily due to increase in sales of cooling fabrics which are at lower margin as they have generally less functionalities, properties and specifications. Our Directors considered even though these products are at comparatively lower margin, we are still able to maintain a reasonable and justified gross profit for the two months ended 28 February 2018. As far as we are aware, there had not been material changes in the overall economic and market conditions in the textile industry that would otherwise have material and adverse effect on our business operations or financial conditions. Our Directors confirmed that, up to the date of this prospectus, save for the impact of listing expenses as discussed below, there has been no material adverse change in our financial or trading position or prospects since 31 December 2017 and there has been no event since 31 December 2017 which would materially affect the information in our combined financial statements set forth in Appendix I to this prospectus.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission, SFC transaction levy and the Stock Exchange trading fee incurred in connection with the Share Offer and the Listing. Assuming the Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range) and that the Offer Size Adjustment Option is not exercised, the total estimated listing expenses in connection with the Share Offer is approximately HK\$29.4 million. During the Track Record Period, listing expenses of approximately HK\$8.0 million was recognised as expenses in the combined statements of profit or loss and other comprehensive income. Approximately HK\$11.1 million is expected to be recognised as expenses in our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2018 and approximately HK\$10.3 million is expected to be capitalised and charged against equity upon the Share Offer under the relevant accounting standards.

SUMMARY

REASONS FOR THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the Listing represents an important step to implement our strategies and will enhance its corporate profile and the net proceeds from the Share Offer will strengthen our financial position and will enable our Group to implement our business plans. Furthermore, a public listing status on the Stock Exchange will offer our Group access to capital market for corporate finance exercise at a relatively lower financing cost as compared with bank financing obtained by a private company to assist in future business development, enhance its corporate profile and strengthen its competitiveness. Following the Listing, our Group will also gain additional leverage in obtaining financing with financial institutions with relatively more favourable terms and higher bargaining power in negotiating terms with our business partners. As such, we believe that we will be able to develop more new products and capture a broader customer base with our expanded capacity in operations and more financial resources available, and in turn creates more business opportunities for us, enhancing our development capabilities and sales. Our application for listing on GEM was initially filed in April 2017 with a track record period for the two years ended 31 December 2015 and 2016. At the relevant time if we were to apply for a listing on the Main Board of the Stock Exchange, we would have been required to include three full financial years for the years ended 31 December 2014, 2015 and 2016 as our track record period. However, we would not have been able to satisfy the profit requirement under Rule 8.05(1) of the Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (“**Main Board Listing Rules**”) based on the results for the three years ended 31 December 2014, 2015 and 2016 at the time of initial filing of our listing application. We subsequently updated our track record period to three years ended 31 December 2015, 2016 and 2017, as a result of which we are able to meet the minimum profit requirement under Rule 8.05(1) of the Main Board Listing Rules. However, we consider that a change of listing venue from GEM to the Main Board would have significantly affected our listing timetable and resulted in significant additional professional fees and listing expenses. Our expansion plan commences with engaging in marketing activities to increase our market presence and broaden our clientele, followed by enhancing our information technology infrastructure to optimise our operation and enhance overall efficiency, establishment of new research and development centre and expansion of our product testing centre to strengthen our innovation capabilities and widen our product offerings to meet our customers’ demands, and eventually the expansion of our current operations in Beijing and Shanghai to cope with new products developed by our Group and reach out to more potential customers. For details of our plans, please refer to the section headed “Future plans and use of proceeds”. The delay in the listing timetable resulting from the change of listing venue would delay the timetable as a whole for the implementation of the aforesaid expansion plans, which in turn may slow down the launch of new products and affect our development of sales network and thus our revenue growth. Hence, our Directors consider that it would be in the best interests of our Company and the Shareholders (including the public investors) as a whole to continue seeking a listing on GEM.

SUMMARY

In summary, the implementation plans of our Group's business objectives and strategies from the Latest Practicable Date to 31 December 2020 will be funded by the net proceeds from the Share Offer as follows:

	The Latest Practicable Date to 30 June 2018	From 1 July 2018 to 31 December 2018	From 1 January 2019 to 30 June 2019	From 1 July 2019 to 31 December 2019	From 1 January 2020 to 30 June 2020	From 1 July 2020 to 31 December 2020	Total
	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million	HK\$ million
(a) Increase our market coverage in the PRC by intensifying our sales efforts:							
(i) Expand our current operations in Beijing and Shanghai	-	-	-	2.0	1.4	1.4	4.8
(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	0.1	0.5	0.7	0.7	0.7	0.7	3.4
(b) Strengthen our innovation capabilities and increase research and development as well as product testing resources:							
(i) Enhance our research and development resources	-	9.9	1.0	1.0	1.0	1.0	13.9
(ii) Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	-	-	4.6	1.2	1.2	1.2	8.2
(c) Enhance our information technology infrastructure	-	2.7	0.2	0.2	0.2	0.2	3.5
(d) General working capital	<u>0.3</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>0.5</u>	<u>2.8</u>
	<u>0.4</u>	<u>13.6</u>	<u>7.0</u>	<u>5.6</u>	<u>5.0</u>	<u>5.0</u>	<u>36.6</u>

We estimate that the aggregate net proceeds of the Share Offer (after deducting underwriting fees and estimated listing expenses payable by us in connection with the Share Offer) based on the Offer Price of HK\$0.55 per Offer Share will be approximately HK\$36.6 million. We currently intend to apply such net proceeds in the following manner:

- (a) approximately HK\$8.2 million, representing about 22.4% of the net proceeds from the Share Offer, will be used to increase our market coverage in the PRC by intensifying our sales efforts through:
 - (i) approximately HK\$4.8 million, representing approximately 13.1% of the net proceeds from the Share Offer, will be used for expansion of our current operations in Beijing and Shanghai by relocation of these offices to bigger premises with conference room(s) and a fabric showroom and hiring and retaining an additional of five staff comprising sales and marketing executives, accounting and administrative and other staff at each of such offices; and
 - (ii) approximately HK\$3.4 million, representing approximately 9.3% of the net proceeds from the Share Offer, will be used for engaging in marketing activities through participation in trade shows, industry exhibitions and networking events in the PRC, placing advertisements and hiring and retaining three sales and marketing executives;

SUMMARY

- (b) approximately HK\$22.1 million, representing about 60.4% of the net proceeds from the Share Offer, will be used to strengthen our innovation capabilities and increase research and development as well as product testing resources through:
- (i) approximately HK\$13.9 million, representing about 38.0% of the net proceeds from the Share Offer, will be used for establishment of a new research and development centre, equipped with in-house facilities for knitting, dyeing and finishing, and recruitment and retention of 10 additional research and development technicians, to support our strategy to improve and widen our product offerings;
 - (ii) approximately HK\$8.2 million, representing about 22.4% of the net proceeds from the Share Offer, will be used to upgrade our product testing facilities and expand our product testing centre, recruitment and retention of 10 additional product testing personnel and collaboration with research institutions and university for on-going research and training;
- (c) approximately HK\$3.5 million, representing about 9.6% of the net proceeds from the Share Offer, will be used to enhance our information technology infrastructure and develop and maintain an ERP System; and
- (d) approximately HK\$2.8 million, representing about 7.6% of the net proceeds from the Share Offer, will be used for working capital and other general corporate purposes.

For details of our business strategies and future plans, please see the sections headed “Business – Business strategies” and “Future plans and use of proceeds”.

STATISTICS OF THE SHARE OFFER

	Based on Offer Price of HK\$0.50 per Offer Share	Based on Offer Price of HK\$0.60 per Offer Share
Market capitalisation of our Shares expected to be in issue following completion of the Share Offer and the Capitalisation Issue ^(Note 1)	HK\$240.0 million	HK\$288.0 million
Unaudited pro forma adjusted net tangible assets per Share attributable to owners of the Company ^(Note 2)	HK\$0.20	HK\$0.22

Notes:

1. The calculation of market capitalisation is based on 480,000,000 Shares expected to be in issue immediately following the completion of the Capitalisation Issue and the Share Offer without taking into account any Shares which may be issued upon exercise of any of the Offer Size Adjustment Option.
2. Please see the section headed “Appendix II – Unaudited pro forma financial information” for further details regarding the assumptions used and the calculation method.

SUMMARY

DIVIDENDS

During the Track Record Period, our Group declared and paid a dividend in cash of approximately HK\$1.9 million which has been declared and fully paid by Smart Team on 6 August 2015. Save as disclosed above, we have no plan to pay or declare any dividends prior to the Listing. We do not intend to pay or declare any dividends in relation to our accumulated profits as at 31 December 2017 and we also do not intend to determine any expected dividend payout ratio since our priority is to use our earnings for business development and expansion of customer base in the interest of our Shareholders as a whole. Our dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Our Group does not have any dividend policy. For further details, please refer to the paragraph headed “Financial information – Dividends” in this prospectus.

LEGAL COMPLIANCE

During the Track Record Period, our Group did not make adequate contribution to housing provident fund for some of our employees. Please see the section headed “Business – Legal compliance” for further details of the non-compliance incident.

DEFINITIONS

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

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s) or, where the context so requires, any of them, relating to the Public Offer
“Aimer”	愛慕股份有限公司 (Aimer Shares Co., Ltd.*) (formerly known as 北京愛慕內衣有限公司 (Beijing Aimer Lingerie Co., Ltd.*)), a company established in the PRC on 13 October 1981, principally engages in the sales of intimate wear products and is an Independent Third Party
“Articles” or “Articles of Association”	the amended and restated articles of association of our Company adopted on 23 April 2018, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Beijing Cherishlife”	北京小護士紡織科技有限公司 (Beijing Cherishlife Technologies Co., Ltd.*), a company established in the PRC on 17 March 2005, principally engages in the manufacture and sales of intimate wear products
“Board” or “Board of Directors”	the board of directors of our Company
“Bonny”	浙江博尼股份有限公司 (Zhejiang Bonny Shares Co., Ltd.*), a joint stock company established in the PRC on 21 August 2001 and principally engages in the manufacture and sales of intimate wear products and is an Independent Third Party
“business day” or “Business Day”	any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business throughout their normal business hours
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of the share premium account of our Company as referred to in the sub-section headed “5. Resolutions in writing of our sole Shareholder passed on 23 April 2018” in Appendix IV to this prospectus

DEFINITIONS

“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“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
“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
“CIC”	China Insights Consultancy Limited, an independent industry consultant
“CIC Report”	an independent industry report commissioned by us and prepared by CIC, an extract of which is set out in the section headed “Industry Overview” in this prospectus
“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”	ST International Holdings Company Limited (智紡國際控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 21 February 2017

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed thereto under the GEM Listing Rules and unless the context requires otherwise, for the purpose of our Company, refers to Mr. Wong and Cosmic Bliss individually and as a group of persons where the context requires
“Cosmic Bliss”	Cosmic Bliss Investments Limited, a company incorporated in BVI with limited liability on 24 November 2016 and wholly owned by Mr. Wong
“Deed of Indemnity”	the deed of indemnity dated 23 April 2018 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each member of our Group) to provide certain indemnities, particulars of which are set out in the sub-section headed “12. Tax and other indemnity” in Appendix IV to this prospectus
“Deed of Non-Competition”	the deed of non-competition dated 23 April 2018 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for each member of our Group), particulars of which are set out in the sub-section headed “Relationship with our Controlling Shareholders – Non-competition undertaking” in this prospectus
“Director(s)” or “our Director(s)”	the director(s) of our Company
“Donghua University”	東華大學 (Donghua University) (formerly known as 中國紡織大學 (China Textile University)), a public university in Shanghai, the PRC
“Embry”	lingerie and apparel brand owner in China with subsidiaries including Embry China and Embry Shandong
“Embry China”	安莉芳(中國)服裝有限公司 (Embry (China) Garments Ltd.*), a company established in the PRC on 18 December 1987, principally engages in the manufacture of intimate wear products and is an Independent Third Party
“Embry Shandong”	安莉芳(山東)服裝有限公司 (Embry (Shandong) Garments Ltd.*), a company established in the PRC on 18 January 2006, principally engages in the manufacture of intimate wear products and is an Independent Third Party
“ERP System”	enterprise resource planning system

DEFINITIONS

“financial year”	financial year of our Company ended or ending on 31 December
“GEM”	GEM operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended, supplemented or modified from time to time
“GREEN Application Form”	the application form to be completed by the HK eIPO White Form Service Provider
“Group”, “we”, “our”, “our Group” or “us”	our Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time
“GSI”	GSI CREOS CORPORATION, a joint stock company established in Japan on 31 October 1931 and principally engages in trading of garments and accessories and is an Independent Third Party
“Guangdong Smart Team”	廣東兆天紡織科技有限公司 (Guangdong Smart Team Textiles Technology Co., Ltd.*), a limited liability company established in the PRC on 29 May 2013 and an indirect wholly-owned subsidiary of our Company
“HK\$” or “Hong Kong dollar”	Hong Kong dollar, the lawful currency of Hong Kong
“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
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited

DEFINITIONS

“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, the Hong Kong branch share registrar and transfer office of our Company
“Independent Third Party(ies)”	person(s) or company(ies) who or which, as far as our Directors are aware after having made all reasonable enquiries, is not or are not connected person(s) of our Company
“Issuing Mandate”	the general unconditional mandate given to our Directors by our sole Shareholder relating to the issue of new Shares, particulars of which are set out in the sub-section headed “5. Resolutions in writing of our sole Shareholder passed on 23 April 2018” in Appendix IV to this prospectus
“Itochu”	伊藤忠纖維貿易(中國)有限公司 (Itochu Textile (China) Co., Ltd.*), a limited liability company established in the PRC on 30 September 1998 and principally engages in trading of textile products and is an Independent Third Party
“Joint Bookrunners”	Pacific Foundation and Quasar Securities
“Joint Lead Managers”	Pacific Foundation, Quasar Securities and Sunfund Securities
“JPY”	Japanese yen, the lawful currency of Japan
“Latest Practicable Date”	20 April 2018, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Listing”	the listing of the Shares on GEM

DEFINITIONS

“Listing Date”	the date expected to be on or around 16 May 2018, on which the Shares are first listed and from which dealings in the Shares are permitted to take place on GEM
“Listing Department”	the listing department of the Stock Exchange
“Magic Team”	幻天(北京)國際服裝設計有限公司 (Magic Team (Beijing) International Fashion Design Co., Ltd.*), a limited liability company established in the PRC on 16 July 2015 and an indirect non-wholly owned subsidiary of our Company
“Main Board”	the Stock Exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with GEM
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company adopted on 23 April 2018, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Wong”	Mr. Wong Kai Hung Kelvin (黃繼雄), our executive Director and the chairman of our Board, one of our Controlling Shareholders and the founder of our Group
“Mr. Xi”	Mr. Xi Bin (奚斌), our executive Director and the chief executive officer of our Group
“Ms. Fan”	Ms. Fan Xiahui (范俠慧), who owns 30% of the equity interest in Magic Team
“Offer Price”	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.60 per Offer Share and not less than HK\$0.50 per Offer Share, such price to be determined as further described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Offer Shares”	collectively, the Placing Shares and the Public Offer Shares

DEFINITIONS

“Offer Size Adjustment Option”	the option to be granted by our Company to the Placing Underwriters under the Placing Underwriting Agreement, exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), pursuant to which our Company may be required by the Joint Bookrunners to allot and issue up to 18,000,000 additional new Shares, representing 15% of the total number of Offer Shares at the Offer Price, details of which are set out in the sub-section headed “Structure and conditions of the Share Offer – Offer Size Adjustment Option” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company for cash at the Offer Price as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Shares”	108,000,000 new Shares offered by us for subscription at the Offer Price pursuant to the Share Offer, together with, where relevant, any additional new Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option, subject to the terms and conditions as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Placing Underwriter(s)”	the underwriter(s) of the Placing, who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting and placing agreement relating to the Placing expected to be entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners and the Placing Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“PRC” or “China”	the People’s Republic of China, excluding for the purposes of this prospectus only, Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan

DEFINITIONS

“Pacific Foundation”	Pacific Foundation Securities Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 9 (asset management) regulated activities under SFO
“PRC Legal Advisers”	Kaitong Law Firm, the PRC legal advisers to our Company as to the PRC law
“Price Determination Agreement”	the agreement to be entered into between the Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) on or before the Price Determination Date for record and fix the Offer Price
“Price Determination Date”	the date expected to be on or around 7 May 2018, on which our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) determine the Offer Price for the purpose of the Share Offer
“Public Offer”	the offer of the Public Offer Shares for subscription by the members of the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in the section headed “Structure and conditions of the Share Offer” in this prospectus and the Application Forms
“Public Offer Share(s)”	12,000,000 new Shares initially being offered at the Offer Price for subscription in the Public Offer subject to reallocation as described in the section headed “Structure and conditions of the Share Offer” in this prospectus
“Public Offer Underwriter(s)”	the underwriters of the Public Offer listed in the sub-section headed “Underwriting – Public Offer Underwriters” in this prospectus
“Public Offer Underwriting Agreement”	the conditional underwriting agreement dated 27 April 2018 relating to the Public Offer entered into, among others, between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Quasar Securities”	Quasar Securities Co., Limited, a corporation licensed to carry out type 1 (dealing in securities) regulated activities under SFO

DEFINITIONS

“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the reorganisation of our Group in preparation for the Listing, details of which are set out in the sub-section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus
“Reorganisation Agreement”	the share purchase agreement dated 28 February 2018 entered into between our Company and Mr. Wong pursuant to which our Company acquired the entire issued share capital of Smart Team as more particularly described in the sub-section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to our Directors by our sole Shareholder, particulars of which are set out in the sub-section headed “5. Resolutions in writing of our sole Shareholder passed on 23 April 2018” in Appendix IV to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with a nominal value of HK\$0.01 each in the share capital of our Company
“Share Offer”	the Public Offer and the Placing
“Shareholder(s)”	holder(s) of Shares(s)
“Smart Team”	Smart Team Textiles Technology Limited (兆天紡織科技有限公司), a company incorporated in Hong Kong with limited liability on 4 October 2011 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Smart Union”	東莞聯兆紡織科技有限公司 (Dongguan Smart Union Textiles Technology Co., Ltd.*), a limited liability company established in the PRC on 16 October 2014 and an indirect wholly-owned subsidiary of our Company
“Sole Sponsor”, “Sunfund Capital”	Sunfund Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sunfund Securities”	Sunfund Securities Limited, a corporation licensed by the SFC to carry out type 1 (dealing in securities) regulated activities under the SFO
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Toyobo”	Toyobo Co., Ltd., a joint stock company established in Japan on 26 June 1914 and principally engages in textile and raw materials business and is an Independent Third Party of our Group
“Track Record Period”	the years ended 31 December 2015, 2016 and 2017
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters
“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Agreement
“US\$”, “US dollar(s)” or “USD”	United States dollar(s), the lawful currency of the United States of America
“ WHITE Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who requires such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“World Vantage”	World Vantage Investments Limited, a company incorporated in BVI with limited liability on 28 November 2016 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Wuxi Tianhe Textile”	無錫天合紡織科技有限公司 (Wuxi Tianhe Textile Technology Co., Ltd.*), a limited liability company established in the PRC on 23 October 2014, which was a wholly-owned subsidiary of Zhuhai Zhaotian Trading owned as to 60% by an uncle of Mr. Wong and 40% by an Independent Third Party. Wuxi Tianhe Textile was deregistered on 12 June 2017
“YELLOW Application Form(s)”	the form(s) of application for the Public Offer Shares for use by the public who requires such Public Offer Shares to be deposited directly into CCASS
“Zhongshan Leaseng Garment”	中山利生製衣有限公司 (Zhongshan Leaseng Garment Manufacturing Co., Ltd.*), a limited liability company established in the PRC on 16 January 2004 and was indirectly owned as to one-third by Mr. Wong and as to two-thirds by the father of Mr. Wong as at the Latest Practicable Date
“Zhuhai Zhaotian Trading”	珠海兆天貿易有限公司 (Zhuhai Zhaotian Trading Co., Ltd.*), a limited liability company established in the PRC on 18 January 2007 and is owned as to 60% by an uncle of Mr. Wong and 40% by an Independent Third Party as at the Latest Practicable Date
“%”	per cent

In this prospectus, unless the context otherwise requires, the terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “subsidiary” and “substantial shareholder” shall have the meanings given to such terms in the GEM Listing Rules.

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.

For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail. English translations of company names and other terms from the Chinese language are marked with “” and are provided for identification purposes only.*

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and are used in this prospectus in connection with our business or us. These terms and their given meanings may not correspond to standard industry definitions.

“acrylic fibres”	synthetic fibres made from the polymer of polyacrylonitrile. For acrylic fibres, the polymer usually must contain at least 85% acrylonitrile monomer along with comonomers of vinyl acetate or methyl acrylate
“CAGR”	compound annual growth rate
“cupro fibres”	also known as “cuprammonium rayon”, is a rayon made from cellulose dissolved in cuprammonium solution
“dyeing”	the process of adding colour to textile products like fibres, yarns and fabrics. Dyeing is normally done in a special solution containing dyes and particular chemical elements. After dyeing, dye molecules have uncut chemical bonds with fibre molecules
“EXLAN brand fibres”	a brand of acrylic fibres that sold by Toyobo with key functionalities such as thermal, moisture absorption, anti-odor and anti-bacterial
“fabrics”	a flexible material consisting of a network of natural and synthetic fibres
“fibres”	filaments collectively, or matter or material composed of filaments
“functional knitted fabrics”	knitted fabrics that incorporate value-added features such as moisture management, rapid-drying, anti-bacterial, thermal and skin-care properties, which is made by using high quality synthetic raw materials that have undergone complex dyeing and finishing processes. The classification of functional and non-functional knitted fabrics lies on the raw materials used, application markets and average price level. Quality is crucial in functional knitted fabrics
“GFA”	gross floor area

GLOSSARY OF TECHNICAL TERMS

“grey fabrics”	fabrics before they are dyed or printed
“intimate wear”	includes bras, panties, briefs, body-moulding, lingerie, thermal underwear, loungewear, etc
“ISO”	International Organisation for Standardisation
“kg”	kilogram
“knitted fabrics”	fabrics which consist entirely of parallel courses of yarn. The courses are joined to each other by interlocking loops in which a short loop of one course of yarns is wrapped over the bight of another course
“knitting”	one of the several ways to turn thread or yarns into cloth
“Mobilon”	also known as “Mobilon tape” is a thermoplastic polyurethane elastomer product that NISSHINBO developed through unique technologies
“natural fibres”	fibres that develop or occur in the original shape of fibres, and include those produced by plants, animals, and geological processes, which include cotton, linen, silk and wool
“OEKO-Tex Standard 100”	a globally uniform testing and certification system for textile raw materials, intermediate and end products at all stages of production. There are four OEKO-Tex product classes based on a product’s intended use. The more intensively a product comes into contact with the skin, the stricter the human ecological requirements it must satisfy. Manufacturers or sellers are entitled to mark successfully tested products or article groups with the OEKO-Tex label and to advertise in other forms as long as it has been proven within the extensive laboratory tests that all components, including accessories, comply with the specified test criteria without exception. A certificate, once issued, is valid for one year and can be renewed as often as required

GLOSSARY OF TECHNICAL TERMS

“prototypes”	a preliminary sample built to demonstrate the intended design, texture and visual appearance of the fabrics and/or apparel
“sq. ft.”	square feet
“sq. m.”	square metre
“synthetic fibres”	fibres that come mainly from synthetic materials such as petrochemicals, the physical properties of which are easy to manipulated to add different functions
“yarns”	the end product of natural fibres or synthetic fibres and is the primary raw material used in textile manufacturing. The yarns are woven or knitted into different types of fabrics
“yarn spinning”	the process used in the formation of yarns. The basic manufacturing process of spinning includes carding, combing, drafting, twisting, and winding. As the fibres go through these processes, they are successively formed into lap, sliver, roving, and finally yarns

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. When used in this prospectus, the words “aim”, “anticipate”, “believe”, “could”, “estimate”, “expect”, “going forward”, “intend”, “may”, “might”, “plan”, “project”, “propose”, “seek”, “should”, “target”, “will”, “would” and the negative of these words and other similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our business strategies and our operating and expansion plans;
- our objectives and expectations regarding our future operations, profitability, liquidity and capital resources;
- future events and developments, trends and conditions in the industry and markets in which we operate or plan to operate;
- our ability to control costs;
- our ability to identify and successfully take advantage of new business development opportunities; and
- our dividend policy.

Such statements reflect the current views of our management with respect to future events, operations, profitability, liquidity and capital resources, some of which may not materialise or may change. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, without limitation, the risks factors set out in the section headed “Risk factors” in this prospectus and the following:

- changes in the laws, rules and regulations applicable to us;
- general economic, market and business conditions in the PRC, including the sustainability of the economic growth in the PRC;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices;
- business opportunities and expansion that we may pursue;
- our ability to identify, measure, monitor and control risks in our business, including our ability to improve our overall risk profile and risk management practices; and
- other factors beyond our control.

FORWARD-LOOKING STATEMENTS

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

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

RISK FACTORS

An investment in our Shares involves various risks. You should carefully consider all the information in this prospectus and, in particular, the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries.

The occurrence of any of the following events could materially and adversely affect our business, financial condition, results of operations or prospects. If any of these events occur, the trading price of our Shares could decline and you may lose all or part of your investment. You should seek professional advice from your relevant advisers regarding your prospective investment in the context of your particular circumstances.

Our business and operations involve certain risks and uncertainties, many of which are beyond our control. These risks can be broadly categorised as (1) risks relating to our business; (2) risks relating to our industry; (3) risks relating to conducting business in the PRC; and (4) risks relating to the Share Offer.

RISKS RELATING TO OUR BUSINESS

We are dependent on third party factories for the production of our products. Disruption to our relationship with them or their manufacturing operations could adversely affect our supply of functional knitted fabrics. The quality of their products provided to us may not be satisfactory and this may materially affect our business and reputation.

During the Track Record Period, we engaged third party factories to process functional knitted fabrics for our direct sales to our customers. We are dependent on these factories for the yarn spinning, knitting and dyeing processes. However, we do not enter into long-term agreements with any of these factories. For the years ended 31 December 2015, 2016 and 2017, the processing fees paid to these third party factories amounted to approximately HK\$18.1 million, HK\$21.3 million and HK\$39.3 million, representing approximately 44.1%, 47.4% and 48.8% of our total costs of sales for the same years, respectively. There is no assurance that these factories will continue their business relationships with us nor these factories will continue to be able to supply products to us at our desired quality or in a timely manner or on commercially acceptable terms. In the event of termination of the business relationships with these factories or if there is any change to the current arrangement, our Group may not be able to locate comparable alternatives which provide products complying our quality requirement and delivery schedule or on commercially acceptable terms.

RISK FACTORS

In addition, the stability of operation and satisfactory performance of third party factories are crucial to us. Any significant damage to these factories' production facilities or disruption to their operations due to natural disasters and technical or mechanical breakdown could adversely affect our business, reputation, financial condition and operation results. If any of these factories has any material non-compliance issues, we will incur additional costs in monitoring and following up with such factories on the rectification of the non-compliance incidents.

We are exposed to customer concentration risk and we do not enter into long-term sales agreements with any of our major customers. Accordingly, any significant deterioration of our business relationships or level of transaction could adversely affect our business, results of operation and financial results.

For the years ended 31 December 2015, 2016 and 2017, our sales to the largest customer of our Group represented approximately 61.2%, 25.5% and 22.9% of our total revenue, respectively, and sales to the five largest customers of our Group, in aggregate, accounting for approximately 89.2%, 71.2% and 66.5% of our total revenue for the same years, respectively. We cannot assure that we will be able to continue to develop our business relationships with these customers or maintain the same or achieve even a higher level of transactions with them. If we are unable to maintain or expand the volume of business with our existing customers and we are not successful in expanding our customer base by attracting the targeted number of new customers at levels, or we fail to develop and expand our product portfolio, or to meet the requirements of our customers at reasonable costs, our business, financial conditions, results of operations and prospects would be materially and adversely affected.

During the Track Record Period, we do not enter into long-term sales agreements with any of our major customers and our sales were made on the basis of purchase orders placed by these major customers from time to time. Since we do not have long-term purchase commitment from our major customers and we are not their exclusive supplier, there is no assurance that these existing customers will continue to purchase our products at current levels or at all in the future and our customers may choose to purchase from other suppliers. In addition, any change in a customer's product development strategies may also result in the decrease in such customer's demand on a particular product of our Group. If the prices of our products are not as competitive as those set by our competitors for comparable products or if the quality of our products does not meet our customers' specifications, our customers may not make purchases from us and may begin to look for alternatives in the market. Any significant reduction in customers' purchase orders may materially and adversely affect our financial conditions and results of operations.

RISK FACTORS

Any issues with product quality could result in defective or unsatisfactory products, which may lead to loss of customers and sales and may subject us to product liability claims, which could result in significant costs and negatively impact our reputation.

The quality of our functional knitted fabrics are critical to the success of our business. The quality of our products depends on a number of factors, including (i) design errors of the functional knitted fabrics; (ii) quality of the sourced raw materials; (iii) malfeasance or mechanical errors of production facilities of third party factories; (iv) ineffectiveness of our production control and quality control system; and (v) ability of our employees to adhere to our quality control policies and guidelines. Our functional knitted fabrics are required to meet certain quality requirements set by our Group as well as the specifications of our customers. Many of our customers are major market players in their respective industry and they have stringent requirements on product quality. We cannot assure you that we can fully eliminate all defects in our products and it is possible that our products may not conform with our customers' specifications.

Failure to detect sub-standard products may lead to complaints from customers who may cease to place orders from us. Serious quality issues in our products could result in product recall or other adverse consequences which could materially affect our business reputation, financial conditions and results of operations.

We do not enter into long-term agreements with some of our raw materials suppliers, which exposes us to uncertainty and potential volatility in our cost and supply raw materials.

We rely on a small number of raw materials suppliers to supply raw materials primarily comprise synthetic fibres to us which are then provided to the yarn spinning factories for the yarn spinning process. During the Track Record Period, we procured synthetic fibres directly from three raw materials suppliers. For the years ended 31 December 2015, 2016 and 2017, the total costs in purchasing synthetic fibres from our raw materials suppliers amounted to approximately HK\$14.3 million, HK\$15.9 million and HK\$8.7 million respectively, accounted for approximately 34.8%, 35.3% and 26.3% respectively of our total cost of sales for the same years. Except for Toyobo, we do not enter into long-term agreements with other raw materials suppliers. We cannot assure you that these raw materials suppliers will continue to supply raw materials to us at the quality and quantity required and at reasonable price, or that they will continue to supply us with raw materials at all. If we are unable to find alternative raw materials suppliers on similar terms and conditions in a timely manner, our business may be interrupted and/or our operation costs may increase. We also run the risks of not being able to deliver our products to our customers on schedule. As such, our operations, customer relationships and financial results may be materially and adversely affected.

RISK FACTORS

Our financial performance may be affected by fluctuations in the price of raw materials and we may not be able to pass on the increase in raw materials cost to our customers.

We procure synthetic fibres and yarns used in the production of our functional knitted fabrics directly from our raw materials suppliers based in Japan and the PRC. For the years ended 31 December 2015, 2016 and 2017, the total costs in purchasing raw materials amounted to approximately HK\$19.2 million, HK\$18.3 million and HK\$33.0 million respectively, which accounted for approximately 46.8%, 40.7% and 41.1% respectively of our total cost of sales for the same years. Prices of synthetic fibres which are correlated to crude oil prices, which in turn are subject to factors beyond our control. Affected by market demand, global economic conditions and government policies are subject to fluctuations and are beyond our control. Please see the section headed “Industry overview – Intimate wear functional knitted fabric market in China – Price analysis of raw materials” for further information on the fluctuation of synthetic fibres price during the Track Record Period. For the sensitivity analysis in relation to changes in raw materials costs, please see the section headed “Financial information – Sensitivity analysis – Hypothetical fluctuations in cost of raw materials” in this prospectus.

As at the Latest Practicable Date, we did not have any hedging arrangements against fluctuations in prices of raw materials. If we cannot pass on the increase in the costs of raw materials to our customers, our business, financial condition and operation results may be materially and adversely affected.

We recorded negative operating cash flow for the year ended 31 December 2017

The negative operating cash flow in 2017 was mainly due to (i) increase in trade and bill receivables as a result of significant increase in sales of functional knitted fabrics in fourth quarter in 2017 as compare to the same period in 2016 which had not been settled as at 31 December 2017 and (ii) increase in prepayment to third party factories of approximately HK\$15.2 million mainly for procurement of synthetic fibres for their production of yarns supplying to us taking into account the expected increase in price of synthetic fibres in 2018 and the expected increase in demand in our products of the year.

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

Our relatively short operating history may make it difficult to evaluate our future prospect and we may not be able to sustain our growth in our revenue and profitability at the current rate or at all.

Our Group has a relatively short operating history in functional knitted fabrics industry. Our Group was established in 2011 by setting up Smart Team and commenced business in trading of fibres for manufacture of functional knitted fabrics in 2012. We started to provide functional knitted fabrics in 2013 subsequent to the establishment of Guangdong Smart Team. Our relatively short operating history in the functional knitted fabrics industry may make it difficult to evaluate our future prospect. During the Track Record Period, our total revenue grew from approximately HK\$64.1 million for the year ended 31 December 2015 to approximately HK\$80.3 million for the year ended 31 December 2016 and increased to approximately HK\$125.3 million for the year ended 31 December 2017. The increase in revenue and gross profit was principally attributable to the increase in the sales volume of functional knitted fabrics and decrease in average purchase price for synthetic fibres. However, there is no assurance that we will be as successful in our growth as we had been during the Track Record Period. Even if we maintain such growth rates, we may not be able to manage the growth in an efficient and effective manner. In the event we are unable to maintain or manage our business growth, or otherwise experience pricing pressure or loss of market presence, we may experience stagnant or negative growth, thereby materially and adversely impairing our business, financial condition and operation results.

Our research and development of new types of functional knitted fabrics may not be successful and our newly-developed products may fail to achieve our desired results.

The constant development of new functional knitted fabrics is crucial to our ability to attract new customers, adjust to changes in market demands and trends and to enhance our competitiveness in the future.

We principally rely on our in-house research and development team to develop these new products or techniques. Our research and development team is made up of skilled technicians who collaborate with our customers to translate their concepts into different fabric designs with specified composition of different components. In addition, our research and development team also works closely with our major raw material suppliers in the textile industry on innovative functional materials and application solutions. Our research and development expenses which include staff costs and research and development project expenses, amounted to approximately HK\$2.4 million, HK\$4.0 million and HK\$7.1 million for the years ended 31 December 2015, 2016 and 2017 accounted for approximately 3.7%, 5.0% and 5.7% of our total revenue respectively for the years ended 31 December 2015, 2016 and 2017. However, we cannot assure

RISK FACTORS

you that we will be successful in developing products or techniques for producing new products with the desired features or market demand, or that such research and development plans may be completed within our desired time frame at reasonable costs. In addition, by the time a new product or technique is developed, the market demand for such new product or technique may have already changed or superseded and our new product or technique may not be accepted by the market. If we fail to achieve the expected or successful results in our research and development efforts, in such event, our financial condition, results of operations and growth prospects may be adversely affected.

Our inability to adequately protect our intellectual property rights and any infringement may have a material adverse effect on our business operations.

The success of our business depends on our ability to protect our know-how and our intellectual property rights. As at the Latest Practicable Date, we were the registered owner of eight patents in functional knitted fabrics as well as production and dyeing processes, and eight of our patent registration applications in the PRC were under process. As at the same date, we were also the registered owner of eight trademarks. However, we cannot assure you that our efforts to protect our intellectual property rights are sufficient, or that our patents applications will be granted, or that our intellectual property rights will not be misappropriated or otherwise infringed by any third parties in the future in any or all jurisdictions in which we operate our business. In addition, the intellectual property laws in the PRC are still developing and may not provide adequate protection on intellectual property. Any significant leakage of our confidential information or infringement of the proprietary technologies and processes used in our business could weaken our competitive position and have a material and adverse effect on our business and operation results.

Furthermore, we cannot assure you that we will not be subject to infringement claims against us from any third parties. Should such claims be brought against us, we may incur significant legal costs to defend our position and/or be required to pay substantial damages by a judicial order or through mediation. This may materially and adversely affect our business reputation, financial conditions and results of operations.

We may need additional funding to meet future business requirements and plans, which we may not be able to obtain on acceptable terms, or at all.

Our Group intend to fully fund our expansion plans by net proceeds from the Share Offer. For details of our expansion plans, please see the sections headed “Business – Business strategies” and “Future plans and use of proceeds” in this prospectus. However, we may need additional capital to fund our capital expenditure associated with our expansion plans, which our expansion costs could be affected by many factors, such as changes in general economy and industry performance. There is no assurance that we will generate sufficient cash flow from our operating activities for our intended expansion plans. Where we do not have sufficient operating

RISK FACTORS

cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- conditions in the capital and financial markets in which we may seek to raise funds;
- our future cash flows, financial condition and results of operations; and
- economic, political and other conditions in Hong Kong, the PRC and the rest of the world.

The ability to obtain additional funding affects implementation of our planned growth strategy. If we raise additional funding, our interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business operations or result in dilution of shareholding in the case of equity financing. Our inability to raise additional funds in a timely manner and on terms favourable to us may have a material adverse effect on our financial condition, results of operations and prospects.

We are exposed to credit risk of our customers.

As at 31 December 2015, 2016 and 2017, the average trade and bills receivables turnover days were approximately 49 days, 59 days and 90 days, respectively. We have experienced an increase in average trade and bills receivables turnover days during the Track Record Period. We generally offer our major customers a credit term ranging from 30 days to 90 days, which is also the normal credit period we offer to our other customers. As such, we are subject to credit risks of our customers and our liquidity is dependent on our customers making prompt payments.

If the credit worthiness of our customers deteriorate or a significant number of our customers fails to settle our trade and bills receivables in full for any reason, we may incur impairment losses and our results of operations and financial position could be materially and adversely affected. In addition, there may be a risk of delay in payment of the Group's customers within 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 bills receivables from the customers or that they will settle our trade and bills receivables in a timely manner. In the event the settlements from the customers are not made on a timely manner, the financial position, profitability and cash flow of our Group may be adversely affected.

RISK FACTORS

Future expansion plans are subject to uncertainties and risks.

We have set out our future plans in the section headed “Future plans and use of proceeds” in this prospectus. Whether our future plans can be implemented successfully may be beyond our control and some future events may affect the smooth running of the expansion plan such as change in costs related to the changes in compliance with relevant laws, rules and regulations, delays in obtaining the necessary licenses and approvals from the government.

There is no assurance that we will be successful in our expansion plans. If we fail to project accurately the time, labour and costs required for implementing our expansion plans, or if we fail to secure sufficient amount of sales order or at all after the expansion, our business and results of operation may be adversely affected.

We rely on third party dyeing factories and/or garment factories to deliver our products, and their failure to provide timely and high quality logistics services to our customers may adversely affect our reputation, business and our financial condition.

We rely on third party dyeing factories and/or garment factories to deliver our products to our customers. Interruptions to the operations or logistics of these dyeing factories and/or garment factories as a result of vehicle breakdown or labour strike may prevent the timely delivery of our products. In addition, inclement weather and natural disasters may result in a delay in delivery. There is no assurance that these dyeing factories and/or garment factories will be able to deliver our products according to the delivery schedule to our customers. If these dyeing factories and/or garment factories fail to deliver our products to our customers on time or if our products are damaged in the course of delivery, our customers may refuse to accept our products and our reputation and business may suffer as a result. We may also be subject to penalties in the event of late delivery, which may materially and adversely affect our financial position.

The preferential tax treatment we currently enjoy is subject to review and approval by the PRC tax authorities every three years. If the preferential tax rate reduces or if we no longer enjoy the preferential tax treatment in the future, our results of operations and profitability will be adversely affected.

The current standard enterprise income tax rate in the PRC is 25%. For the years ended 31 December 2015, 2016 and 2017, our effective tax rate amounted to 13.6%, 17.3% and 21.7%, respectively. In November 2016, we were recognised as a High and New Technology Enterprise (高新技術企業) which has been granted tax concessions by the local tax bureau and is entitled to the PRC enterprise income tax at concessionary rate of 15% for the year starting from 1 January 2016 to 31 December 2018. The certificate is subject to review and approval by the PRC tax authorities every three years.

There is, however, no assurance that we will continuously be awarded the status as a High and New Technology Enterprise or enjoy the preferential tax rate of 15% in the future. Any change in or discontinuation of such favourable tax treatment may adversely affect our results of operations and profitability.

RISK FACTORS

We are dependent on our key management personnel.

We believe that our performance and success is, to a certain extent, attributable to the extensive industry knowledge and experience of our senior management team. Most of our executive Directors and senior management have substantial management and operational experience in the textile industry. Our Group is led by Mr. Wong, the chairman and an executive Director of our Company, and Mr. Xi, the chief executive officer and an executive Director of our Company, who have over 18 and 20 years of management and operation experience in different fields of the textile industry, respectively. For further details regarding the experience of our management team, please see the section headed “Directors, senior management and employees” in this prospectus.

Our continued success is dependent, to a large extent, on the ability to attract and retain our key management personnel. We may not be able to retain the members of our senior management or other key personnel, or attract and retain high-quality personnel in the future. If any of our key management personnel departs, we may not be able to recruit a suitable replacement with comparable experience and qualifications to join us on a timely basis, our business, operations and financial condition may be materially and adversely affected.

We are exposed to foreign exchange risk, which may adversely affect our business and financial condition as well as our international competitiveness.

During the Track Record Period, our costs of raw materials are primarily denominated in USD, while the prices we charge to our customers are denominated in RMB. During the Track Record Period, there were significant volatility in foreign exchange rates, in particular the depreciation of RMB against USD. We recorded net foreign exchange gains of nil, nil and approximately HK\$247,000 for the years ended 31 December 2015, 2016 and 2017, respectively, however, since the foreign exchange rates are subject to various factors which are out of our control, there may be net foreign exchange losses in the future which may pose adverse impact on our profits. As our revenue are mainly generated in RMB and our costs are incurred in different currencies, our profit margins may be adversely impacted by fluctuation in foreign exchange rates.

Our prospects could be adversely affected by acts of war, terrorism, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God.

We could be adversely affected by any negative developments or uncertainties resulting from acts of war, civil unrest, riots, strikes, natural disasters, pestilence, or acts of God. The occurrence of war, civil unrest, riots and strikes could impede administration and management, cause damages to infrastructures necessary to our operations and impact all aspects of our business. The countries or regions in which we operate and to which our products are sold may be under the threat of flood, earthquake, rainstorm or drought. In addition, natural disasters, epidemics such as the human swine flu, also known as Influenza A (H1N1), H5N1 avian flu, severe acute respiratory syndrome (“SARS”), ebola virus or zika virus and other natural disasters and acts of God are beyond our control and may adversely affect the global economy, infrastructure and people’s livelihood.

RISK FACTORS

For instance, in 2014 and 2015, there were ebola virus and Middle East Respiratory Syndrome, or MERS outbreak which have yet to be completely contained. In 2015, there were Zika virus outbreak in certain regions of the world which is still ongoing. Any future outbreak of SARS, avian flu, Zika virus or other similar adverse epidemics may, among other things, significantly disrupt our business. An outbreak of infectious disease may also severely restrict the level of economic activity in affected areas, which in turn may have a material and adverse effect on our business and financial condition and operating results. Japan, where our major suppliers situate, is also prone to frequent earthquake, should the earthquake affect the areas where our suppliers situate, supply of our raw materials may be disrupted.

Our functional knitted fabrics may be subject to changes in climate and global warming effect.

According to the CIC Report, various scientific evidences show that the climate system is warming. Sixteen of the seventeen warmest years on record have occurred since 2000. Affected by global warming and exacerbation of local urbanisation, the PRC has also experienced temperature rises during the past several decades. The changes of climate and global warming have various effects on human society. With the global warming effects, there would be higher average temperature, and thus the demand for winter clothing and functional fabrics with thermal function are expected to drop slightly. For the years ended 31 December 2015, 2016 and 2017, revenue attributable to our thermal fabrics approximately 88.7%, 81.8% and 81.0% of our total revenue for the same years. If the effect of global warming and climate changes continue, sales of our thermal products may be adversely affected.

RISKS RELATING TO OUR INDUSTRY

Our sales volume and revenue are subject to seasonality fluctuations.

Our sales are subject to seasonal fluctuations during a year. Based on our sales trends, we generally experience higher sales during second half of the year as the demand for fabrics and garments products is generally higher in the fall and winter seasons. Textile industry, as an upstream industry of garment industry, needs to start early to reserve time for production, logistics and marketing arrangements. A larger number of orders for fabrics are received during the second and third quarters of the year for further preparation of garment manufacturing by our customers.

Due to the seasonality of our business, the results of any period of a year are not necessarily indicative of the results that may be achieved for the full year. As such, comparison of sales and operating results between different periods within a financial year may not be meaningful and should not be relied upon as indicators of our performance. In addition, our operating results may vary from period to period and year to year.

RISK FACTORS

Fluctuations in consumer spending caused by changes in macroeconomic conditions or fashion trends may significantly affect our business operations, financial conditions, results of operations and prospects.

Our customers' purchasing decision and quantity of orders that they place with us are heavily influenced by the likely spending habits of their consumers, which may be influenced by macroeconomic conditions. If demand from the end consumers is low, companies operating in the textile industry may experience significant reduction in purchase orders and greater pricing pressure from our customers. Furthermore, we cannot accurately predict the demand for a particular fabrics which may change from season to season and from year to year due to changes in fashion trends. If aforesaid occur or we are unable to predict, identify and respond promptly to such changes, there would be an adverse effect on our business operations, financial conditions, results of operations and prospects.

We operate in a competitive industry and failure to compete could materially and adversely affect our business.

The functional knitted fabrics market in the PRC is fragmented. Our Group faces intense competition from existing players and new entrants based in the PRC and other countries. According to the CIC Report, in 2017, there were over 20,000 functional knitted fabrics providers in China most of which are in smaller scale. We face competition in terms of pricing, product quality, product innovation, product diversity, research and development capabilities and cost efficiency. Our ability to compete also depends on a number of factors beyond our control, such as the price and quality of comparable products sold by our competitors, their responsiveness to change in customers' preferences and market demand and their ability to attract and retain experienced and skilled employees.

There is no assurance that we will be able to withstand the keen competition and sustain our market position. Increase in the number of market players may further result in fierce competition, price reduction, reduced margins and loss of market share, any of which could materially and adversely affect our business and results of operations.

RISKS RELATING TO CONDUCT BUSINESS IN THE PRC

PRC economic, political and social conditions as well as government policies could affect our business.

Substantially all of our business and operations are located in the PRC. As a result, our business, financial condition, results of operations and prospects may be affected by the economic, political and social conditions as well as government policies in the PRC.

RISK FACTORS

While the PRC government has been pursuing economic reforms to transform its economy from a planned economy to a market economy for more than three decades, a substantial part of the PRC economy is still being operated under various controls by the government. By imposing industrial policies and other economic measures, such as control of foreign exchange, taxation and foreign investment, the PRC government exerts considerable direct and indirect influence on the development of the PRC economy. Many of the economic reforms carried out by the PRC government are unprecedented or experimental and are expected to be refined and improved over time. Other political, economic and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may materially and adversely impact our business, financial condition, results of operations and prospects.

The PRC legal system is in the process of continuous development and has inherent uncertainties that could limit the legal protections available to us in respect of our operations and to our Shareholders.

The PRC legal system is based on written statutes and prior court decisions which can only be cited as reference. Since the late 1970s, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade with a view to developing a comprehensive system of commercial law. However, as these laws and regulations are continually evolving in response to changing economic and other conditions, and because of the limited volume of published cases and their non-binding nature, any particular interpretation of PRC laws and regulations may not be definitive. The PRC may not accord equivalent rights (or protection for such rights) to those rights investors might expect in countries with more sophisticated laws and regulations.

In addition, the PRC is geographically large and divided into various provinces and municipalities and as such, different rules, regulations and policies apply in different provinces and may have different and varying applications and interpretations in different parts of the PRC. Legislation or regulations, particularly for local applications, may be enacted without sufficient prior notice or announcement to the public. Accordingly, we may not be aware of the existence of new legislation or regulations. There is at present also no integrated system in the PRC from which information can be obtained in respect of legal actions, arbitrations or administrative actions. Even if an individual court-by-court search were performed, each court may refuse to make the documentation which it holds for on-going cases available for inspection. Accordingly, there is a risk that entities in the PRC acquired by us may be subject to proceedings which have not been disclosed.

RISK FACTORS

The PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of a violation of these policies and rules until sometime after the violation. Failure to comply with applicable rules and regulations may result in fines, restrictions on our activities or, in extreme cases, suspension or revocation of our business licences. There may be uncertainties regarding the interpretation and application of new laws, rules and regulations.

The interpretation and enforcement of certain PRC laws which govern a portion of our operations involve uncertainties, which could limit the legal protections available to us. In particular, agreements which are governed under PRC laws may be more difficult to enforce by legal or arbitral proceedings in the PRC than in countries with more mature legal systems. Even if the agreements generally provide for arbitral proceedings for disputes arising out of the agreements to be in another jurisdiction, it may be difficult for us to obtain effective enforcement in the PRC of an arbitral award obtained in that jurisdiction.

Our Company is a holding company that relies on dividend payments from our subsidiaries, funding and payment of dividends from our PRC subsidiaries are subject to restrictions under PRC laws and PRC withholding tax.

PRC laws require dividends to be paid out of net profit calculated according to PRC accounting principles, which, in many aspects, differ from the generally accepted accounting principles in other jurisdictions. Foreign-invested enterprises, such as our PRC subsidiaries, are also required to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. In addition, such dividends are also subject to PRC withholding tax.

Our Company is a holding company registered in the Cayman Islands and substantially all of our business and operations are conducted through our PRC subsidiaries. The availability of funds to pay distributions to Shareholders depends on dividends received from these subsidiaries. If our PRC subsidiaries incur any debts or losses or otherwise there are insufficient retained after-tax profits after deducting statutory reserves, the amount of dividends that our PRC subsidiaries can declare will be limited and as a result, our ability to pay dividends and other distributions to Shareholders will be restricted.

RISK FACTORS

The PRC government's control over the conversion of foreign exchange and fluctuations in the value of RMB may affect our results of operations, financial condition and ability to pay dividends.

Substantially all of our operations are conducted in the PRC and some of our revenue is denominated in RMB. The value of RMB against the U.S. dollar and other currencies fluctuates from time to time and is affected by a number of factors, such as changes in the political and economic conditions in the PRC as well as internationally and the fiscal and foreign exchange policies prescribed by the PRC government. There is no assurance that the value of RMB will remain at the current level against the USD or any other foreign currency. Should RMB appreciate or depreciate against the USD or any other foreign currency, it will have mixed effects on our business and there is no assurance that the overall effect will be positive.

RMB is not currently a freely convertible currency. Conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations. Pursuant to the existing foreign exchange regulations in the PRC, we are allowed to carry out foreign exchange transactions for the current account items (including dividend payment) without submitting the relevant documentary evidence of such transactions to the SAFE for approval in advance as long as they are processed by banks designated for foreign exchange trading. However, foreign exchange transactions for capital account items purposes may require the prior approval or registration with the SAFE. If we fail to obtain the SAFE's approval to convert RMB into foreign currencies for foreign exchange transactions or there are changes in the foreign exchange regulations or policies, our capital expenditure plans, business operations, results of operations, financial condition and our ability to pay dividends could be materially and adversely affected.

RISK FACTORS

PRC regulation of loans and direct investment by offshore holding companies to PRC entities may delay or prevent us from using the proceeds of the Share Offer to make loans or additional capital contributions to our PRC subsidiaries.

In utilising the proceeds from the Share Offer, as an offshore holding company of our PRC subsidiaries, our Company may make loans to our PRC subsidiaries, or we may make additional capital contributions to our PRC subsidiaries. Any loans to our PRC subsidiaries are subject to PRC regulations and approvals. For example, loans by us to our wholly owned PRC subsidiaries in China to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also decide to finance our PRC subsidiaries through capital contributions. These capital contributions must be filed online in the application form for record-filing of the changes of foreign-invested enterprises and we must submit relevant documents via the comprehensive management system to go through the procedures for record-filing of registered capital changes. Upon the completion of record-filing, we can collect the acknowledgement of the record-filing of the change of foreign-invested enterprises from the competent commerce authorities. We cannot assure you that we will be able to obtain these government registrations, approvals or acknowledgement on a timely basis, if at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to receive such registrations, approvals or acknowledgement, our ability to use the proceeds of the Share Offer and to capitalise our PRC operations may be negatively affected, which could materially and adversely affect our liquidity and our ability to fund and expand our business.

We may be treated as a resident enterprise for PRC tax purposes and be subject to PRC taxation on our worldwide income, which could result in unfavourable tax consequences to us and our non-PRC Shareholders.

Our Company is registered under the laws of the Cayman Islands but substantially all of our operations are in the PRC. Under the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)(the “**EIT Law**”), an enterprise incorporated in a foreign country or region may be classified as either a “non-resident enterprise” or a “resident enterprise”. If an enterprise incorporated in a foreign country or region has its “de facto management bodies” located within the PRC, such enterprise will be considered a PRC tax resident enterprise for tax purpose. Under the regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》)(the “**EIT Rules**”), the term “de facto management bodies” is defined as a body which substantially manages, or has control over the business, personnel, finance and assets of an enterprise, so we may be considered a PRC resident enterprise by the PRC tax authorities and will normally be subject to the enterprise income tax of 25% on our worldwide income. Please see the section headed “Regulatory Overview – Taxation – Enterprise income tax” for further details.

RISK FACTORS

It is unclear how the PRC tax authorities will determine whether an offshore entity is a non-PRC resident enterprise. We cannot assure you that PRC tax authorities will not consider us to be a “resident enterprise”. If the PRC tax authorities subsequently determine that we or our offshore holding companies are deemed to be or should be classified as “resident enterprises”, such entity or entities may be subject to enterprise income tax at a rate of 25% on their worldwide income, which could have an impact on our effective tax rate and materially and adversely affect our financial condition and results of operations.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may be subject to withholding taxes under the PRC tax law.

Under the EIT Law, to the extent dividends from earnings sourced within the PRC and if we were considered a “resident enterprise” in the PRC, PRC income tax at the rate of 10% (or a lower rate pursuant to an applicable tax treaty) may be required to be withheld from dividends on our Shares payable by us to investors that are “non-resident enterprises”, so long as such “non-resident enterprise” investors do not have an establishment or place of business in the PRC or if, despite the existence of such establishment or place of business in the PRC, the relevant income is not effectively connected with such establishment or place of business in the PRC. Furthermore, any gains realised on the transfer of our Shares by such “non-resident enterprise” investors would be subject to PRC income tax at a rate of 10% if such gains were deemed income derived from sources within the PRC and if we were considered a “resident enterprise” under the PRC laws. It is unclear whether, if we are considered a PRC “resident enterprise”, holders of our Shares may be able to claim the benefit of income tax treaties or agreements entered into between the PRC and other countries or areas. If we are required under the EIT Law or other related regulations to withhold PRC income tax on our dividends payable to foreign holders of our Shares which are “non-resident enterprises”, or if our Shareholders are required to pay PRC income tax on the transfer of our Shares under PRC tax laws, the value of an investment in our Shares may be materially and adversely affected.

There are uncertainties with respect to indirect transfers of assets (including equity interests) of our PRC subsidiaries.

The State Administration of Taxation (“SAT”) issued the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises* (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》) (“**Announcement No. 37**”), which was promulgated on 17 October 2017 and became effective on 1 December 2017, and the Announcement on Certain Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises* (《關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) or Circular 7, provide comprehensive guidelines relating to, and also heightens the PRC tax authorities scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (“**PRC Taxable Assets**”).

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Announcement No. 37 and Circular 7 specify that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions, it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares on a public market by our non-resident enterprise Shareholders or to any future acquisition by us outside of the PRC involving PRC Taxable Assets. As a result, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

It may be difficult to effect service of process, enforce foreign judgments and arbitral awards or bring original actions in the PRC against us or our Directors and senior management.

Our Company is registered under the laws of the Cayman Islands, but substantially all of our operations and assets and some of our Directors and senior management are located in the PRC. It may be difficult or impossible for investors to effect service of process on us or those persons in the PRC. Moreover, the PRC does not have treaties with most of the other jurisdictions that provide for the reciprocal recognition and enforcement of judicial rulings and awards. As a result, recognition and enforcement in the PRC of the judgment of a non-PRC court in relation to any matter not subject to a binding arbitration provision may be difficult or impossible. Final judgments for civil and commercial cases and arbitral awards obtained in a recognised Hong Kong court or Hong Kong arbitral tribunal may be enforced in the PRC, provided that certain conditions are satisfied. However, there are uncertainties as to the outcome of any applications to recognise and enforce such judgments and arbitral awards in the PRC.

Furthermore, an original action may be brought in the PRC against us or our Directors and senior management only if the actions are not required to be arbitrated by PRC law and upon satisfaction of the conditions for commencing a cause of action pursuant to the PRC civil procedure law. As a result of the conditions set forth in the PRC civil procedure law and the discretion of the PRC courts to determine whether the conditions are satisfied and whether to accept the action for adjudication, it is uncertain whether investors will be able to bring an original action in the PRC in this manner.

RISK FACTORS

RISKS RELATING TO THE SHARE OFFER

There is no existing public market for our Shares and their liquidity and market price may fluctuate.

Prior to the Share Offer, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results. Accordingly, we cannot assure you that the liquidity and market price of our Shares will not fluctuate.

The Offer Price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Joint Bookrunners (for themselves and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market after the Share Offer. Our Shareholders may therefore not be able to sell their Shares at or above the Offer Price.

Should the Offer Price be higher than the net tangible book value per Share, our Shareholders may experience an immediate dilution in the book value of their Shares purchased in the Share Offer and may experience further dilution if we issue additional Shares in the future.

If the Offer Price of our Shares is higher than the net tangible assets value per Share immediately prior to the Share Offer. Therefore, purchases of our Shares in the Share Offer will experience an immediate dilution in pro forma net tangible assets value per Share.

In order to expand our business, we may consider offering and issuing additional Shares in the future. Our Shareholders may experience further dilution in the net tangible assets book value per Share if we issue additional Shares at a price lower than the net tangible assets book value per Share at the time of their issue.

Since there will be a gap of several days between pricing and trading of the Offer Shares, holders of the Offer Shares are subject to the risk that the price of the Offer Shares could fall during the period before trading of the Offer Shares begins.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several business days after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in Shares during that period. Accordingly, holders of Shares are subject to the risk that the price of their Offer Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

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Cosmic Bliss and Mr. Wong, our Controlling Shareholders, may exert substantial influence over our operation and may not act in the best interests of our public Shareholders.

Immediately following the Share Offer, Cosmic Bliss and Mr. Wong, our Controlling Shareholders will own 75% of our issued share capital, without taking into account of the Shares which may be issued upon the exercise of the Offer Size Adjustment Option. Therefore, they will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of Directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring a change in control of our Group that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or those other Shareholders, including you, may be disadvantaged as a result.

Future sales or issuances or perceived sales or issuance of our Shares could have a material adverse effect on the prevailing market price of our Shares and our ability to raise additional capital.

Our Controlling Shareholders are subject to a lock-up for a period of 24 months after the Listing Date, the details of which are set out in the section headed "Underwriting" in this prospectus. However, after the expiry of this lock-up period, subject to certain conditions, our Controlling Shareholders are free to dispose their shares at their own discretion and the sale or disposal of any substantial amounts of our Shares in the public market or the perception that such sales could occur, could have a material and adverse effect on the market price of our Shares. This may also consequently affect our future ability to raise capital through offering of our Shares.

Dividends paid in the past may not be indicative of the amounts of future dividend payments or our future dividend policy.

During the Track Record Period, our Group declared and paid a dividend in cash of HK\$1.9 million. Such historical dividends distributions by our subsidiaries are not an indication of our future dividend policy and we cannot assure you that we will declare or distribute dividends of similar amounts or rates in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on a number of factors including our future plans, operations, annual and retained earnings, capital requirements and surplus, our financial situation, contractual restrictions, contingent liabilities and any other factors that our Directors consider relevant. In addition, our Directors' discretion will be subject to our constitutional documents and Companies Law as well as (when required) the approval of our Shareholders. The

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declaration and distribution of dividends are further dependent on the availability of dividends received from our subsidiaries in the PRC in accordance with our internal policy, which may be subject to withholding taxes in their local jurisdiction. Please see the section headed “Financial Information – Dividends” for further details on our dividend and distribution policy.

You should read the entire prospectus and we strongly caution you not to place any reliance on any information contained in the press articles, other media and/or research analyst reports regarding us, our business, our industry and the Share Offer.

There may be subsequent to the date of this prospectus but prior to the completion of the Share Offer, press, media, and/or research analyst coverage regarding us, our business, our industry and the Share Offer. You should rely solely upon the information contained in this prospectus in making your investment decisions regarding our Shares and we do not accept any responsibility for the accuracy or completeness of the information contained in such press articles, other media and/or research analyst reports nor the fairness or the appropriateness of any forecasts, views or opinions expressed by the press, other media and/or research analyst regarding the Shares, the Share Offer, our business, our industry or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information, forecasts, views or opinions expressed or any such publications. To the extent that such statements, forecasts, views or opinions are inconsistent or conflict with the information contained in this prospectus, we disclaim them. Accordingly, prospective investors are cautioned to make their investment decisions on the basis of information contained in this prospectus only and should not rely on any other information.

You may experience difficulties in protecting your interests because we are a Cayman Islands company and the laws of the Cayman Islands for minority shareholders protection may be different from those under the laws of Hong Kong or certain other jurisdictions.

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and the Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. Please see the section headed “Summary of the Constitution of our Company and the Cayman Islands Company Law” in Appendix III to this prospectus for further details.

RISK FACTORS

We cannot guarantee the accuracy of certain facts and statistics contained in this prospectus.

Certain facts and statistics in this prospectus have been derived from various official government and other publications generally believed to be reliable. We believe that the sources of such information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Such information has not been independently verified by us or any of the Sole Sponsor, Joint Bookrunners, Joint Lead Managers, the Underwriters or any of our or their respective directors, officers or representatives or any other person involved in the Share Offer and no representation is given as to its accuracy. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate or may not be comparable to facts and statistics produced with respect to other economies. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy (as the case may be) in other jurisdictions. As a result, you should not unduly rely upon such facts and statistics contained in this prospectus.

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

This prospectus contains certain statements that are “forward-looking” and uses forward looking terminology such as “anticipate,” “estimate,” “believe,” “expect,” “may,” “plan,” “consider,” “ought to,” “should,” “would,” and “will.” Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources.

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Company’s plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the GEM Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus 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 purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms, on the terms and subject to the conditions set out herein and therein. No person in connection with the Share Offer is authorised to give any information, or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein or therein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, agents, employees or advisers or any other party involved in the Share Offer.

OFFER SHARES ARE FULLY UNDERWRITTEN

This prospectus and the relevant Application Forms set out the terms and conditions of the Share Offer. This prospectus is published solely in connection with the Share Offer, which is sponsored by the Sole Sponsor and managed by the Joint Bookrunners and to be fully underwritten by the Underwriters (subject to the terms and conditions of the Underwriting Agreements). Please see the section headed "Underwriting" in this prospectus for further information about the Underwriters and the underwriting arrangements.

RESTRICTIONS ON OFFER AND SALE OF OFFER SHARES

Each person acquiring the Offer Shares will be required to confirm or by his/her/its acquisition of the Offer Shares will be deemed to confirm that he/she/it is aware of the restrictions on the Share Offer of the Offer Shares described in this prospectus. Save as mentioned above, no action has been taken to permit the offering of the Offer Shares or the general distribution of this prospectus and the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the Share Offer in any jurisdiction other than Hong Kong or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

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

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

STRUCTURE OF THE SHARE OFFER

Please see the section headed “Structure and conditions of the Share Offer” in this prospectus for further details of the structure of the Share Offer and the section headed “How to apply for Public Offer Shares” in this prospectus and the relevant Application Forms for the procedures for applying for the Public Offer Shares. We will not issue temporary documents of title.

APPLICATION FOR LISTING ON GEM

Our Company has applied to the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM. Dealings in the Shares on the Stock Exchange are expected to commence on 16 May 2018.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, if the listing of, and permission to deal in, the Offer Shares on GEM has been refused before 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.

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at all times after the Listing, our Company must maintain the “minimum prescribed percentage” of 25% or such applicable percentage of the issued share capital of our Company in the hands of the public (as defined in the GEM Listing Rules).

Save as disclosed in this prospectus, no part of our share capital or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Our Shares will be traded in board lot of 5,000 Shares each. The stock code for our Shares is 8521.

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 the Stock Exchange and we complying 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.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All 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. 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.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Share Offer will be registered in the branch register of members of our Company in Hong Kong to be maintained by our Hong Kong Branch Share Registrar, Tricor Investor Services Limited. Our principal register of members will be maintained by our principal registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands.

No stamp duty is payable by applicants in the Share Offer.

Only Shares registered on our Company's Hong Kong branch register of members maintained in Hong Kong may be traded on GEM. Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty.

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 the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, the Shares. None of us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, the Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain RMB and US dollar amounts into Hong Kong dollars at a specified rate. Unless we indicate otherwise, the translations of RMB and US dollars into Hong Kong dollars and vice versa have been made at the rate of RMB1.00 to HK\$1.13 and US\$1.00 to HK\$7.78, respectively, in this prospectus.

No representation is made that any amounts in RMB, US dollars or Hong Kong dollars can be or could be, or have been, converted at the above rates or any other rates or at all.

LANGUAGE

If there is any inconsistency between this prospectus and its Chinese translation, this prospectus shall prevail. For ease of reference, the names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality
Executive Directors		
Mr. Wong Kai Hung Kelvin (黃繼雄)	Flat A, 18/F Block 1, Clovelly Court 12 May Road, Mid-levels Hong Kong	Chinese
Mr. Xi Bin (奚斌)	Room 810, Block 9 D Qu Zhong Xin Kai Xuan Cheng East District, Dongguan Guangdong, PRC	Chinese
Mr. Hung Yuk Miu (洪育苗)	Flat C, 11/F Block 13, City Garden 233 Electric Road North Point, Hong Kong	Chinese
Independent non-executive Directors		
Mr. Ng Wing Heng Henry (伍永亨)	10E, 8 Shiu Fai Terrace Stubbs Road, Wan Chai Hong Kong	Chinese
Mr. Sze Irons (施榮懷) <i>BBS JP</i>	Flat A1, 16/F Summit Court 144 Tin Hau Temple Road North Point, Hong Kong	Chinese
Mr. Fong Kin Tat (方建達)	Flat A, 33/F Block 21 Double Cove Starview Wu Kai Sha, Ma On Shan Hong Kong	Canadian

Please see the section headed “Directors, senior management and employees” in this prospectus for more information on our Directors and members of senior management.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor

Sunfund Capital Limited

A corporation licensed under the SFO and permitted to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Unit 2620, 26/F
Tower 1, Admiralty Centre
18 Harcourt Road
Admiralty
Hong Kong

Joint Bookrunners

Pacific Foundation Securities Limited

11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Quasar Securities Co., Limited

Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan, Hong Kong

Joint Lead Managers

Pacific Foundation Securities Limited

11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Quasar Securities Co., Limited

Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan, Hong Kong

Sunfund Securities Limited

Unit 702-3, 7/F
100 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

Legal advisers to the Company

As to Hong Kong law

Leung & Lau

Units 7208-10, 72nd Floor
The Center
99 Queen's Road Central
Central
Hong Kong

As to PRC law

Kaitong Law Firm

Units 3409-3412
Guangzhou CTF Finance Centre
Zhujiang New Town
Guangzhou
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

Deacons

5th Floor, Alexandra House
18 Chater Road
Hong Kong

As to PRC Law

Global Law Office

26/F, 5 Corporate Avenue
150 Hubin Road
Huangpu District
Shanghai 200021
PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

**Auditors and reporting
accountants**

SHINEWING (HK) CPA Limited

Certified Public Accountants

43/F, Lee Garden One

33 Hysan Avenue

Causeway Bay

Hong Kong

Industry consultant

China Insights Consultancy Limited

10/F Tomorrow Square

399 West Nanjing Road

Huangpu District

Shanghai

PRC

Receiving bank

**Industrial and Commercial Bank of China
(Asia) Limited**

1/F, 9 Queen's Road Central

Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands
Headquarters of our Group and principal place of business in Hong Kong	Room 1006 Centre Point 181-185 Gloucester Road Wan Chai, Hong Kong
Company's website	www.smart-team.cn (information on the website does not form part of this prospectus)
Company secretary	Mr. Hung Yuk Miu (洪育苗) <i>HKICPA</i> Flat C, 11/F Block 13, City Garden 233 Electric Road North Point, Hong Kong
Authorised representatives (for the purpose of the GEM Listing Rules)	Mr. Wong Kai Hung Kelvin (黃繼雄) Flat A, 18/F Block 1, Clovelly Court 12 May Road, Mid-levels Hong Kong Mr. Hung Yuk Miu (洪育苗) Flat C, 11/F Block 13, City Garden 233 Electric Road North Point, Hong Kong
Authorised representative (for the purpose of the Companies Ordinance)	Mr. Hung Yuk Miu (洪育苗) Flat C, 11/F Block 13, City Garden 233 Electric Road North Point, Hong Kong
Compliance officer	Mr. Hung Yuk Miu (洪育苗) <i>HKICPA</i>

CORPORATE INFORMATION

Audit committee	Mr. Ng Wing Heng Henry (伍永亨) (<i>Chairman</i>) Mr. Sze Irons (施榮懷) <i>BBS JP</i> Mr. Fong Kin Tat (方建達)
Remuneration committee	Mr. Fong Kin Tat (方建達) (<i>Chairman</i>) Mr. Wong Kai Hung Kelvin (黃繼雄) Mr. Ng Wing Heng Henry (伍永亨)
Nomination committee	Mr. Sze Irons (施榮懷) <i>BBS JP</i> (<i>Chairman</i>) Mr. Wong Kai Hung Kelvin (黃繼雄) Mr. Ng Wing Heng Henry (伍永亨)
Corporate governance committee	Mr. Wong Kai Hung Kelvin (黃繼雄) (<i>Chairman</i>) Mr. Ng Wing Heng Henry (伍永亨) Mr. Fong Kin Tat (方建達)
Principal share registrar and transfer office in Cayman Islands	Conyers Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Compliance adviser	Sunfund Capital Limited Unit 2620, Unit 26/F Tower 1, Admiralty Centre 18 Harcourt Road, Admiralty Hong Kong

CORPORATE INFORMATION

Principal bankers

The Hongkong and Shanghai Banking Corporation Limited

HSBC Main Building
1 Queen's Road Central
Hong Kong

Industrial and Commercial Bank of China (Asia) Limited

1/F 9 Queen's Road Central
Hong Kong

China Construction Bank

Shop A1-001 to A1-003
First International H5 Block Area A shops
New Town Center District
Nancheng District
Dongguan
Guangdong Province
PRC

INDUSTRY OVERVIEW

Unless otherwise indicated, the information presented in this section is derived from the CIC Report prepared by CIC, which was commissioned by us and is prepared primarily as a market research tool intended to reflect estimates of market conditions based on publicly available resources. References to CIC should not be considered as its opinion as to the value of any security or the advisability of investing in our Group. Our Directors believe that the sources of information and statistics are appropriate sources for such information and statistics. Our Directors have no reason to believe that such information and statistics is false or misleading or that any fact has been omitted that would render such information and statistics false or misleading in any material respect. The information prepared by CIC and set out in this Industry Overview has not been independently verified by our Group, our Controlling Shareholders, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Share Offer other than CIC with respect to the information contained in the CIC Report or their respective directors, officers, employees, advisers and agents, and no representation is given as to its accuracy and completeness. Accordingly, such information should not be unduly relied upon.

SOURCE OF INFORMATION

We have commissioned CIC, an Independent Third Party, to conduct an analysis of, and to report on the knitted fabric market in China. The report we commissioned, or the CIC Report, has been prepared by CIC independent of our influence. We paid CIC a fee of RMB450,000 for the preparation of the report, which was reached after arm's length negotiation.

BACKGROUND OF CIC

CIC is an investment and financing consultancy founded in Hong Kong, it provides professional industry consulting services across various industries, and its services include industry consulting service, commercial due diligence, strategic consulting, etc. CIC also has offices in Beijing and Shanghai.

In preparing for the report, CIC both primary and secondary research approaches. Primary research involved interviewing industry experts and leading industry participants. Secondary research involved analysing data from various publicly available data sources, such as the International Monetary Fund, National Bureau of Statistics of China, United Nations, etc.

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 a steady growth in the next decade; (ii) relevant industry key drivers are likely to drive the growth of China's knitted fabric market in the forecast period, such as rising resident income, sustained downstream market demands, favourable government policies, favourable export environment, etc.; and (iii) there is no any extreme force majeure or industry regulation in which the market may be affected dramatically or fundamentally.

INDUSTRY OVERVIEW

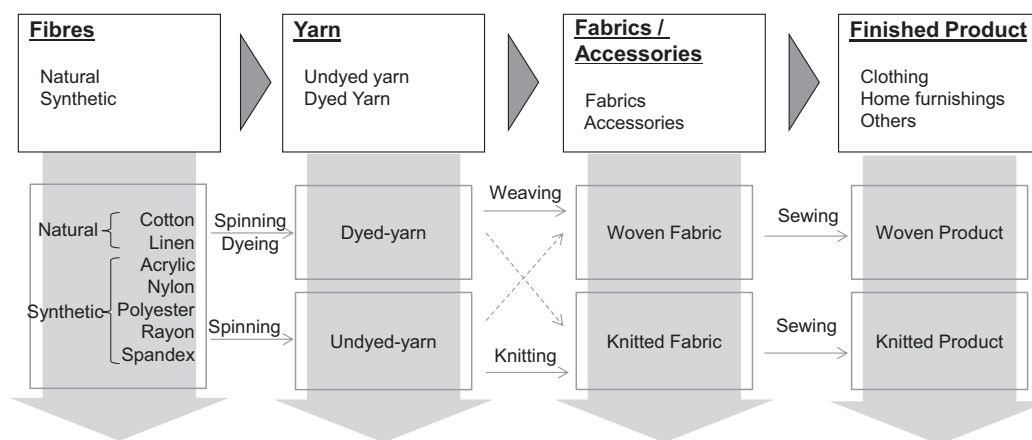
Except as otherwise noted, all the data and forecast in this section are derived from the CIC Report. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information since the date of the CIC Report, which may qualify, contradict or have an impact on the information as disclosed in this section.

CHINA TEXTILE INDUSTRY

The textile industry has a mature industry chain and plays a significant role in the Chinese economy. Combining low production costs with advanced know-how, Chinese manufacturers can produce large volumes of high quality textiles at a very low-cost. Over time, China has shifted from low-end products to focus on high value-added products.

Knitted fabric which is made from fibres, is the major raw material for knit wear manufacturing. Fibres are filaments collectively, or matter or material composed of filaments.

Value chain of the textile industry



Source: CIC

Overview of China textile industry

The upstream of China textile industry chain is composed of raw materials including natural fibres (cotton, wool, etc.) and synthetic fibres. Price of natural and synthetic fibres is mainly affected by national price of staple commodities and government policies. The midstream of the industry involves yarn spinning, knitting or weaving, and dyeing. After spinning, dyed and undyed yarns are used for knitting or weaving in the production of fabrics. Downstream applications of fabrics include garments, home furnishings and other industrial products, with garment industry as the largest downstream industry. With the development of national economics and the increasing income, consumers are paying more attention on their appearances, which creates increasingly diversified needs for garments of all kinds to express their personalities.

INDUSTRY OVERVIEW

China textile production seasonality

Demand for garment products is subject to seasonality factor of the textile industry. As demand for garment products is generally higher in the fall and winter seasons, a large number of orders for fabrics are received between early March and late May for the preparation of garment manufacturing. Peak season for ordering yarns falls approximately two month before that of fabrics, being January and March. June to July is the traditional slack season when there are fewer orders for textile manufacturers. Other than seasonality, any unexpected and abnormal changes in climate may affect the overall sale of products. The seasonality of textile industry reflects the fact that the production cycle of garments lasts for six to seven months before the peak demand in fall and winter. Textile industry, as an upstream industry of garment industry, needs to start early to reserve time for clients' production plan, logistics plan, marketing plan, etc.

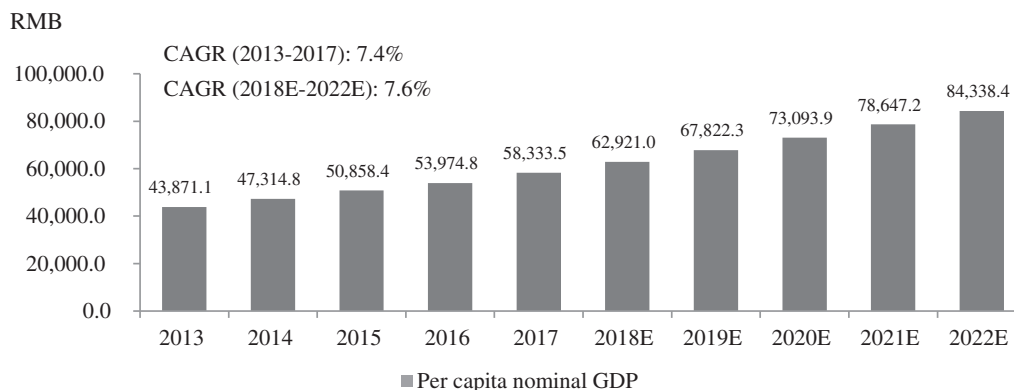
With the development of new technology in the textile industry, textile products have become thinner, more colourful and carry more value-added functions such as anti-bacterial, thermal insulation, anti-radiation, etc. Furthermore, the use of textile products is expanding into industries other than the garment industry, such as automotives, construction, and decoration, etc. As a result, the seasonality of textile production is gradually fading.

MACROECONOMIC ENVIRONMENT IN CHINA

China's economy has achieved substantial growth largely driven by state-led investment and exports, and has continued to grow during the past five years with the nominal GDP rising from RMB59.7 trillion in 2013 to RMB81.1 trillion in 2017. In line with China's growing economy, per capita nominal GDP in China has kept growing at a fast pace over the past several years. In 2017, China's per capita nominal GDP has reached approximately RMB58,000, realising a CAGR of 7.4% during the period between 2013 and 2017. With the continued sound growth of its macro economy, China's per capita nominal GDP is likely to maintain a steady growth trend into the future. According to the International Monetary Fund, China's per capita nominal GDP is predicted to reach approximately RMB84,000 by 2022, growing at a CAGR of 7.6% from 2018 onwards.

INDUSTRY OVERVIEW

Per capita nominal GDP, China, 2013-2022E



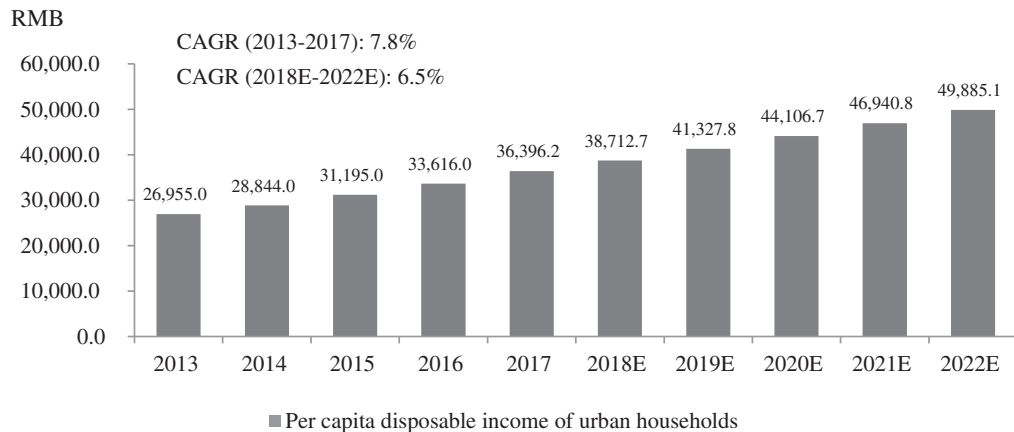
Source: International Monetary Fund

PER CAPITA DISPOSABLE INCOME

China's per capita disposable income of urban households rose from approximately RMB27,000 in 2013 to approximately RMB36,000 in 2017, having risen at a CAGR of 7.8%. Meanwhile, China's per capita net income of rural households reached approximately RMB13,000 in 2017, with a CAGR of 10.9% between 2013 and 2017.

The per capita disposable income of urban households in China is projected to reach approximately RMB50,000 by 2022, with a CAGR of 6.5% between 2018 and 2022. At the same time, per capita net income of rural households in China is likely to reach approximately RMB22,000 by 2022, with a CAGR of 9.1% during the same period.

Per capita disposable income of urban households, China, 2013-2022E



Source: National Bureau of Statistics of China, CIC

INDUSTRY OVERVIEW

TEXTILE INDUSTRY IN CHINA

Drivers for China's textile industry

Set out below are the major drivers for China's textile industry.

Steadily rising domestic consumption: Urban households in China across all income classes spent around 7% of their disposable incomes on garments each year. With increasing disposal incomes, consumers have a higher purchasing power, which in turn encourage the purchase of more branded and high-priced garment products.

Industry upgrade: In recent years, the Chinese government emphasises on and promotes green manufacturing and industry upgrade. Companies in the textile industry are expected to be more efficient and more profitable by applying new technology, while emphasising innovation-driven and high value-added products.

Supportive government policies: To promote the healthy development of the textile industry, the Chinese government has attached great importance to product quality, product variety, and product branding for the textile products in its *13th Five-Year Plan for the Development of China's Textile Industry*. The plan supports R&D investment in developing high-tech knitting machines, promotes the intellectualisation of knitted fabric production and encourages textile providers to invest in factories in other countries in taking advantage of their low labour costs.

KNITTED FABRIC MARKET AND INTIMATE WEAR MARKET IN CHINA

The garment industry is a major downstream sector for the textile industry and the major application area for knitted fabric, which accounts for over 90% of market share in terms of the consumption volume of knitted fabric. Within the garment industry, intimate wear is one of the major downstream users of knitted fabric. Intimate wear is worn next to the skin, people nowadays pay more attention to the quality of the product, including the raw materials which they are made of. With rising income and increasingly sophisticated taste in fashion and lifestyle, consumers, in particular female consumers, are willing to pay more for the design or style of an intimate wear product. Furthermore, more intimate wears have value-added functions such as anti-bacterial, thermal insulation, anti-radiation, etc. These value-added functions are expected to further stimulate the demand for intimate wear. It is expected that retail sales value of intimate wear will reach RMB558.5 billion in 2022, at a CAGR of 10.9% between 2018 and 2022. With properties such as softness, wrinkle resistance, breathability, extensibility, and flexibility, knitted fabric is most suitable for garments worn close to the skin, including intimate wear, sportswear, children's wear, maternity wear, etc.

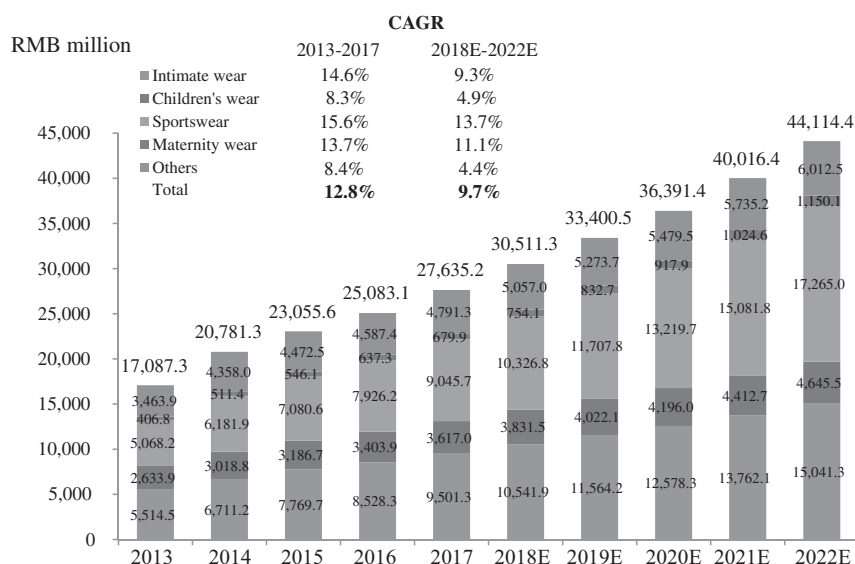
INDUSTRY OVERVIEW

In 2017, the sales value of functional knitted fabric in China reached RMB27,635.2 million. Downstream users such as intimate wear users and sportswear users each contributed to more than 30% of the sales value. It is expected that, in 2022, the sales value of functional knitted fabric in China will reach RMB44,114.4 million with a CAGR of 9.7% between 2018 and 2022.

The major users of functional knitted fabrics are intimate wear industry and sportswear industry. In 2017, intimate wear industry accounted for 34.4% of the sales value of functional knitted fabrics while 32.7% of the sales value was from sportswear industry. Both industries have seen continuous growth in the use of functional knitted fabrics from 2013 to 2017, with CAGR of 14.6% and 15.6% respectively.

From 2018 to 2022, due to the increasing demand for garments with value-added functions for exercising and outdoor activities, sportswear industry will grow in a faster pace than other industries with a CAGR of 13.7%. In 2022, the sales value to sportswear industry is expected to reach 39.1% of the total sales value of functional knitted fabrics, compared to 29.7% in 2013. Maternity wear industry and children's wear industry are also expected to increase the demand for functional knitted fabrics. The sales values in these two industries are expected to grow at CAGR of 11.1% and 4.9% respectively from 2018 to 2022.

Functional knitted fabric sales value by downstream users, China, 2013-2022E



Source: CIC

The intimate wear market, in terms of retail sales value, has increased significantly from RMB194.4 billion in 2013 to RMB325.4 billion in 2017, with a CAGR of 13.7% between these years. This significant increase demonstrates fast growth in China's consumption of knitted fabric used in intimate wear.

INDUSTRY OVERVIEW

The consumption volume of knitted fabric used in intimate wear rose to 938,600.0 tons in 2017, compared with 612,500.0 tons in 2013, representing a CAGR of 11.3% between these years.

Intimate wear retail sales value, China, 2013-2022E



Source: CIC

Despite the slowing down of overall economic situation in China after initial fast market expansion, the consumption volume of knitted fabric used in intimate wear will still further reach 1,325,200 tons by 2022, representing a CAGR of 6.8% between 2018 and 2022.

Market concentration

China's intimate wear market is very fragmented with around 3,000 brands, among which 99% of brands have a sales revenue of less than RMB100 million. The top ten lingerie and apparel brands in total accounted for approximately 10% of market share in terms of retail sales revenue in 2017. As leading companies grow increasingly stronger, market concentration has gradually continued to rise.

INTIMATE WEAR FUNCTIONAL KNITTED FABRICS MARKET IN CHINA

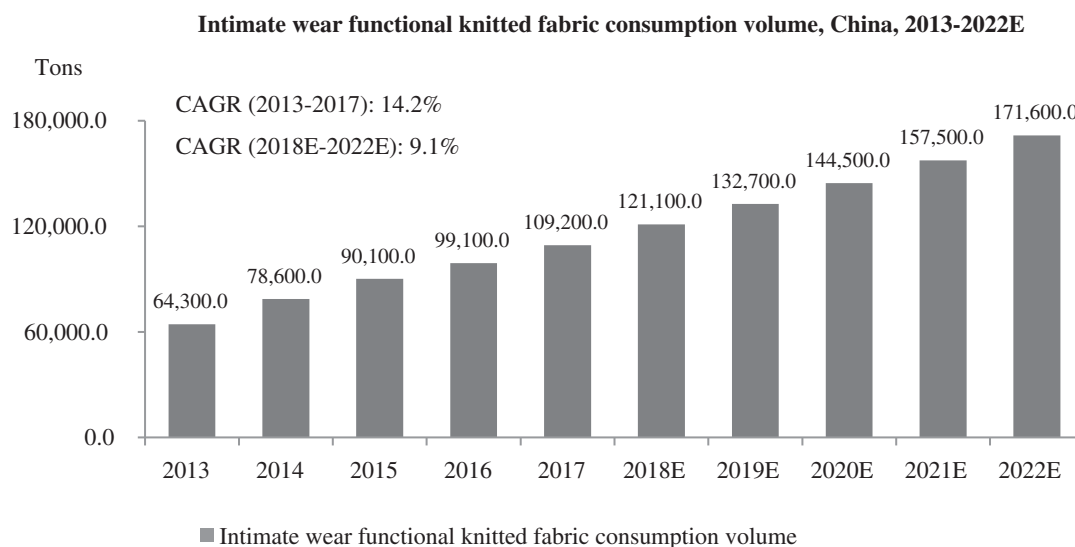
Knitted fabric suppliers operate under two major types of business models, namely production-focused type and total solution-based type. Production-focused providers are those who have self-owned factories and apply an asset-heavy business model. Solution providers do not possess any production facilities but subcontract most production procedures to third party factories. They offer value-added services including fabric design and development, as well as third-party production management. With fabric design and development as their core strength, they design knitted fabric in collaboration with fibre suppliers and customers in order to develop new knitted fabric with multiple functions, including heating, anti-bacterial, anti-odour and skin care.

INDUSTRY OVERVIEW

After the design of new knitted fabrics, solution providers subcontract production processes including subcontract spinning, knitting and dyeing production process to third party factories, with stringent quality control procedures. Since they require less upfront capital investment, solution providers achieve relatively higher profit margins.

Given their increased participation in social life and increasing quality of life, Chinese consumers are paying more attention to their personal image and appearance. In 2017, the volume of intimate wear functional knitted fabric consumption reached approximately 109,200 tons, as compared with approximately 64,300 tons in 2013, representing a CAGR of 14.2%. In 2017, the sales value of intimate wear functional knitted fabric in China reached RMB9,501.3 million, as compared with RMB5,514.5 million in 2013, representing a CAGR of 14.6%.

Similar to the overall knitted fabric industry, the functional knitted fabric segment also sources fibres as raw material, but requires the use of high quality synthetic fibres with value-added functions. Knitted from these functional fibres, functional knitted fabrics offer functions including heat generation, ventilation, skincare, etc.



Source: CIC

INDUSTRY OVERVIEW

Intimate wear functional knitted fabric sales value, China, 2013-2022E



Source: CIC

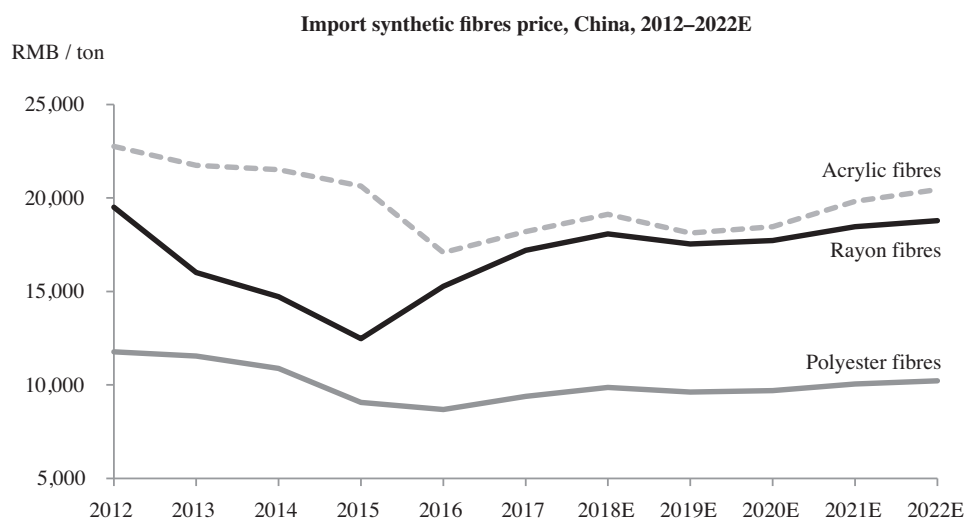
Future growth is likely to be driven by demand for functional fabric products from end consumers and garment manufacturers. Going forward, along with the growth of downstream industries, the volume of intimate wear functional knitted fabric consumption in China is expected to reach 171,600 tons by 2022, representing a CAGR of 9.1% between 2018 and 2022. In addition, the sales value of intimate wear functional knitted fabric in China is expected to reach RMB15,041.3 million by 2022, representing a CAGR of 9.3% between 2018 and 2022.

By using functional synthetic fibres, fabric with value-added functions can be manufactured. These value-added functional fabrics are becoming popular among intimate wear industries as they can provide functions such as having anti-bacterial properties, skincare, etc. In 2017, it was estimated that textile products made of functional fabrics took up more than 45% of the total volume of textile products in Japan. The percentage for the US and Europe were 35% and 28%, respectively. In comparison, the percentage of functional fabrics used in textile products in China was around 10% in 2017. The increasing use of functional fabric in various industries is driving more and more fabric manufacturing companies to design, develop, and produce these fabrics.

INDUSTRY OVERVIEW

Price analysis of raw materials

Synthetic fibres such as polyester fibres, rayon fibres, acrylic fibres, etc. are raw materials of which are then knitted into fabrics. Synthetic fibres are commonly used in functional knitted fabric since they can be blended with other materials to have special functions. During the Track Record Period, acrylic fibres are major raw materials applied by the Group. The contraction in supply and relatively stable demand has leave rayon fibres undersupplied in 2015, and consequently causing the upsurge of price. In addition, due to the higher quality and added-value, such as function, the price of imported synthetic fibres is slightly higher than that of domestic synthetic fibres for about 10-20%.

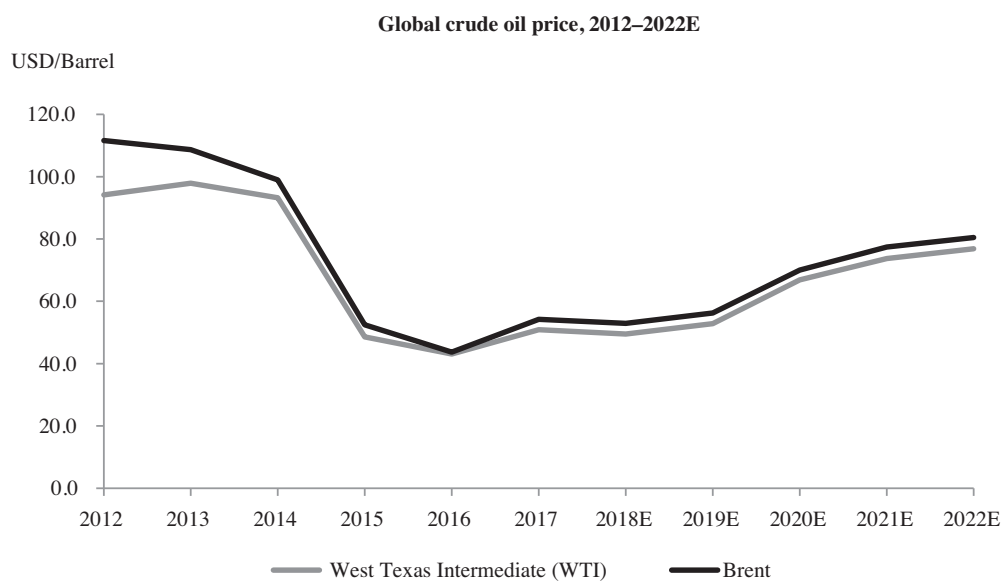


Note: Polyester fibres, rayon fibres, and acrylic fibres are major synthetic fibres.

Source: China General Administration of Customs, CIC

INDUSTRY OVERVIEW

Apart from the supply and demand of acrylic fibres that will affect the price of import acrylic fibres, synthetic fibres prices are also correlated with crude oil price, in which petroleum is one of the major raw materials of synthetic fibres. The price of crude oil dropped sharply by approximately 41.8% in 2014 which also led to a significant decrease in the price of import acrylic fibres in 2015, indicating a lagged effect of crude oil price on the price of import acrylic fibres. Between 2015 and 2017, the price of crude oil experienced slight fluctuations and gradually recovered since 2016. Price of import acrylic fibres also followed a similar overall recovering trend since the second half year of 2016. The price of crude oil is expected to follow an overall increasing trend in the future five years with some fluctuations with an expected CAGR of 11.1% between 2018 and 2022. As synthetic fibres are extracted from crude oil, the future prices for synthetic fibres are expected to follow a similar overall increasing trend as that for crude oil, but in a smaller fluctuation range. It is expected that annual price of import acrylic fibres will increase at a CAGR of 1.7% between 2018 and 2022.



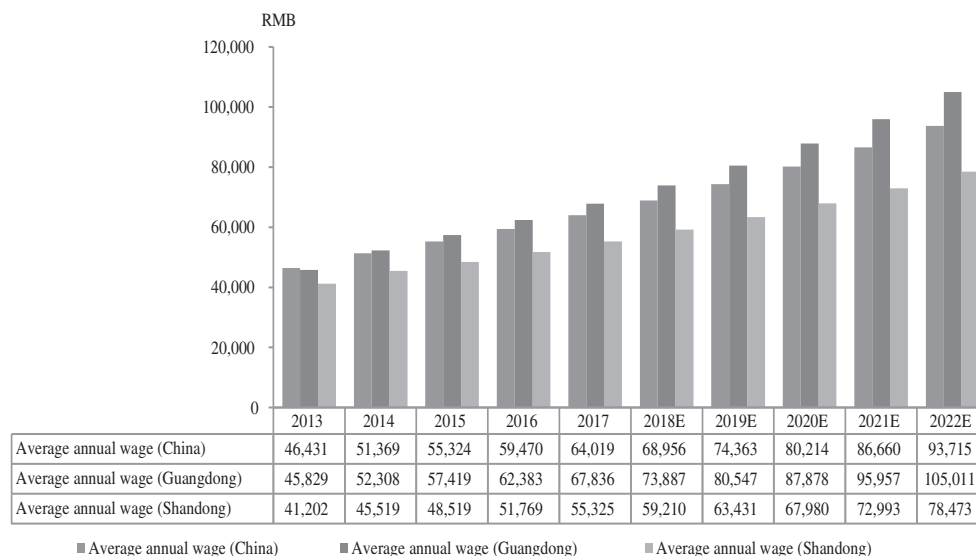
Source: US Energy Information Administration

Price analysis of labour costs

Labour is another major cost for knitted fabric market. The average annual wages of employed persons in urban units in China, Guangdong and Shandong (in terms of the manufacturing sector) have increased from approximately RMB46,000, RMB46,000 and RMB41,000 in 2013, respectively, to approximately RMB64,000, RMB68,000 and RMB55,000 in 2017, respectively and are expected to further increase to approximately RMB94,000, RMB105,000 and RMB78,000 in 2022, respectively. Though the rising labour costs have an impact on the profitability of functional knitted fabric industry, the historical drop in raw material prices and higher product pricing counteract the impact to some extent.

INDUSTRY OVERVIEW

Average annual wage of employed persons in urban units (manufacturing sector), China, Guangdong Province and Shandong Province, 2013-2022E



Source: National Bureau of Statistics of China, CIC

Drivers of China functional knitted fabric market

Improving living standards and purchasing power: The disposable income of end consumers in China has increased substantially and so as their desire for quality of life. The target consumer group for higher quality consumer goods is also expanding, with the mass affluent population rising from 12.0 million in 2013 to 17.9 million in 2017, at a CAGR of 10.5%.

Rising demand for functional knitted fabric products: Demand for functional knitted fabric products from both local markets and foreign countries are rising fast. With continuous increases in average spending on garments, the retail sales value of garment in China has increased from RMB1,358.7 million in 2013 to RMB2,272.7 million in 2017, growing at a CAGR of 13.7%. Furthermore, with the improvement of textile products in terms of appearance, style, functionality, and quality, a higher demand for China's functional knitted fabric products is also expected from the global market.

INDUSTRY OVERVIEW

Industrial upgrading supported by government policies: The Chinese government has implemented relevant policies such as *The 13th Five-year Development Plan of Textile Industry* to improve competitiveness, reduce overcapacity and foster economic growth. Supply-side reform aims to advance economic restructuring by reducing ineffective and low-end supply, and boost productivity by expanding medium-to-high-end supply. As a result, the production of higher quality functional knitted fabric is expected to rise, and products with value-added functions are expected to see a continuous growth in production volume. Benefiting from advanced technology, companies in the fabric industry are expected to become more efficient and profitable.

Future trend for China functional knitted fabric market

Functional knitted fabric market remain in China: Most functional knitted fabric production will remain in China in spite of the relocation of garment manufacturing to Southeast Asian countries. Such phenomenon is due to higher technologies are required for functional knitted fabric production and such technologies are not yet fully developed in other Southeast Asian countries, whilst garment manufacturing is relatively labour intensive and requires less knowhow and technologies, and are likely to be allocated to regions with cheaper labour supply. In addition, the rapid rising consumption of functional knitted fabrics in China also insure the steady manufacturing activities in China.

Turn towards high quality raw materials: Chinese functional knitted fabric manufacturers are turning towards the use of high quality raw materials to add value to their products to meet rising consumer demand for personalised, fashionable and functional textile products. The knitted fabric market, especially its functional segment, is moving towards the use of high quality raw materials.

Investments in research and development: Leading functional knitted fabric companies have been investing in research and development to bring the latest technologies or tailor-made solutions to buyers. Some cater to brands which are launching high-tech garments equipped with flexible sensors and microchips for measuring physical conditions, while others are also developing new features for knitted fabrics in order to add value to their products.

Design becoming increasingly important: The textile and garment industry is customer-oriented. To meet various customer needs, fabric companies are focusing more on design of the fabric. Increasing number of fabric companies look to designers or stylists to envision, understand, and capture current and future trends in colour and pattern. These designers are able to use their capabilities to the fullest extent in producing new, different, and timely fabrics.

INDUSTRY OVERVIEW

Entry barriers for China functional knitted fabric market

Cultivation of supplier relationships: Relationships between fibre suppliers and fabric providers are relatively stable which can ensure steady supply of raw materials and better control over product quality. Some large fibre suppliers have even established an exclusive business relationship with their stable fabric supplier for quality control purposes. It is difficult for new entrants to approach and partner with these suppliers.

Cultivation of customer relationships: Most downstream clients, like lingerie and apparel brand owners, work with a limited number of suppliers. By limiting the number of suppliers, the intimate wear brand owners can monitor the performance of their knitted fabric suppliers and apply stringent control over product quality. Common performance indicators include product quality, service, business relationship, design capability, etc. It is less likely for garment manufacturing clients to source fabric from new entrants without any credentials. The cultivation of client relationships remains a major barrier for new market entrants.

Industry know-how: The production process for functional knitted fabrics is complicated and requires substantial technical know-how. Existing market players have accumulated this experience and knowledge in functional knitted fabric production. New entrants lacking knitted fabric production knowledge and experience will have difficulty in entering into the market.

Regulatory requirements: The textile industry has always been considered an industry with a high environmental impact. Processes such as dyeing produce large amounts of waste. In recent years, the revised environmental protection law in China requires that textile companies make adequate capital investments in waste management facilities to ensure that they are up to the best standards. New entrants, which are usually small-sized companies may find it difficult to meet such requirements.

Design and development capability: Consumer demand is shifting among various garment products with different functions, textures and designs. Leading companies with design and development capability are able to provide fabric products of high quality and with a wider variety, which can ultimately satisfy the new needs arising from garment manufacturing clients. To be able to compete with these fabric manufacturers, fabric design and development capability is a prerequisite for any potential new entrants.

INDUSTRY OVERVIEW

COMPETITIVE ANALYSIS OF CHINA FUNCTIONAL KNITTED FABRIC MARKET

China's functional knitted fabric market is highly fragmented, with most market participants distributed mainly in the provinces of Guangdong, Zhejiang and Jiangsu, since they are able to benefit from regional industrial clusters and obtain easy access to their target markets. In 2017, there are over 20,000 functional knitted fabric providers in China and most of which are in small scale.

The downstream industries of functional knitted fabric are mainly intimate wear industry, sportswear industry and children's wear industry. Each of the downstream industry may have different technical requirements for their products and may use different raw materials. Therefore, individual functional knitted fabric producer normally focuses on one to two downstream industries, resulting in a relatively low market concentration. Although products required by each downstream industry may not be identical, it is fairly convenient for functional knitted fabric providers to explore and develop products that can satisfy the needs of various downstream industries. As a result, most of the providers of functional knitted fabric produce fabrics for more than one industry.

In 2017, the domestic sales value of China's functional knitted fabrics reached RMB27,635.2 million. The top five functional knitted fabric providers only accounted for approximately 14.3% of the total domestic sales value in China in 2017 and the Company accounted for a share of approximately 0.3%.

Top five functional knitted fabric providers in terms of domestic sales value, China, 2017

Rank	Company	Functional knitted fabric domestic sales value in China (RMB million)	Market share
1	Company A	1,050.0	3.8%
2	Company B	850.0	3.1%
3	Company C	810.0	2.9%
4	Company D	650.0	2.4%
5	Company E	575.0	2.1%
Sub total		3,935.0	14.3%
	The Company	96.0	0.3%
	Other providers	23,604.2	85.4%
Total		27,635.2	100.0%

INDUSTRY OVERVIEW

Regarding the market share of products in two major downstream industries, intimate wear industry and sportswear industry, the competitive landscape is rather fragmented. In 2017, the top three functional knitted fabric providers for intimate wear industry in China had a market share of only around approximately 5.5% while the top three providers in the sportswear industry had a total market share of approximately 12.3%. The competitive landscape for products in children's wear and maternity wear industry is even more fragmented, and with relatively lower demands for functional knitted fabric from these two industries, there is no leading provider who has a market share of more than 1.0%.

In 2017, the domestic sales volume on intimate wear functional knitted fabrics reached approximately 109,200 tons. Top five intimate wear functional knitted fabric providers accounted for an aggregate market share of approximately 7.8% and the Company accounted for approximately 0.8% with a sales volume of approximately 839 tons in 2017.

Top five intimate wear functional knitted fabric providers in terms of domestic sales volume, China, 2017

Rank	Company	Domestic sales volume of intimate wear functional knitted fabric in China (tons)	Market share
1	Company F	2,400	2.2%
2	Company G	1,900	1.7%
3	Company H	1,750	1.6%
4	Company I	1,300	1.2%
5	Company D	1,250	1.1%
Sub total		8,600	7.8%
	The Company	839	0.8%
	Other providers	99,761	91.4%
Total		109,200	100.0%

INDUSTRY OVERVIEW

The Group is a provider in the functional knitted fabric industry, which focuses on knitted fabric design and development, production management and quality control, and supply chain management. Its major competitive strengths lie on: (i) the Group has established relationships with major and reputable lingerie and apparel brand owners as well as sourcing agents; (ii) the Group possesses strong product innovation capabilities with strategic focus on functional knitted fabrics; (iii) the Group adopts a streamlined business model, which allows it to effectively manage our costs; (iv) the Group adopts stringent quality assurance and control measures so as to ensure our product quality; and (v) the Group possesses an experienced and committed management team with extensive industry experience.

REGULATORY OVERVIEW

REGULATORY REQUIREMENTS IN HONG KONG

We have business operations in Hong Kong and outside Hong Kong. A summary of certain material aspects of the Hong Kong laws and regulations applicable to our business and operation is set out below.

Business registration

For our Group's business operations in Hong Kong, we are required to obtain business registration certificates issued by the Hong Kong Inland Revenue Department under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong).

Employees' compensation

The Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases under the Employees' Compensation Ordinance. The Employees' Compensation Ordinance applies equally to full-time and part-time employees who are employed under service contracts or apprenticeships.

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

Under section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are obliged to take out insurance policies to cover their liabilities both under the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees. An employer who fails to comply with the Employees' Compensation Ordinance to secure an insurance cover is liable on conviction to a fine of HK\$100,000 and imprisonment for 2 years.

Minimum wage

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) provides for a prescribed minimum hourly wage rate, currently set at HK\$34.5 per hour, during the wage period for every employee engaged under a contract of employment under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

REGULATORY OVERVIEW

Any provision of an employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Mandatory Provident Fund Schemes Ordinance

The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the laws of Hong Kong) provides that an employer shall participate in a mandatory provident fund scheme (“**MPF Scheme**”), which shall be a registered provident fund scheme managed by authorised independent trustees, and make contributions for its employees aged between 18 and 65. Under the MPF Scheme, an employer and its employee are both required to contribute 5% of the employee’s monthly relevant income as mandatory contribution for and in respect of the employee, subject to the minimum and maximum relevant income levels for contribution purposes. The maximum level of relevant income for contribution purposes is currently HK\$30,000 per month.

REGULATORY REQUIREMENTS IN THE PRC

We are principally operated through our subsidiaries in the PRC. Set out below are summaries of certain aspects of the PRC laws and regulations which are relevant to the operation and business of our subsidiaries in the PRC.

FOREIGN INVESTMENT POLICY

The establishment, operation and registration of corporate entities in the PRC are governed by several applicable laws in the PRC, such as the Company Law of the PRC (《中華人民共和國公司法》)(“**PRC Company Law**”), which was last amended on 28 December 2013 and became effective on 1 March 2014, and the Regulations of the PRC on the Administration of Company Registration (《中華人民共和國公司登記管理條例》)(“**Regulations on Company Registration**”), which was last amended on 6 February 2016. The PRC Company Law generally governs two types of companies, namely limited liability companies and joint stock limited companies, it regulates the organisation and activities of companies and safeguards the legitimate rights and interests of companies, shareholders and creditors. The latest amendment of the PRC Company Law has cancelled the restriction on the minimum registered capital and replaced the registered paid-up share capital system by the registered subscribed share capital system. According to the PRC Company Law and the Regulations on Company Registration, except where laws on foreign investment stipulate otherwise, the PRC Company Law and the Regulations on Company Registration shall also apply to foreign-invested limited liability companies.

REGULATORY OVERVIEW

Our PRC subsidiaries are subject to laws and regulations relating to foreign-owned enterprises, including the Wholly Foreign-Owned Enterprise Law of the PRC (《中華人民共和國外資企業法》)(“**WFOE Law**”), the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-Invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), the Interim Provision on the Domestic Investment of Foreign-Funded Enterprise (《關於外商投資企業境內投資的暫行規定》), and the Catalogue for the Guidance of Foreign Investment Industries (Amended in 2017)(《外商投資產業指導目錄(2017年修訂)》)(“**Catalogue**”).

The establishment, approvals, registered capital, taxation, foreign exchange, financial accounting and labor matter of the wholly foreign-owned enterprises shall be governed by the WFOE Law, which was promulgated on 12 April 1986, and amended on 31 October 2000 and 3 September 2016 respectively, and the Implementation Regulation of the Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法實施細則》), which was promulgated on 12 December 1990, and amended on 12 April 2001 and 19 February 2014 respectively.

A wholly foreign-owned enterprise is a legal entity with the capacity to bear civil liabilities, to enjoy civil rights and to own, use and sell properties independently. The registered capital of a wholly foreign-owned enterprise must be contributed by foreign investors and the liability of a foreign investor is limited to the amount of the registered capital for which it agrees to subscribe.

Pursuant to the Provisional Measures for Filing Administration of Establishment and Changes of Foreign-Invested Enterprises, which was promulgated on 8 October 2016 and became effective on the same date, if the establishment and changes of a foreign-invested enterprise do not fall within the scope of special administration measures for foreign investment admission as stipulated by the state, such foreign-invested enterprise shall go through recordation procedures instead of approval procedures. However, where the establishment and changes of a foreign-invested enterprise fall within the scope of special administration measures for foreign investment admission as stipulated by the state, the foreign-invested enterprise shall go through approval procedures according to relevant laws and regulations governing foreign investment.

REGULATORY OVERVIEW

Investments in the PRC conducted by foreign investors and foreign investment enterprises shall comply with the Interim Provision on the Domestic Investment of Foreign-Funded Enterprise and the Catalogue. Pursuant to the Interim Provision on the Domestic Investment of Foreign-Funded Enterprise, which was effective on 1 September 2000 and was amended by the Notice of the State Administration for Industry and Commerce on Implementing the Implementation Opinions on Some Issues concerning Law Application for the Administration of Examination and Approval and Registration of Foreign-Funded Companies (《國家工商行政管理總局關於實施〈關於外商投資的公司審批登記管理法律適用若干問題的執行意見〉的通知》) on 26 May 2006 and the Ministry of Commerce's Decision on Amending Some Rules and Regulatory Documents (《商務部關於修改部分規章和規範性文件的決定》) on 28 October 2015, the State Administration for Industry and Commerce and its branch offices no longer review the qualification of a foreign-invested enterprise on its domestic investment. Pursuant to the Catalogue, which was jointly promulgated by the National Development and Reform Commission of the PRC and the Ministry of Commerce on 28 June 2017 and became effective on 28 July 2017, foreign investment industries are classified into three categories, including the encouraged, the restricted and the prohibited, while industries not listed therein are generally open to foreign investment unless other PRC laws required otherwise. Our subsidiaries in the PRC are mainly engaged in the trading of textile fabrics, which does not fall into the “restricted” or “prohibited” foreign investment industries listed under the Catalogue.

PRODUCT QUALITY AND CONSUMER PROTECTION

Our subsidiaries in the PRC are mainly engaged in the business trading of textile fabrics, which is regulated by several rules and regulations including the General Principles of the Civil Laws of the PRC (《中華人民共和國民法通則》)(“**Civil Law**”), the Tort Law of the PRC (《中華人民共和國侵權責任法》)(“**Tort Law**”), the Contract Law of the PRC (《中華人民共和國合同法》)(“**Contract Law**”), the Law of PRC on Product Quality (《中華人民共和國產品質量法》)(“**Product Quality Law**”) and the Consumer Protection Law of the PRC (《中華人民共和國消費者權益保護法》)(“**Consumer Protection Law**”).

The Civil Law

Manufacturers and distributors of defective products in the PRC may incur liability for loss and injury caused by such products. Under the Civil Law which became effective on 1 January 1987 and was amended on 27 August 2009, a defective product which causes property damage or physical injury to any person could subject the manufacturer or distributors of such product to civil liability.

REGULATORY OVERVIEW

The Tort Law

Pursuant to the Tort Law which promulgated on 26 December 2009 and implemented on 1 July 2010, the manufacturer is responsible for the quality of the products it produces. If any harm is caused by a defective product, the injured party may require compensation to be made by the manufacturer or the distributors of the product. If the defect of the product is caused by the manufacturer and the distributors has made the compensation, the distributors is entitled to reimbursement by the manufacturer. If the defect of the product is caused by the distributors and the manufacturer has made the compensation, the manufacturer is entitled to reimbursement by the distributors.

The Contract Law

The contracts that our PRC subsidiaries entered into with our suppliers, customers or any other third parties are subject to the Contract Law. A natural person or a legal person or other legally established organisation shall have full capacity of civil right and civil conduct while entering into a contact. Except otherwise required by other laws and regulations, the formation, validity, performance, modification, assignment, termination, liability for breach of a contract are stipulated by the Contract Law. A contracting party who failed to perform or failed to fulfill its contractual obligation shall bear the responsibility of continued duty to perform or to take remedies and compensations or any other liabilities provided by the PRC laws.

The Product Quality Law

Pursuant to the Product Quality Law, which was promulgated on 1 September 1993 and amended in 2000 and 2009 respectively, it is prohibited to produce or sell products that do not meet the standards or requirements for safeguarding human health or that constitute unreasonable threats to the safety of human life or property. Where a defective product causes physical injury to a person or damage to his/her property, the injured party may claim compensation against the manufacturer or the distributor of such product.

Where any person produces or sells products that do not comply with the relevant national or industrial standards for safeguarding human health or constitute unreasonable threats to the safety of human life or property, the related authority will order the relevant manufacturer or distributor to suspend the production or sale of defective products, confiscate the products produced or for sale, and impose a fine in an amount of up to three times the value of defective products. Where illegal earnings were made or was involved, the relevant earnings will be confiscated accordingly. If the breach of regulation is serious, the business license of the relevant manufacturer and distributor may be revoked. If the relevant activities constitute a crime, the offender may be prosecuted.

REGULATORY OVERVIEW

The Consumer Protection Law

The principal legal provisions for consumer protection are set out in the Consumer Protection Law, which was promulgated on 31 October 1993, implemented on 1 January 1994 and amended in 2009 and 2013 respectively.

Pursuant to the Consumer Protection Law, the rights and interests of consumers who buy or use commodities for the purpose of daily consumption or those who receive services are protected and all manufacturers and distributors involved must ensure that the products and services will not cause any personal injury or property damage.

Violations of the Consumer Protection Law may result in the imposition of fines. In addition, the business operator may be ordered to suspend its operations and its business license may be revoked. Criminal liability may be incurred in serious cases. Pursuant to the Consumer Protection Law, a consumer whose legal rights and interests are prejudiced in connection with the purchase or use of goods may demand compensation from the distributor, where the responsibility lies with the manufacturer or another distributor that provides the goods, the distributor, after settling compensation, has the right to recover such compensation from that manufacturer or that other distributor. Consumers or other injured parties who suffer injury or property loss due to product defects may demand compensation from the manufacturer as well as the distributor, where the responsibility lies with the manufacturer, the distributor shall, after settling compensation, have the right to recover such compensation from the manufacturer, and vice versa.

LABOR AND SOCIAL SECURITY

We are mainly subject to the following PRC labor laws and regulations: the Labor Law of the PRC (《中華人民共和國勞動法》)(“**Labor Law**”), Labor Contract Law of the PRC (《中華人民共和國勞動合同法》)(“**Labor Contract Law**”), Regulation on the Implementation of the Labor Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), Social Insurance Law of the PRC (《中華人民共和國社會保險法》)(“**Social Insurance Law**”), the Regulations of Insurance for Work-related injury (《工傷保險條例》), the Regulations on Unemployment Insurance (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), 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 of Social Insurance Premium (《社會保險費征繳暫行條例》), Regulations on Management of Housing Provident Fund (《住房公積金管理條例》) and other relevant regulations, rules and circulars issued by competent governmental authorities.

REGULATORY OVERVIEW

Labor contract

The state and its governmental authorities formulated and promulgated a series of laws on labor contract and employment, including:

- the Labor Law, which was promulgated on 5 July 1994 and amended on 27 August 2009;
- the Labor Contract Law, which was promulgated on 29 June 2007, came into force from 1 January 2008, and amended on 28 December 2012; and
- the Regulation on the Implementation of the Labor Contract Law of the PRC, which was promulgated on 18 September 2008 and became effective on the same day.

These laws and regulations are to regulate the employment relationship established between employers and employees and the entering into, execution, performance, modifications and cancellation or termination of labor contracts, improve the labor contract system, specify the rights and obligations of both parties and protect the legitimate rights and interests of employers and employees.

Social security

Pursuant to the Social Insurance Law which was promulgated on 28 October 2010 and came into force on 1 July 2011 and the Interim Regulations on the Collection of Social Insurance Premium which promulgated on 22 January 1999 and became effective as of the date of promulgation, employers are required to contribute, on behalf of their employees, to a number of social insurances, including basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance. In the case that an employer fails to pay social insurance funds in full amount, it might be subject to a rectification order by competent authorities and a daily late fee at the rate of 0.05% of the outstanding amount from the due date might be imposed. In addition, if it fails to make such payment in full amount within the prescribed time limit, a fine in the amount of one to three times of the outstanding payment might be imposed.

Pursuant to the Regulation on Work-Related Injury Insurance which was promulgated on 27 April 2003 and became effective on 1 January 2004 and was amended on 20 December 2010, the employers shall pay work-related injury insurance premiums for employees on time, and individual employees do not have to pay the work-related injury insurance premiums.

Pursuant to the Provisional Measures on Insurance for Maternity of Employees which was promulgated on 14 December 1994 and became effective on 1 January 1995, the employers shall pay maternity insurance premiums for employees on time, and individual employees do not have to pay the maternity insurance premiums.

REGULATORY OVERVIEW

Pursuant to the Regulations on Unemployment Insurance which was promulgated and became effective on 22 January 1999, enterprises and institutions in cities and towns shall pay unemployment insurance premium at a rate of 2% on the basis of the total amount of salaries they pay. Employees of enterprises and institutions in cities and towns shall pay unemployment insurance premium at a rate of 1% on the basis of their own salaries. Contract-system farmer workers engaged by enterprises and institutions in cities and towns do not need to pay unemployment insurance premium themselves.

Housing Provident Fund

Pursuant to the Regulations on Management of Housing Provident Fund which was promulgated on 3 April 1999 and amended on 24 March 2002, enterprises shall register with relevant housing provident fund management center, open special housing provident fund accounts at a designated bank and pay housing provident fund contributions for their employees. In addition, for both employees and employers, the payment rate for housing provident fund shall not be less than 5% of the employees' average monthly salary in the previous year. The payment rate may be raised if the employer desires.

Under the Regulations on Management of Housing Provident Fund, if an enterprise fails to conduct its registration for housing provident fund or to open special housing provident fund accounts for its employees, it will be ordered by the relevant housing provident fund management center for registration and account opening within a certain timeframe. Furthermore, the enterprise will be liable to a fine of RMB10,000 to RMB50,000 yuan if it fails to comply with such order overdue. If an enterprise fails to pay or underpay housing provident fund, it will be ordered by the relevant housing provident fund management center for making those payments, and a forcible execution may be conducted by a people's court if the enterprise fails to comply with such order.

TAXATION

Enterprise Income Tax

Pursuant to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》)(“**EIT Law**”), which was promulgated on 16 March 2007, became effective on 1 January 2008 and was last amended on 24 February 2017, the income tax for both domestic and foreign-invested enterprise is at a uniform rate of 25%. The Regulation on the Implementation of the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》)(“**EIT Rules**”), which was promulgated on 6 December 2007 and became effective on 1 January 2008.

Pursuant to the EIT Law and the EIT Rules, a resident enterprise is subject to enterprise income tax for the income derived from both inside and outside the PRC. A non-resident enterprise, which having organisations or establishments in the PRC, is subject to enterprise income tax on its incomes derived from inside the PRC as well as incomes derived from outside the PRC which have actual connection with such organisations or establishments. For a non-resident enterprise which having no organisations or establishments in the PRC, or which having an organisation or establishment in the PRC but the income it derives has no actual connection with such organisation or establishment, only its income derived in the PRC will be subject to enterprise income tax.

REGULATORY OVERVIEW

The enterprise income tax rate is 25%. A non-resident enterprise without an organisation or establishment in the PRC or a non-resident enterprise which having an organisation or establishment in the PRC but whose incomes have no actual connection with such organisation or establishment, will only be subject to tax on its PRC-sourced income, and the income for such enterprise will be taxed at the reduced rate of 10%.

Pursuant to the EIT Law and its EIT Rules, income from equity investment between qualified resident enterprise such as dividends and bonuses, which refers to investment income derived by a resident enterprise from direct investment in another resident enterprise, is tax-exempt income. Furthermore, under the EIT Law and its EIT Rules, hi-tech enterprises and small low-profit enterprises are subject to an income tax rate of 15% and 20% respectively.

In addition, the Measures of Accreditation and Administration for Hi-tech Enterprise (《高新技術企業認定管理辦法》) which was promulgated on 29 January 2016, and the Circular of the State Administration of Taxation in Relation to the Implementation of Preferential Income Tax Policies for Hi-Tech Enterprises (《國家稅務總局關於實施高新技術企業所得稅優惠有關問題的公告》) which was promulgated on 19 June 2017 has specified the accreditation of a hi-tech enterprise and the application of tax preference for hi-tech enterprises, pursuant to which hi-tech enterprises are deemed to be supported primarily by the state, and they will be qualified to enjoy a preferential income tax rate at 15%.

Under the EIT Rules, a small low-profit enterprise refers to: (i) an industrial enterprise which engages in the non-restricted and non-prohibited industry with an annual taxable income less than RMB300,000, a number of employees less than 100, and a total amount of assets less than RMB30 million; (ii) other enterprises which engage in the non-restricted and non-prohibited industry with an annual taxable income less than RMB300,000, a number of employees less than 80, and a total assets less than RMB10 million. Besides, the Notice on Issues concerning the Administration of Tax Collection for the Implementation of the Expansion of the Scope of Preferential Income Tax Policies for Small Low-Profit Enterprise (《關於貫徹落實擴大小型微利企業所得稅優惠政策範圍有關徵管問題的公告》), which was promulgated on 7 June 2017 and became effective on the same day, pursuant to which small low-profit enterprises can enjoy a preferential income tax rate of 20% commencing from 1 January 2017 to 31 December 2019.

REGULATORY OVERVIEW

Dividend Tax

Pursuant to the Arrangement between Mainland 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 became effective on 8 December 2006, a PRC resident enterprise which distributes dividends to its Hong Kong shareholders should pay income tax according to PRC law, however, if the beneficiary of the dividends is a Hong Kong resident enterprise, which directly holds no less than 25% equity interests of the aforesaid enterprise (i.e. the dividend distributor), the tax levied shall be 5% of the distributed dividends. If the beneficiary is a Hong Kong resident enterprise, which directly holds less than 25% equity interests of the aforesaid enterprise, the tax levied shall be 10% of the total distributed dividends. Meanwhile, Circular of the State Administration of Taxation on the Interpretation and the Determination of the “Beneficial Owners” in the Tax Treaties (《國家稅務局關於如何理解和認定稅收協定中「受益所有人」的通知》) has stipulated some factors that are unfavourable to the determination of “beneficial owner”.

In addition, pursuant to the Circular of the State Administration of Taxation on Relevant Issues Relating to the Implementation of Dividend Clauses in Tax Treaty (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》), which was issued by the State Administration of Taxation on 20 February 2009, for a tax resident of the counterparty to the tax treaty needs to be entitled to such tax treatment specified in the tax treaty for its dividends paid to it by a Chinese resident company, all of the following requirements should be satisfied: (1) the tax resident who obtains dividends should be a company as provided in the tax treaty; (2) the equity interests and the voting shares of the Chinese resident company directly owned by such tax resident reach a specified percentage; (3) the capital ratio of the Chinese resident company directly owned by such tax resident reaches the percentage specified in the tax treaty at any time within 12 months prior to acquiring the dividends.

Value-added tax

Pursuant to the Provisional Regulations on Value-Added Tax of the PRC (Amended in 2017)(《中華人民共和國增值稅暫行條例》(2017修訂)), which was promulgated and became effective on 19 November 2017, and the Detailed Rules for the Implementation of the Interim Regulation of the PRC on Value Added Tax (《中華人民共和國增值稅暫行條例實施細則》), which became effective on 1 January 2009 and was amended on 28 October 2011, all entities or individuals in the PRC engaging in the sale of goods, the provision of processing services, and repairs and replacement services, and the importation of goods are required to pay VAT. The tax payable shall be the balance of output tax for the period after deducting the input tax for the period. With certain exceptions, the rate of VAT is 17% for the entities or individuals listed above. With effect from 1 May 2018, the applicable rate of VAT will be adjusted to 16% according to the Notice concerning the Adjustment on the Rate of VAT (《關於調整增值稅稅率的通知》) issued by the State Administration of Taxation in April 2018.

REGULATORY OVERVIEW

Foreign Exchange

The Regulations of Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》)(“**Foreign Exchange Regulations**”), which was implemented on 1 April 1996 and last amended on 5 August 2008, are applicable to all activities related to the foreign exchange receipts and disbursements and transactions of domestic corporations and individuals and to the activities of overseas corporations and individuals within the territory of the PRC. The Foreign Exchange Regulations stipulates that all international disbursement and transfer of funds are classified into current account and capital account items. Approval from the SAFE is not required for most current account transactions, but is required for capital account transactions.

Pursuant to the Foreign Exchange Regulations, RMB is, in general, freely convertible for payment under current account items such as foreign exchange transactions relating to trading, services and payment of dividend, but not for payment under capital account items including capital transfer, direct investment, securities investment, derivative products or loan, except with prior approval granted by the SAFE. Foreign-Invested enterprises which are established in China through providing certain documents (such as the board resolution and tax registration permit), can purchase foreign exchange for dividend payments, trading or services without the approval from the SAFE.

Pursuant to the Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》), which was promulgated on 20 June 1996 and became effective on 1 July 1996, China abolished the restrictions on the current account foreign exchange conversion while retaining the ones on capital account foreign exchange transaction.

Furthermore, under the Circular on Further Improving and Adjusting the Direct Investment Foreign Exchange Administration Policies (《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》)(“**Circular 59**”), which was issued on 19 November 2012 by the SAFE, last amended and effected on 4 May 2015. The SAFE approval formalities for the following matters have been cancelled: for account opening and deposit for foreign currency accounts under direct investments, reinvestment of foreign investors’ legitimate domestic income, foreign exchange purchase under direct investments and overseas payment, foreign currency fund transfer in the PRC under direct investments and various statements under direct investments required to be submitted by banks and enterprises to the foreign exchange bureau at their location and by all sub-bureau of foreign exchange bureau to the SAFE prior to promulgation of Circular 59.

According to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment Foreign Exchange Administration Policies (《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》) (“**Circular 13**”), which became effective on 1 June 2015, the foreign exchange registration under domestic direct investment and the foreign exchange registration under overseas direct investment will be directly reviewed and handled by banks in accordance with the Circular 13, and the SAFE and its branches shall perform indirect regulation over the foreign exchange registration via banks.

REGULATORY OVERVIEW

According to the Circular on Reforming the Administrative Approach Regarding the Settlement of the Foreign Exchange Capitals of Foreign-invested Enterprises (《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》) (“**Circular 19**”) which was issued on 30 March 2015 and implemented from 1 June 2015 by the SAFE, a foreign-invested enterprise may also choose to convert its registered capital from foreign currency to RMB on discretionary basis, but the use of such converted registered capital is subject to certain limitations, including prohibition to directly or indirectly use for payment beyond the operation scope of the enterprise or payment forbidden by the PRC law and regulations, for investment in securities or for granting of entrusted loans in RMB or repayment of inter-enterprise borrowings. Foreign-Invested enterprises that are mainly engaged in investments can directly use the RMB capital derived from foreign exchange settlement for domestic equity investments. Domestic equity investments made by ordinary foreign-invested enterprises other than the aforementioned enterprises with the original currencies of the capital shall be governed by the prevailing requirements on domestic re-investment. With respect to domestic equity investment made through settled foreign exchange capital, the investee shall first register for the domestic re-investment at a local branch of SAFE (banks) and open a related payment account pending to settle. Subsequently, the investor shall transfer the RMB capital derived from foreign exchange settlement to the payment account pending to settle set up by the investee on the basis of the actual investment scale. If the investee continues to carry out domestic equity investment, the above principle shall prevail.

Furthermore, SAFE promulgated a circular on 9 June 2016, namely the Circular on Reforming and Regulating Capital Account Foreign Exchange Settlement Management Policy (《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》 (“**Circular 16**”), which further revised several clauses in Circular 19. Both Circular 19 and Circular 16 regulate that foreign exchange incomes of a domestic enterprise under their capital account shall not be used in the ways stated below:

- For expenditures that are forbidden by relevant laws and regulations, or for purposes which are not within the business scope approved by relevant government authority;
- For direct or indirect equity investments within China, or for investments rather than principal-guaranteed wealth-management products, unless otherwise prescribed by other laws and regulations;
- For issuing RMB entrusted loans directly or indirectly (except those included in the business scope), or for repaying inter-enterprise loans, or for repaying bank loans which has been refinanced to third parties;
- For issuing RMB loans to non-affiliated enterprises, unless expressly permitted in the business scope;

REGULATORY OVERVIEW

- For purchasing or constructing real estate which is not for personal use, except that such purchase or construction is done by real estate enterprises.

In addition, SAFE supervises the flow and use of those RMB capital converted from foreign currency capital funds of a foreign-invested company by further focusing on ex post facto supervisions and violations, and the use of net proceeds from this offering to invest in or acquire any other Chinese companies in the PRC is subject to the provisions of Circular 19 and Circular 16.

INTELLECTUAL PROPERTY

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》) which was effective on 1 April 1985 and last amended on 27 December 2008, and its Implementation Rules (《中華人民共和國專利法實施細則》), the PRC provides patent protection to three types of patents namely inventions, utility models and designs. An invention or utility model for which a patent is granted shall be novel, inventive and practically applicable. Any design for which a patent is granted shall not be attributed to the existing design, and no entity or individual has, before the date of application, filed a patent application to the administrative department of the State Council on that identical design and recorded it in the patent documents which would be published after the date of application. The duration of an invention patent shall be twenty years, and the duration of a utility model or design shall be ten years, counted from the date of application.

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》), which was implemented on 1 March 1983 and last amended on 30 August 2013, and its Implementation Rules (《中華人民共和國商標法實施條例》), which was effective on 1 May 2014, registered trademarks are those that have been approved by and registered with the Trademark Office, including commodity trademarks, service trademarks, collective marks and certification marks. Trademark registrants shall be entitled to the right of exclusive use of their trademarks and shall be protected by relevant PRC laws and regulations. The period of validity of a registered trademark shall be ten years from the day the registration of approval. If a registrant needs to continue to use the registered trademark after the period of validity expires, an application for renewal of registration shall be made within 12 months before the expiration. If the registrant fails to make such an application within 12 months, an extension period of six months may be granted. The period of validity for each renewal of registration shall be ten years after the expiry of the previous valid term.

REGULATORY OVERVIEW

REORGANISATION AND THE LISTING

Circular 37

Pursuant to the Circular on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投資及返程投資外匯管理有關問題的通知》)(“**Circular 37**”) which was promulgated by SAFE on 4 July 2014, the special purpose vehicles (“**SPVs**”) refer to overseas companies that are directly incorporated or indirectly controlled by domestic residents (including domestic institutions and individual domestic residents), using the assets or rights and interests of domestic companies that they legally possess or using the overseas assets or rights and interests that they legally possess for the purpose of investments and financing. The SAFE shall manage the registration of SPVs incorporated by domestic residents. Domestic residents shall apply to the SAFE to register foreign exchange for overseas investments prior to contributing money to SPVs by using legitimate domestic and overseas assets or rights and interests. According to Circular 37, individual domestic residents refer to Chinese citizens who have an identity card, military identity card, or armed police identity card, which are designated for Chinese residents, as well as foreign individuals who do not have a legitimate identity card for Chinese residents but reside in China because they have economic interests in China.

Given that our ultimate Controlling Shareholder, Mr. Wong, is a Hong Kong permanent resident, he is not an individual domestic resident defined under the Circular 37, thus Mr. Wong is not subject to the registration requirements under the Circular 37.

M&A Rules

On 8 August 2006, six PRC regulatory agencies, including the Ministry of Commerce, the State-Owned Assets Supervision and Administration Commission, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and the State Administration of Foreign Exchange of the PRC, promulgated the Regulations for Merger with and Acquisition of Domestic Enterprise by Foreign Investors (《關於外國投資者並購境內企業的規定》)(“**M&A Rules**”), and which was further amended by the Ministry of Commerce of the PRC on 22 June 2009.

Under the M&A Rules, a foreign investor is required to obtain necessary approvals when (i) a foreign investor acquires equity in a domestic company thereby converting it into a foreign invested enterprise, or subscribes for new equity via an increase in registered capital thereby converting it into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign invested enterprise which purchases and operates the assets of a domestic enterprise, or which purchases the assets of a domestic enterprise and injects those assets to establish a foreign invested enterprise. The M&A Rules also provide that an offshore SPV formed for overseas listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval from the China Securities Regulatory Commission prior to the listing and trading securities of such offshore SPV on an overseas stock exchange.

Given that our Company is a Cayman company but not a PRC company defined under the M&A Rules while our ultimate Controlling Shareholder, Mr. Wong, is a permanent resident of Hong Kong but not a PRC individual defined under the M&A Rules, the Reorganisation and the Listing are not subject to the M&A Rules.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OVERVIEW

The founder of our Group, Mr. Wong, started his career in the textile industry working in several companies controlled by his family members in 1999. Recognising that China's stable economic growth in the recent years have produced an increasing number of middle-class consumers, and seeing the market potential in functional, higher value-added fabric products going forward, in 2011, Mr. Wong started his business in functional knitted fabrics with the incorporation of Smart Team with his accumulated experience and own funds.

Since the inception of our Group, we have continually developed, designed and refined our functional knitted fabrics, carrying different features such as stretch, skin-care, anti-bacterial, rapid drying and moisture management. Besides intimate wear products, our functional knitted fabrics can be and has been used in the manufacturing of a wide range of apparel including casual wear, sportswear, children's wear and maternity wear products. For a detailed discussion on our business, please see the section headed "Business" in this prospectus.

The following table sets out the key milestones of our business development:

Year	Event
2011	Smart Team was established.
2012	We commenced business in trading of fibres for manufacture of functional knitted fabrics.
2013	Guangdong Smart Team was established in Dongguan, Guangdong where we commenced business in supply and sales of functional knitted fabrics with thermal function. Dongguan came to be the base of our headquarter.
2014	Smart Union was established to commence business in provision of functional knitted fabrics with cooling function.

We started to work with Donghua University (formerly known as China Textile University) in connection with fabrics product and technology development and technical training.

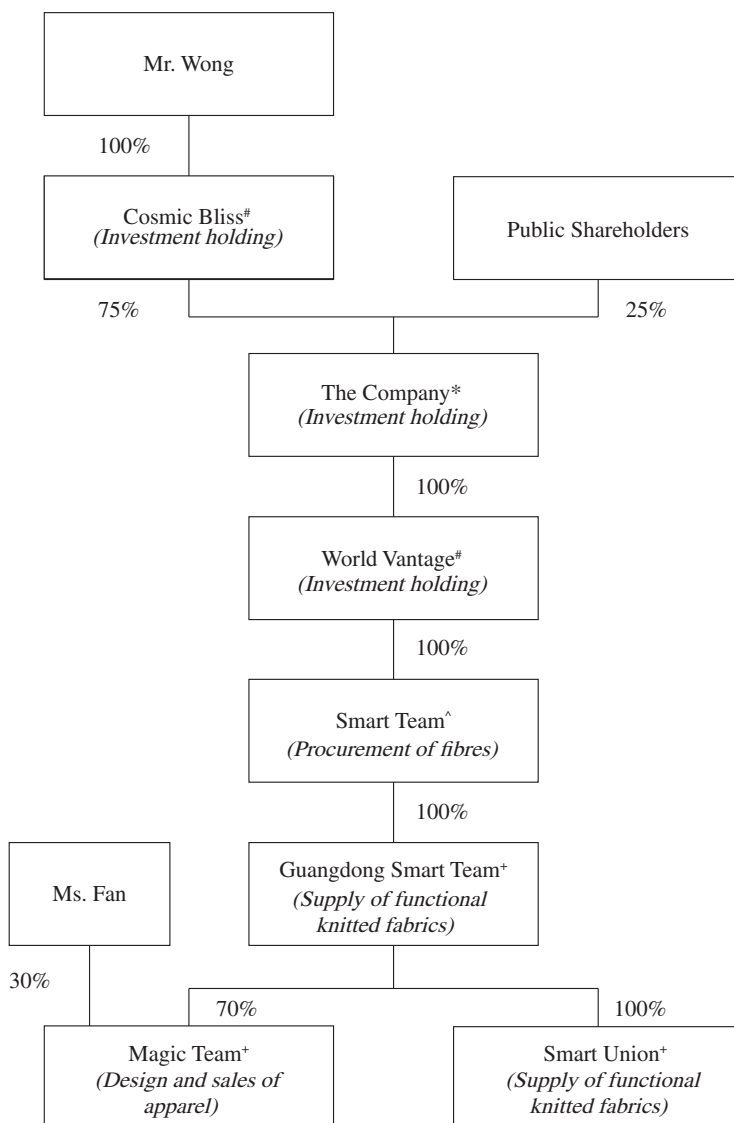
HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Year	Event
2015	<p>Guangdong Smart Team participated as one of the core drafting units for the PRC national industry standard “Thermal and humid comfortable knitted innerwear” (《熱濕舒適性針織內衣》行業標準制定工作主要起草單位).</p> <p>Magic Team was established in Beijing to expand the business of our Group into design and sales of casual wear apparel.</p> <p>Guangdong Smart Team was recognised as a “Fabric China Pioneer Plant – Functional Knitted Textiles” (國家功能性針織產品開發基地) by China National Textile and Apparel Council (中國紡織工業聯合會), China Textile Information Centre (中國紡織信息中心), and China Textiles Development Centre (國家紡織產品開發中心).</p> <p>We were awarded the China Knitting Industry Science and Technology Contribution Annual Award 2011-2015 (中國針織行業科技貢獻獎) by China Textile Information Centre (中國紡織工業聯合會).</p>
2016	<p>We have been accredited with the OEKO-Tex Standard 100 certificate. The OEKO-Tex Standard 100 is widely used in the textile industry as a globally uniform testing and certification system which tests harmful substances in textile raw materials, intermediate and end products at different stages of production.</p> <p>Guangdong Smart Team was recognised as a High and New Technology Enterprise.</p> <p>Guangdong Smart Team participated as one of the core drafting units for the PRC national standard “free-style cutting knitted apparel” (《自由裁針織服裝》行業標準制定工作主要起草單位).</p>

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

THE GROUP AND SHAREHOLDING STRUCTURE

The following diagram illustrates the shareholding and corporate structure of our Group upon completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue:



* Incorporated in the Cayman Islands

Incorporated in BVI

^ Incorporated in Hong Kong

+ Established in the PRC

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

CORPORATE DEVELOPMENT

Members of our Group which are material to the performance of our Group during the Track Record Period are set out below:

Smart Team

Smart Team is currently principally engaged in procurement of fibres.

Smart Team was incorporated in Hong Kong with limited liability on 4 October 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same date, Mr. Wong and Mr. Xi subscribed for 6 shares and 4 shares in Smart Team for cash at par. Mr. Wong and Mr. Xi originally incorporated Smart Team to venture into the business of trading of fibres for the manufacture of functional knitted fabrics. In light of the need to make further investment in Smart Team to prepare for the establishment of Guangdong Smart Team, on 27 November 2012, Mr. Wong acquired the 4 shares held by Mr. Xi from him so that he became the sole owner who would be required to make further capital contribution to Smart Team for cash at par.

Accordingly, since 27 November 2012, throughout the Track Record Period and immediately prior to the Reorganisation, Smart Team was wholly owned by Mr. Wong.

Guangdong Smart Team

Guangdong Smart Team is currently principally engaged in supply of functional knitted fabrics.

Guangdong Smart Team was established in Dongguan, Guangdong, the PRC as a limited liability company on 29 May 2013 by Smart Team as its sole investor with a registered capital of RMB10,000,000. Since the establishment of Guangdong Smart Team and up to the Latest Practicable Date, Guangdong Smart Team is wholly owned by Smart Team.

As at the Latest Practicable Date, the registered capital of Guangdong Smart Team of RMB10,000,000 was fully paid up.

Smart Union

Smart Union is currently principally engaged in supply of functional knitted fabrics.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Smart Union was established in Dongguan, Guangdong, the PRC as a limited liability company on 16 October 2014 with a registered capital of RMB1,000,000. At its establishment, Smart Union was owned as to 60% by Guangdong Smart Team and as to 40% by Mr. Zhou Dongqin, an Independent Third Party. On 5 January 2016, in connection with Mr. Zhou Dongqin's departure from the Group to pursue his other career engagements which require more of his attention and dedication, Mr. Zhou Dongqin entered into an agreement with Guangdong Smart Team pursuant to which Mr. Zhou Dongqin transferred the 40% equity interest of Smart Union held by him to Guangdong Smart Team at a consideration of RMB210,000. The consideration was determined with reference to the unaudited net asset value of Smart Union as at 30 November 2015, having considered the operating losses recorded prior to the transfer and the short operating history of Smart Union. Upon completion of the transfer of the 40% equity interest in Smart Union from Mr. Zhou Dongqin to Guangdong Smart Team, Smart Union became a wholly-owned subsidiary of Guangdong Smart Team.

As at the Latest Practicable Date, the registered capital of Smart Union of RMB1,000,000 was fully paid up. The revenue contribution (excluding intra-group transactions) of Smart Union to our Group for the years ended 31 December 2015, 2016 and 2017 amounted to approximately HK\$4.9 million representing 7.6%, HK\$2.0 million representing 2.5% and HK\$10.1 million representing 8.1% respectively.

Magic Team

Magic Team is currently principally engaged in design and sales of apparel.

Magic Team was established in Beijing, the PRC as a limited liability company on 16 July 2015 with a registered capital of RMB500,000. Magic Team was established by our Group with Ms. Fan, a fashion designer, and owned as to 70% by Guangdong Smart Team and as to 30% by Ms. Fan as a new venture to expand the business of the Group into design and sales of apparel.

As at the Latest Practicable Date, the registered capital of Magic Team of RMB500,000 was fully paid up. The revenue contribution (excluding intra-group transactions) of Magic Team to our Group for the years ended 31 December 2015, 2016 and 2017 amounted to approximately HK\$0.1 million representing 0.2%, HK\$2.4 million representing 3.0% and HK\$12.8 million representing 10.2% respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

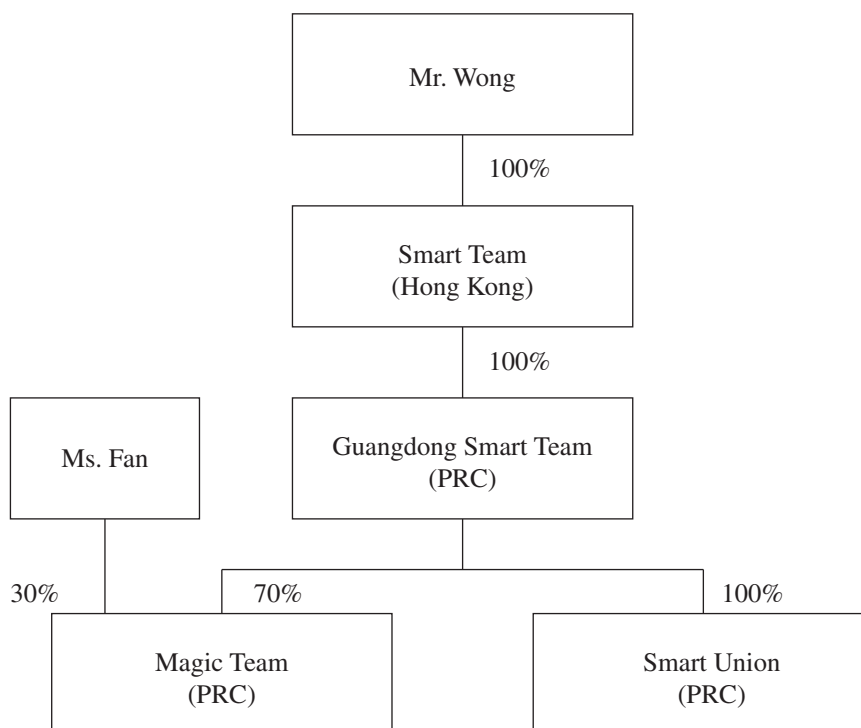
Our Company

Our Company was incorporated on 21 February 2017 in the Cayman Islands under the Companies Law as an exempted company with limited liability. On the same date, the one subscriber Share, allotted and issued as nil-paid, was transferred to Cosmic Bliss, a company incorporated in BVI with limited liability and wholly owned by Mr. Wong. Cosmic Bliss is a special purpose vehicle for Mr. Wong for holding his interest in our Company after completion of the transactions contemplated under the Reorganisation.

Upon completion of the Reorganisation on 28 February 2018, our Company became the holding company of all subsidiaries of our Company. Details of the Reorganisation are set out in the paragraph headed “Reorganisation” in this section below.

REORGANISATION

The companies comprising our Group underwent the Reorganisation to establish and rationalise our Group structure in preparation for the Listing. As a result, our Company became the holding company of our Group. The following diagram illustrates the shareholding and corporate structure of our Group immediately prior to the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The major steps of the Reorganisation are set out below:

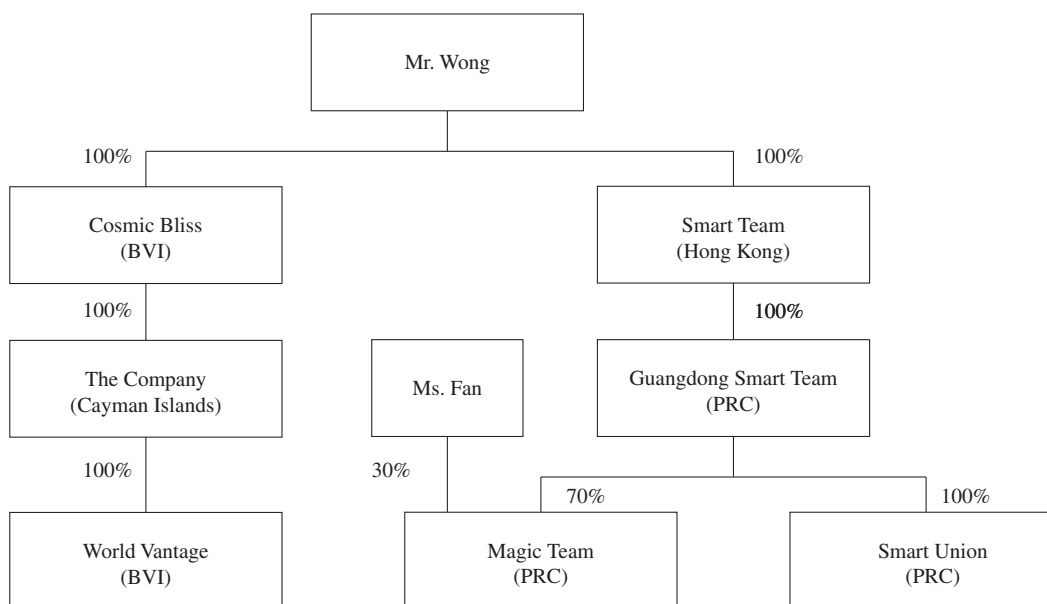
Step 1: Incorporation of our Company

Our Company was incorporated on 21 February 2017 in the Cayman Islands with limited liability. On the same date, the one subscriber Share (“**First Member Share**”), allotted and issued as nil-paid, was transferred to Cosmic Bliss.

Step 2: Setting up of World Vantage as the intermediate holding company of our Group

On 28 November 2016, World Vantage was incorporated in BVI and was authorised to issue a maximum of 50,000 shares of US\$1.00 each. On 1 March 2017, one share of World Vantage, representing the entire issued share capital of World Vantage, was allotted and issued as fully paid to our Company for cash at par.

The following diagram illustrates the shareholding and corporate structure of our Group immediately after the allotment and issue of share of World Vantage:

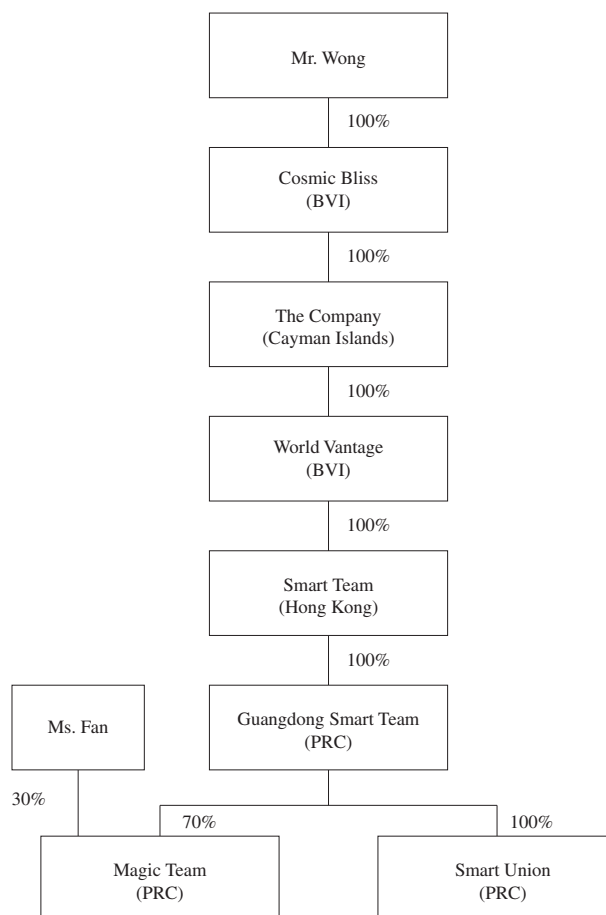


HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Step 3: Acquisition of Smart Team by our Company

On 28 February 2018, our Company, as purchaser, entered into the Reorganisation Agreement with Mr. Wong, as vendor, pursuant to which the entire issued share capital of Smart Team was transferred to our Company (and held through World Vantage) at the consideration which was satisfied by our Company (i) crediting as fully paid, the nil-paid First Member Share held by Cosmic Bliss; and (ii) allotting and issuing, credited as fully paid, 9,999,999 Shares to Cosmic Bliss, in each case as directed by Mr. Wong. The transactions contemplated under the Reorganisation Agreement were completed on 28 February 2018, and as a result, our Company (through World Vantage) became the sole shareholder of Smart Team and the holding company of our Group. The effective shareholding of Mr. Wong in our Group remained the same immediately before and immediately after such acquisition.

The following diagram illustrates the shareholding and corporate structure of our Group immediately after the Reorganisation:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Each of the steps as mentioned above in the Reorganisation was properly and legally completed and settled.

COMPLIANCE WITH PRC LAWS

M&A Rules

On 8 August 2006, six PRC governmental and regulatory agencies, including the Ministry of Commerce of the PRC (“**MOFCOM**”) and the China Securities Regulatory Commission and the State Administration of Foreign Exchange of the PRC (“**CSRC**”), promulgated the Regulations for Merger with and Acquisitions of Domestic Enterprises by Foreign Investors in China (關於外國投資者並購境內企業的規定)(“**M&A Rules**”) which became effective on 8 September 2006 and was revised on 22 June 2009. Under the M&A Rules, among other things: (i) Article 11 of the M&A Rules provides that “where a domestic company, enterprise or natural person in China acquires an affiliated company in China in the name of an overseas company lawfully established or controlled by it, it shall obtain the approval of MOFCOM. The parties to the acquisition shall not evade such requirements through domestic investment by a foreign-invested enterprise or any other means”; (ii) Article 39 of the M&A Rules provides that “a special purpose vehicle refers to an offshore company directly or indirectly controlled by a domestic company or natural person in China for the purpose of overseas listing of the shares of a domestic company beneficially owned by such company or person”; and (iii) Article 40 of the M&A Rules provides that “overseas listing of a special purpose vehicle shall be subject to approval from the securities regulatory authority of the State Council”.

Our PRC Legal Advisers has confirmed that: (i) since Mr. Wong, our ultimate Controlling Shareholder, is a holder of a Hong Kong permanent identity card and not a holder of a PRC resident identity card, he does not fall under the definition of a domestic natural person under the M&A Rules; and (ii) our Company is a Cayman Islands company but not a PRC company defined under the M&A Rules, therefore pursuant to the M&A Rules, the Reorganisation is not subject to the examination and approval of the MOFCOM, nor the Listing is subject to the approval of the CSRC.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Circular 37

The SAFE issued a public notice named the Circular on Foreign Exchange Administration of Overseas Investments and Financing and Round-Trip Investments by Domestic Residents via Special Purpose Vehicles, (關於境內居民通過特殊目的公司境外投資及返程投資外匯管理有關問題的通知)(Circular 37), which became effective on 4 July 2014. Circular 37 requires PRC residents, including PRC individuals and institutions, to register with the SAFE or its local branches in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents' legally owned assets or equity interests in domestic enterprises or offshore assets or interests, such offshore entity being referred to as an offshore special purpose vehicle. In addition, such PRC residents must update their foreign exchange registrations with the SAFE or its local branches when the offshore special purpose vehicle undergoes material events relating to any change of basic information (including change of such PRC citizens or residents, name and operation term), increases or decreases in investment amount, share transfers or exchanges, or mergers or divisions. On 13 February 2015, SAFE issued the Circular of the State Administration of Foreign Exchange on Relevant Issues Concerning Foreign Exchange Administration in Further Simplifying and Improving Foreign Exchange Administration Policies on Direct Investments (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)(Circular 13), which became effective on 1 June 2015, which has simplified the registration requirements of Circular 37 by allowing PRC residents or institutions to register with designated banks rather than SAFE or its local branches in terms of the foreign exchange registration of offshore entities established or controlled by the PRC residents for the purpose of overseas investment and financing.

Our PRC Legal Advisers has confirmed that as Mr. Wong, our ultimate Controlling Shareholder, is a Hong Kong permanent resident, he is not an individual domestic resident defined under the Circular 37, thus Mr. Wong is not subject to the registration requirements under Circular 37.

BUSINESS

BUSINESS OVERVIEW

We are a provider of functional knitted fabrics in the PRC. Our products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. We design functional knitted fabrics through our product innovation capabilities, source our raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing, for our direct sales of functional knitted fabrics to our customers. With a view to diversifying our source of revenue and creating cross-selling opportunity, we also engage in the sales of apparel made of our functional knitted fabrics to our customers which are lingerie and apparel brand owners. Sales of functional knitted fabrics and apparel represented approximately 97.4% and 0.2% of our total revenue for the year ended 31 December 2015, approximately 87.3% and 3.0% of our total revenue for the year ended 31 December 2016, and approximately 88.6% and 10.2% of our total revenue for the year ended 31 December 2017 respectively.

We have established relationships with major lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife, as well as sourcing agents such as Itochu who on-sell to its customers which are lingerie and apparel brand owners and garment manufacturers. Our quality and functional products are complemented by our services which earn customers' loyalty and market reputation. The following table sets out the breakdown of our revenue by customer type during the Track Record Period:-

Customer type	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	% to total revenue	HK\$'000	% to total revenue	HK\$'000	% to total revenue
Lingerie and apparel brand owners	50,224	78.3	43,330	54.0	82,935	66.2
Sourcing agents	9,786	15.3	30,698	38.3	34,618	27.6
Garment manufacturers	4,094	6.4	6,222	7.7	7,722	6.2
Total	64,104	100.0	80,250	100.0	125,275	100.0

Our products carry different features such as stretch, skin-care, anti-bacterial, rapid drying and moisture management. We offer functional knitted fabrics which fall into two main categories, namely (i) thermal fabrics; and (ii) cooling fabrics. During the Track Record Period, thermal fabrics accounted for approximately 91.0%, 93.7% and 91.5% of our total sales of functional knitted fabrics for the years ended 31 December 2015, 2016 and 2017, respectively.

Under our business model, we engage third party factories to process our products. We adopt stringent quality control measures and we closely monitor these factories during the production processes. We monitor their production processes with reference to our prescribed standardised technical checklists and guide the knitting factories and dyeing factories in using our patented knitting and dyeing methods.

BUSINESS

Our headquarter is located in Dongguan, Guangdong Province in the PRC and we have three offices in Hong Kong, Beijing and Shanghai, which locations are selected so as to cover northern China, central China and southern China markets. Our strategic locations allows us to strengthen collaboration and maintain close relationships with our customers. We are led by an experienced and committed senior management team, which members possess extensive industry experience and has been instrumental to our development. Most of our senior management members have an established track record in the textile industry.

We seek to introduce new products and enhance our existing products with special functions and features from time to time by drawing on our research and development capabilities. As at the Latest Practicable Date, our research and development team comprises 17 skilled technicians, who regularly develop variations of functional knitted fabrics with different features including texture, style and specifications to meet market trends and satisfy customers' requirements. On the other hand, our research and development team also works closely with our major suppliers which are major raw material suppliers in the textile industry, and collaborates with Donghua University, on product and technology development and technical training. In the past years, we received a number of recognitions and awards for our research and development efforts and were also recognised as a High and New Technology Enterprise in November 2016. As at the Latest Practicable Date, we had registered eight patents in functional knitted fabrics as well as production and dyeing processes and eight of our patent registration applications in the PRC were under process. Among the eight registered patents, six of them are invention patents and the remaining two are utility model patents. Please see the paragraph headed "Intellectual property" in this section for further details. We believe that with our strong research, development and technical capabilities, we will be able to further expand our product offerings, improve our product quality as well as strengthen and maintain our collaborations with our customers.

For the years ended 31 December 2015, 2016 and 2017, our revenue was approximately HK\$64.1 million, HK\$80.3 million and HK\$125.3 million, respectively. Our profit for the years ended 31 December 2015, 2016 and 2017 was approximately HK\$12.1 million, HK\$18.5 million and HK\$20.2 million, respectively.

BUSINESS

COMPETITIVE STRENGTHS

We attribute our success to the following key competitive strengths:

We have established relationships with major and reputable lingerie and apparel brand owners who are our direct customers as well as sourcing agents

We have established relationships with major lingerie and apparel brand owners including Aimer, Bonny, Embry and Beijing Cherishlife as well as sourcing agents such as Itochu. Major customers who are Independent Third Parties, such as Aimer, Itochu and Bonny became our customers since 2014 or 2015. For the year ended 31 December 2016, sales to Aimer, Itochu and Bonny represented approximately 25.5%, 16.8% and 10.5% of our total revenue, respectively. Embry became our customer in 2017 with the sales amount represented approximately 7.4% of our total revenue for the year ended 31 December 2017. Subsequent to the Track Record Period and up to the Latest Practicable Date, revenue derived from new customers who have not purchased from us before, amounted to approximately HK\$0.7 million. These new customers mainly include lingerie and apparel brand owners, sourcing agents and some garment manufacturers. Our quality and functional products are complemented by our services which earn customers' loyalty and market reputation. We have worked closely with such customers and adopted stringent quality control measures to ensure quality and functionality of our products satisfy their needs. Our collaborations with our reputable customers allow us to gain market intelligence and keep abreast of the latest trend and demand for innovative textile fabrics.

We possess strong product innovation capabilities with strategic focus on functional knitted fabrics

Our success and growth largely depends on our ability to improve our existing products and to develop new products which meet customers' needs. We dedicate resources towards our research and development efforts. As at the Latest Practicable Date, we had a research and development team comprising 17 skilled technicians, most of whom have received tertiary education and 11 members of our research and development team obtained the relevant diplomas in textile engineering and related profession, devotes in the innovation of our functional knitted fabrics. In addition to our own research and development efforts, we collaborate with third parties to develop and innovate our products. During the Track Record Period, we worked closely with Toyobo, one of our major raw material suppliers, on innovative functional materials and application solutions. Such close relationship effectively differentiates us from our competitors and provides us with a competitive edge in research and development. Since October 2014, we have also worked with Donghua University on product and technology development and technical training.

BUSINESS

In the past years, we received a number of recognitions and awards for our research and development efforts. In July 2015, we were awarded by 中國紡織工業聯合會 (China National Textile and Apparel Council*), 中國紡織信息中心 (China Textile Information Centre*) and 國家紡織產品開發中心 (China Textiles Development Centre*) as 國家功能性針織產品開發基地 (National Functional Knitted Products Development Centre*). We received 中國針織行業科技貢獻獎(2011年至2015年) (China Knitting Industry Science and Technology Contribution Award for the years 2011-2015*) by 中國針織工業協會 (China Knitting Industry Association*) in December 2015 and was recognised as a High and New Technology Enterprise in November 2016. As at the Latest Practicable Date, we had eight registered patents in functional knitted fabrics as well as production and dyeing processes and eight of our patent registration applications in the PRC were under process. Among the eight registered patents, six of them are invention patents which were registered in 2014, 2015 and 2017, and the remaining two are utility model patents which were registered in 2015 and 2017.

We offer functional knitted fabrics which fall into two main categories, namely (i) thermal fabrics; and (ii) cooling fabrics. As a result of our effort and capabilities in the research and development, we are able to offer a range of functional knitted fabrics with different features, such as stretch, skin-care, anti-bacterial, rapid drying and moisture management. We believe our diverse product range and our capabilities in developing new products enable us to respond quickly to the changing market demand. As at 31 December 2017, our product portfolio consists of approximately 1,500 products, representing different types of functional knitted fabrics differentiating in terms of their composition, components, functionalities, colours as well as knitting and dyeing processes, which are mainly thermal fabrics for intimate wear developed in-house which have passed through all product testings and trial production and are launched in the market for sales to our customers. During the years ended 31 December 2015, 2016 and 2017, our Group introduced 488, 371 and 452 new products, respectively. We believe that our product offerings enable us to better serve our existing customers and attract new customers by effectively adapting to product and technical adjustments according to the changes in their needs. With our strong research, development and technical capabilities, we will be able to further expand our product offerings, improve our product quality as well as strengthen and maintain our collaborations with our customers.

BUSINESS

We adopt a streamlined business model which allows us effectively manage our costs

We are a provider of functional knitted fabrics in the PRC. Whilst we focus on product innovation by designing our own functional knitted fabrics as well as improving our products and production technologies, raw materials procurement to ensure the quality of our products, and establishing and maintaining our relationship with our customers, we engage third party factories to undertake the production processes while adopting stringent quality control measures throughout the production processes. Our Directors believe that this enables us to maximise our returns through effective management of our costs, and afford us with the following advantages:

- (a) Through outsourcing of production processes, we do not incur excessive capital expenditure on purchasing production machinery as well as costs of their repair and maintenance. No storage of production machinery is required and the machinery and equipment are not left dismantled or idled during low season. It also enables us to save rental and utility costs, staff costs as well as costs in maintaining social benefits for a large workforce.
- (b) It assists us to optimise production flow and allows us to manage peak season production demands without compromising customers' purchase orders or quality. In addition, we can benefit from the strengths of third party factories which specialise in their respective areas of expertise.
- (c) According to the CIC Report, with the launch of stricter regulations aimed at industrial environmental pollutions, the compliance obligations as well as operating costs for manufacturers in the textile industry are expected to increase. The outsourcing of the production processes enables us to save compliance costs to obtain relevant certificates or approvals required to be possessed by third party factories.
- (d) According to the CIC Report, production-focused providers of knitted fabrics generally possess little or lack capacity in designing new fabrics based on the customers' request and knitted fabrics suppliers under this type of business model often generate relatively lower profit margins. By outsourcing the production processes, we can focus our resources in fabrics design, development of production technologies, procurement of raw materials, quality control as well as customer sales and services.

BUSINESS

We adopt stringent quality assurance and control measures so as to ensure our product quality

We believe that high product quality is crucial to our success in the textile industry and has helped us to build a loyal customer base. To maintain the high quality of our products, our quality control and production control teams are responsible for ensuring the quality standards of the raw materials, products manufactured by third party factories at each stage of production processes as well as our end products. To ensure our products are of consistent high quality, we provide standardised technical checklists which prescribe specific technical requirements and guidance to these factories. In executing the scheduled production plan, staff of our production control team are stationed in these factories to carry out on-site inspection, give production instruction and guidance, monitor the production progresses, coordinate the day-to-day work among different factories and take immediate actions to remedy defects discovered. Please see the paragraph headed “Quality control” in this section for further details. We believe our products which are of consistently high quality have reinforced our customers loyalty and will continue to enhance our reputation.

We possess an experienced and committed senior management team with extensive industry experience

We are led by an experienced and committed senior management team with extensive operational expertise and in-depth understanding in the textile industry. Our Group is led by Mr. Wong, the chairman and an executive Director of our Company, and Mr. Xi, the chief executive officer and an executive Director of our Company, who have over 18 and 20 years of management and operation experience in different fields of the textile industry, respectively. Please see the section headed “Directors, senior management and employees” for further details. We believe that an experienced senior management team can contribute to the development of our business and our future growth.

BUSINESS STRATEGIES

Our principal strategies and future plans are:

To focus on functional knitted fabrics and continue to improve and widen our product offerings

We plan to place more efforts and resources to enhance our market penetration in the PRC, especially in the lingerie and apparel markets where most of our existing customers focus in. According to the CIC Report, the use of functional knitted fabrics in the production of intimate wear has maintained a relatively stable growth and is expected to continue to grow. Future growth is likely to be driven by demand for functional fabric products from end consumers and garment manufacturers. Going forward, along with the growth of downstream industries, the sales value of intimate wear functional knitted fabric in China is expected to reach RMB15,041.3 million by 2022, representing a CAGR of 9.3% between 2018 and 2022.

BUSINESS

Our functional knitted fabrics can be divided into two main categories: thermal fabrics and cooling fabrics. During the Track Record Period, a majority of our revenue was generated from the sales of our functional knitted fabrics with thermal function. Going forward, we intend to further develop our functional knitted fabrics in intimate wear, as well as increase our sales efforts for functional knitted fabrics with cooling functions, which we believe have room for expansion.

Due to the many features of knitted fabrics including freedom of body movement in form-fitting garment, ease of care, resilience and soft draping quality, there has been increasing use of knitted fabrics in apparel. In addition, there has been an increasing trend to use knitted fabrics in apparel which has traditionally used woven fabrics, and we anticipate there is an area of growth where knitted fabrics can be used for a broader range of apparel. According to the CIC Report, sportswear has shown a fast growth trend in recent years due to the consumers' rising preference for healthier lifestyles and increasing participation in sports activities; and children's wear and maternity wear have also experienced high growth trend in recent years due to the phase out of the one-child policy in the PRC, and increased household salary along with increased spending on clothing. Our fabrics with moisture management, thermal insulation and anti-bacterial qualities can be used to produce sportswear; whereas fabrics which possess anti-bacterial qualities can be used to produce children's wear; and stretchable fabrics can be used to produce maternity wear. In order to leverage on the different functionality of our functional knitted fabrics, in addition to lingerie markets, we intend to increase our market share by developing new customer relationships and increasing our sales to existing customers through improving and widening our product offerings of functional knitted fabrics for use in sportswear, children's wear and maternity wear. As at Latest Practicable Date, we had 14 projects, in which it is expected that approximately 189 new products will be introduced in around 2018 and 2019. These projects are at planing stage and mainly develop fabric in moisture management, thermal and stretch functions for use of intimate wear as well as sportswears, children's wear and maternity wear. For details of our product diversification plan, please see the sub-section headed "Business – Research and development – Our in-house research and development team" of this prospectus.

In order to support this strategy, we intend to enhance our product development capabilities. Please see the paragraph headed "Business strategy – strengthen our innovation capabilities and increase research and development as well as product testing resources" in this section for further details.

Increase our market coverage in the PRC by intensifying our sales efforts

As a provider of functional knitted fabrics in the PRC, in order to increase our market share, we plan to extend our sales network by expanding our current operations in Beijing and Shanghai and strengthening our sales and marketing efforts as well as our customer services, so as to enhance our market reputation, customers' loyalty and gain new customer relationships.

BUSINESS

(i) Expand our current operations in Beijing and Shanghai

Our current operations in Beijing and Shanghai are relatively small. As at the Latest Practicable Date, our Beijing office occupies an area of approximately 130.8 sq. m. and has six staff, comprising three sales executives who focuses on the sales of our functional knitted fabrics and two designers as well as one sales executive who focuses on the sales of apparel, whereas our Shanghai office occupies an area of approximately 114.8 sq. m. and has three staff. During the Track Record Period and up to the Latest Practicable Date, staff at our Beijing and Shanghai offices are responsible for maintaining customer relationships by paying regular visits to and communication with customers around the region as well as managing collection of accounts receivables from these customers. As some of our major customers are based in Beijing and Shanghai, and many of our potential customers are also headquartered in these cities, we intend to expand our current operations in Beijing and Shanghai so as to further support our sales efforts in these areas.

After Listing, we plan to relocate our Beijing and Shanghai offices in the fourth quarter of 2019 to bigger premises with an estimated area of approximately 400 sq. m. each so as to accommodate larger workforce as well as conference room(s) and a fabric showroom in each office. We intend to display an array of our functional knitted fabrics as well as samples of apparel produced from our fabrics at the fabric showrooms. We intend to hire and retain an additional of five staff comprising sales and marketing executives, accounting and administrative and other staff at each of the office in Beijing and Shanghai respectively to better manage our relationships with existing customers and actively solicit new business opportunities in these cities. It is expected that the expanded operations in our Beijing and Shanghai offices would strengthen our presence in the two cities, through paying frequent visits to our existing customers and proactively reaching potential customers, and more manpower can be arranged to build up new customer base which is expected to bring an increase in revenue source and drive our business growth.

Our Group intends to utilise, approximately HK\$4.8 million for (i) rent and decoration of new sales offices in Beijing and Shanghai as well as purchasing office equipment and motor vehicle for each sales office of approximately HK\$3.8 million and (ii) recruiting and retaining 10 staff for the new sales offices of approximately HK\$1.0 million. The estimated amount to be incurred will be fully funded by the net proceeds of the Share Offer.

BUSINESS

(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events

We encourage our sales team to participate in trade shows, industry exhibitions and networking events and familiarise themselves with industry trends and ongoing research and development of new materials. Before we launch a new product, we research its potential market and product applications thoroughly to ensure that it meets our quality and environmental friendliness standards. We plan to closely monitor the progress of our customers' needs and adjust our production techniques and methods accordingly so that we are well-positioned to meet the new demands from our customers. In addition, we plan to further market our products and promote our recognition and reputation by increasing our participation in trade shows, industry exhibitions and networking events in the PRC, visiting relevant industry participants and promote our Group by advertisements. We intend to hire and retain an additional three sales and marketing executives based in headquarter. Through these activities, we expect to enhance our recognition in the textile industry and expand our sales to cover new customers.

Our Group intends to utilise approximately HK\$3.4 million for (i) engaging in marketing activities through participation in trade shows, industry exhibitions and networking events in the PRC of approximately HK\$1.5 million starting from the second half of 2018; (ii) placing advertisement in industry magazines of approximately HK\$1.0 million since the second quarter of 2018; and (iii) recruiting and retaining three sales and marketing executives of approximately HK\$0.9 million since the second half of 2018. The estimated amount to be incurred will be fully funded by the net proceeds of the Share Offer.

Strengthen our innovation capabilities and increase research and development as well as product testing resources

We have been keeping ourselves in line with the trends in both domestic and international textile markets and consistently carry out research and development of new products of functional knitted fabrics. As at the Latest Practicable Date, our research and development team comprises 17 skilled technicians and our in-house research and development facilities mostly consist of testing equipment on physical and chemical properties of fibres, yarns and fabrics, whilst we utilise the production facilities at third party factories for product development and trial production. Carrying out product development at these factories are subject to limitations, especially at times during peak production seasons. In order to continue our product innovation so as to widen our product offerings, enhance production procedures and techniques and achieve higher research and development effectiveness, we consider our research and development capabilities vital to our continuous business growth. In terms of research and development focus, we intend to (a) enhance our functional knitted fabrics with cooling function which we believe there is room for expansion; (b) widening our product offerings of our functional knitted fabrics for use in sportswear, children's wear and maternity wear; and (c) explore the use of natural dyeing agents extracted from plants in mass production of our functional knitted fabrics.

BUSINESS

(i) Enhance our research and development resources

To this end, we intend to establish a new research and development centre equipped with in-house facilities for knitting, dyeing and finishing including seater machine for drying and heal setting processes and dyeing machine at a lower liquor ratio so that we can better control our product development environment and processes without relying on third party factories for product development and trial production. Such new research and development centre is expected to be established at an industrial park with proper waste water treatment facilities in or near Dongguan, Guangdong Province. The criteria for selection of the location of such research and development centre is as follows: (a) availability of waste water treatment facilities offered by such industrial park; (b) proximity to third party factories currently engaged by us for ease of communication between our research and development staff and our production control and quality control staff so as to facilitate trial production and testing of products under development, and faster response time to solve any production related enquiries and problems; and (c) proximity to our Dongguan headquarter for testing of product under development at our current product testing facilities and ease of management. Having considered the area for installing the seater machine and dyeing machine and other working spaces, new research and development centre, with an estimated area of approximately 2,000 sq. m., is expected to be opened by fourth quarter of 2018.

We intend to recruit 10 additional research and development technicians in such new research and development and product testing facility. According to the CIC Report, the sales value of functional knitted fabrics for sportswear, children's wear and maternity wear in China between 2018 and 2022 are expected to increase with a CAGR of 13.7%, 4.9% and 11.1%, respectively. As part of our business strategies, our Group intends to develop and explore new customers and increase our sales to existing customers through improving and widening our product offerings of functional knitted fabrics for use in sportswear, children's wear and maternity wear. Our Directors consider that strong product innovation capabilities are one of our core competences and the existing research and development team is insufficient to support our product development plans mentioned above. We also aim to develop patented products with cooling functions which we have not registered any patents before so as to obtain industry and market recognition, both of which require more stringent quality standards and therefore additional research staff such as yarns engineers, fabrics designers and production engineers are needed for product development and testing. Additional technicians are also required to operate the new seater machine and testing machineries to be acquired as part of our future strategies which aim to equip the Group with the capability to produce functional knitted fabrics of higher quality and precision as well as to increase the testing efficiencies and results accuracy. Apart from developing new products, our research and development team is also responsible for continuous improvement on existing products in response to changing market trend and customer demand. In order to ensure a swift response to the market trend through timely and constant upgrade of existing products and ample capabilities to develop new products with different functions, applications as well as processes such as cotton products with enhanced level of comfort for children's wear and towels and semi-shiny fabrics with refined appearance for intimate wear, it is necessary for our Group to expand the research and development team.

BUSINESS

Our Group intends to utilise approximately HK\$13.9 million to enhance our research and development resources of which, (i) approximately HK\$9.1 million will be used for acquiring new machineries including seater machine and dyeing machine; (ii) approximately HK\$1.8 million for rent and decoration for the new research and development centre and purchase of office equipment; and (iii) approximately HK\$3.0 million for recruiting and retaining of 10 research and development technicians. The estimated amount to be incurred will be fully funded by the net proceeds of the Share Offer.

(ii) Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university

We intend to upgrade our existing testing facilities and expand our product testing centre at our Dongguan headquarter in the first quarter of 2019, which will be used for testing of chemical and physical properties of our raw materials, semi-finished products, mass produced products as well as prototypes created by our research and development team. The functions of the testing machines to be acquired will cover new area of testing such as testing the security of attachment to garments, zip testing, strength testing, fatigue test, abrasion and pilling tests. The new testing machineries to be acquired are expected to equip our Group with the capability to produce fabrics of higher quality and precision and increase the testing efficiencies and result accuracy, so as to capture the market trend of moving towards the higher end fabrics. The new testing machines are to be housed in the new testing centre, which are part of our Group's future plan to upgrade the product testing facilities and expansion of the existing testing centre. The new testing machines with higher efficiency and result accuracy are expected to sharpen our capability in research and development. The existing testing machines are located at our physics laboratory and chemical laboratory and as at Latest Practicable Date, the average remaining useful life of the existing testing machines is approximately five years. As our Group seeks to introduce new products and enhance our existing products with special functions and features from time to time through expansion on our Group's research and development capabilities, our Directors are of the view that it is consistent with our Group's business strategies to invest in testing, which is an important part of research and development as well as quality control.

We encourage our research and development personnel to participate in training provided by external research institutions, such as Donghua University. In addition, we would also collaborate with research institutions to conduct on-going research and provide more training to our testing personnel in order to maintain our capability in developing new products.

BUSINESS

Our Group intends to utilise approximately HK\$8.2 million, among which (i) approximately HK\$1.2 million for rent and decoration of the testing centre as well as purchase office equipment; (ii) approximately HK\$3.0 million for purchase testing machineries such as arc light fastness tester and strength tester; (iii) approximately HK\$2.0 million for recruiting and retaining 10 product testing personnel; and (iv) approximately HK\$2.0 million for cooperating with research institutions and university for research and training to our product testing personnel. The estimated amount to be incurred will be fully funded by the net proceeds of the Share Offer.

After completion of the new research and development centre and the upgrade of our product testing facilities, we will have a wide range of research and development capabilities for new product development, enhancement of production procedures and techniques and product testing.

With the strengthened research and development function, we believe our diverse product range enable us to meet the growing demand from downstream users and we expect our new products to be introduced per year will not less than previous years. Please see the paragraph headed “Research and development” in this section for further details.

To enhance our information technology infrastructure

We believe that an effective information technology system is essential for efficient management and successful development of our business. Our current information system is mainly an accounting system for financial reporting and Directors’ monitoring of the Group’s financial performance. To cope with the expansion in the PRC and to promote better management of our different offices and the production lines at third party factories, we intend to invest in information technology to optimise our operation and increase overall efficiency. To achieve this, we will develop an ERP System. We intend to establish an ERP System in the fourth quarter of 2018 to link up of our offices in Hong Kong, Dongguan, Beijing and Shanghai and extend to four of our third party factories. By setting up the ERP System, not only can we manage and review status of customers’ orders and monitor the production status of the third party factories and movement of inventory, but also facilitate our product development plans, procurement process as well as human resources functions. As a result, we are able to have a better control of information and records of our sales, costs and inventories and to manage customers and suppliers relationships more efficiently and accurately, thus increasing our operational efficiency to achieve better profit margin.

The estimated amount to be incurred for the establishment and maintenance of the ERP System is approximately HK\$3.5 million which will be fully funded by the net proceeds of the Share Offer.

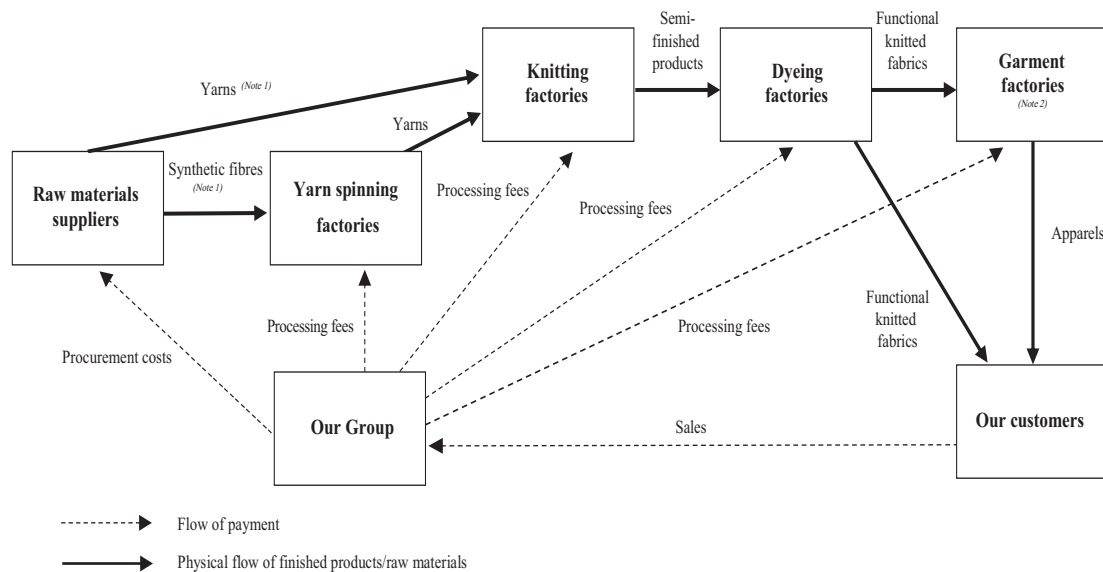
BUSINESS

OUR BUSINESS MODEL

We design our functional knitted fabrics through our product innovation capabilities, source synthetic fibres and yarns directly from our raw materials suppliers based in Japan and the PRC and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing for our direct sales of functional knitted fabrics to our customers. Our customers comprise major lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife, sourcing agents such as Itochu, and garment manufacturers. We pay processing fees to the yarn spinning, knitting and dyeing factories for their services. We adopt stringent quality control measures and we closely monitor these factories during each stage of production processes. With a view to diversifying our source of revenue and creating cross-selling opportunity, we also engage in the sales of apparel using our functional knitted fabrics for our customers which are lingerie and apparel brand owners. We engage garment factories to process the functional knitted fabrics into apparel and we pay processing fees to them in consideration of their services.

During the Track Record Period, our revenue was principally derived from the sales of our functional knitted fabrics to our customers and we also derived a small portion of our revenue from the sales of apparel, yarns and synthetic fibres to our customers.

The following diagram illustrates the simplified flow of our business operation:



Notes:

- (1) We generally provide synthetic fibres which we directly procure from our raw material suppliers in Japan where we have established relationships to the yarn spinning factories for yarn spinning process. In other cases, we directly procure yarns from yarn spinning factories in the PRC.
- (2) Depending on customers' demand, we also design and sell apparel which manufacturing processes are outsourced to third party garment factories.

BUSINESS

OUR PRODUCTS

Our revenue is mainly derived from sales of (i) functional knitted fabrics; and (ii) apparel. The following table sets forth a breakdown of our Group's revenue by product type during the Track Record Period:–

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	% to total revenue	HK\$'000	% to total revenue	HK\$'000	% to total revenue
Functional knitted fabrics	62,466	97.4	70,034	87.3	110,961	88.6
Apparel	137	0.2	2,446	3.0	12,760	10.2
Others ^(Note)	<u>1,501</u>	<u>2.4</u>	<u>7,770</u>	<u>9.7</u>	<u>1,554</u>	<u>1.2</u>
Total	<u><u>64,104</u></u>	<u><u>100.0</u></u>	<u><u>80,250</u></u>	<u><u>100.0</u></u>	<u><u>125,275</u></u>	<u><u>100.0</u></u>

Note: Other represent sales of synthetic fibres and yarns processed with synthetic fibres procured by our Group. During the years ended 31 December 2015, 2016 and 2017, approximately HK\$0.7 million, HK\$7.3 million and nil of sales of synthetic fibres and yarns were made to Zhuhai Zhaotian Trading. Our sales to Zhuhai Zhaotian Trading were driven by their demand which had been discontinued since January 2017 as a result of the plan to wind down their business. Please refer to the description of Zhuhai Zhaotian Trading in the sub-section headed “Business – Customers, sales and marketing – Our customers”.

We offer functional knitted fabrics which fall into two main categories, namely (i) thermal fabrics; and (ii) cooling fabrics. As a result of our effort and capabilities in the research and development, by combining different fibres mixtures and using different knitting methods, we are able to offer a range of functional knitted fabrics with different features such as stretch, skin-care, anti-bacterial, rapid-drying and moisture management properties. We make use of the synthetic fibres with special functions such as temperature regulation and moisture management to produce fabrics with different functions. For example, we make use of certain patented fibres from Toyobo which (i) generate heat and absorbs water quickly, which are different from the existing staple fibres which simply insulate heats but do not create heat to the body; (ii) incorporate silver ions in acrylic fibres to achieve bacteria elimination effectiveness, safety and durability; and (iii) mix with ultrafine materials to achieve a soft texture. We add value to our functional knitted fabrics by embedding different functional properties in the fabrics. We strategically focus on the sales of functional knitted fabrics, which command higher selling prices and generate higher profit margins.

BUSINESS

The following table sets forth a breakdown of the revenue and the sales volume of our functional knitted fabrics during the Track Record Period:–

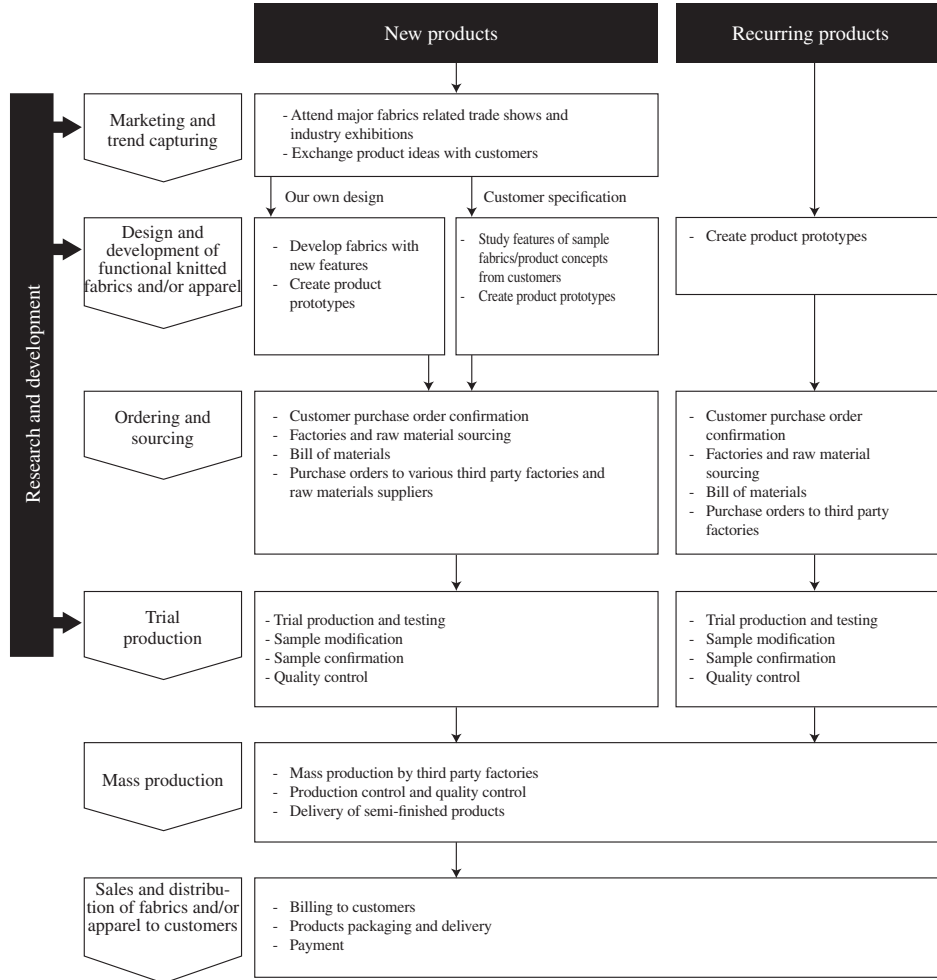
	Year ended 31 December								
	2015			2016			2017		
	<i>% of sales of functional knitted fabrics</i>	<i>Sales volume kg</i>	<i>% of sales of functional knitted fabrics</i>	<i>Sales volume kg</i>	<i>% of sales of functional knitted fabrics</i>	<i>Sales volume kg</i>	<i>% of sales of functional knitted fabrics</i>	<i>Sales volume kg</i>	<i>% of sales of functional knitted fabrics</i>
	<i>Revenue HK\$'000</i>		<i>Revenue HK\$'000</i>		<i>Revenue HK\$'000</i>		<i>Revenue HK\$'000</i>		<i>Revenue HK\$'000</i>
Functional knitted fabrics									
Thermal fabrics	56,851	91.0	396,266	65,621	93.7	461,838	101,498	91.5	706,818
Cooling fabrics	<u>5,615</u>	<u>9.0</u>	<u>40,799</u>	<u>4,413</u>	<u>6.3</u>	<u>38,224</u>	<u>9,463</u>	<u>8.5</u>	<u>132,637</u>
Total	<u><u>62,466</u></u>	<u><u>100.0</u></u>	<u><u>437,065</u></u>	<u><u>70,034</u></u>	<u><u>100.0</u></u>	<u><u>500,062</u></u>	<u><u>110,961</u></u>	<u><u>100.0</u></u>	<u><u>839,455</u></u>

With a view to diversifying our source of revenue and creating cross-selling opportunity, we also engage in the sales of apparel made of our functional knitted fabrics to our customers which are lingerie and apparel brand owners.

BUSINESS

OUR OPERATION FLOW

The following diagram depicts the key processes of our business:



One of the competitive strengths sustaining us to be a market player in the textile industry is our strong research, development and technical capabilities. Our research and development efforts are mostly carried out under “Marketing and trend capturing”, “Design and development of functional knitted fabrics and/or apparel” and “Trial production” processes of our business model, which are addressed below with more details.

BUSINESS

Marketing and trend capturing

Our Group has a sales team, comprising 22 staff as at the Latest Practicable Date, who is responsible for conducting marketing activities and soliciting new customers. For existing customers, our sales team visits them regularly to promote our new products and receive their feedback on our products. For potential customers, our sales team is responsible for liaising with them when they make product enquiry. Our sales team also promotes our products through advertisements as well as participation in trade shows and industry exhibitions to strengthen our market presence. Please see the paragraph headed “Marketing and promotion” in this section for further details. Our Directors believe that we have established effective communication and cooperation channels with our key customers to share market intelligence in a timely manner.

Design and development of functional knitted fabrics and/or apparel

Our Directors consider that product innovation is one of the key factors for our success. Our research and development team is responsible for devising and improving production techniques and capturing market intelligence. For the sales of functional knitted fabrics, our research and development team takes the initiative in developing fabrics with new features including texture, style and functionality to respond to market trends. In occasional cases, our customers may provide sample fabrics and request our Group to develop fabrics with similar features. Our research and development team collaborates with our customers on the product specifications based on the sample fabrics or preliminary product concepts provided by our customers. After taking into account factors such as functionality, appearance and design trends, we translate the concept into fabrics design with specified composition of different raw materials, which are subject to multiple evaluations and alterations.

We instruct third party factories to produce the product prototypes. We provide the product prototypes for our customers’ confirmation. We also make adjustments in accordance with our customers’ requests.

For the sales of apparel, our customers choose the functional knitted fabrics to be used in the apparel from our product portfolio. Leveraging on our in-depth knowledge of functional knitted fabrics, we assist our customers in making selections from our product portfolio by explaining the different characteristics and functions of the fabrics to them. Our designers provide inspirations and recommend new product designs to our customers based on the upcoming fashion trends and customers’ specifications. They modify the product design and specifications in respect of colour tone, type of fabrics and style. We also provide product samples, which are produced by the garment factories, to our customers for their confirmation.

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Ordering and sourcing

Our sales team provides quotation to our customers after obtaining approval from our management team. When the product prototypes and quotation are agreeable to our customers, the customers will sign on the product prototypes and are kept by each of our customer and us. The product prototypes are compared with the end products in our quality control inspection. No sales agreement shall be entered into without the signature of the customer on the product prototypes.

Upon receipt of orders from our customers, our sales executives review the orders and confirm with our customers on the product specification and delivery dates. We will also finalise the bill of materials, which is then sent to our procurement team to check the availability of inventory and source the necessary, raw materials and liaise with third party factories. We generally provide synthetic fibres, which we directly procure from our raw materials suppliers in Japan which we have established relationships, to the yarn spinning factories for yarn spinning process. In other cases, we directly procure yarns from yarn spinning factories in the PRC.

Trial production

Production of our functional knitted fabrics generally involves three key processes, namely (i) yarn spinning; (ii) knitting; and (iii) dyeing, which are undertaken by third party factories. For production of apparel, we primarily use our own functional knitted fabrics and outsource the production processes to garment factories based on our design. In delivering the customers' orders, we are generally responsible for managing and monitoring the production processes undertaken by these factories, providing supervision and guidance to these factories to ensure compliance with the customers' requirements.

To standardise the production processes and ensure our products are of consistently high quality, our production control team formulates the standardised technical checklists which set out the product specifications such as raw materials, colour and weight, specific technology involved, speed and time when operating the particular machineries. The standardised technical checklists and the product prototypes which are approved by our customers are provided to third party factories as a guideline with our instructions and specifications. They also formulate the process flow to be undertaken at each of the yarn spinning, knitting, dyeing and/or garment factories.

During trial production, we conduct sample checks on the finished yarns and send them to our in-house laboratories to conduct tests on the composition, strength and functions of the yarn samples. Since dyeing is a complex process which requires high precision and high technical expertise, we provide at least one batch of dyeing sample to our customers for confirmation before commencing mass production. The samples produced are modified and refined in accordance with our customer's feedback and test results.

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Mass production

Our production control and quality control teams work closely with third party factories and monitor their production processes. Our staff either station at or pay regular visits to these factories to monitor the production processes with reference to our standardised technical checklists and provide guidance to them. For instance, our production control personnel provide guidance to the knitting and dyeing factories in using our patented methods in the knitting and dyeing processes. Our production control personnel are responsible for inspecting and monitoring the production processes. The purpose is to rectify any potential problem that might occur in the production processes as well as to optimise the production processes to increase production efficiency.

(a) Yarn spinning factories

We provide the synthetic fibres which we directly procure from our raw material suppliers to the yarn spinning factories for the yarn spinning process. We pay processing fees for their yarn spinning services. The yarn spinning factories also use other kinds of synthetic fibres and natural fibres procured by them at our instruction and we pay procurement costs to purchase the yarns from the yarn spinning factories. We conduct inspection on the finished yarns after mass production.

Upon discovery of any sub-standard or defective yarns, we arrange for the return of supplies to the yarn spinning factories. The yarn spinning factories are responsible for transporting the semi-finished products to the knitting factories. Generally, it takes around 45 days to 60 days to complete the yarn spinning process.

(b) Knitting factories

The yarn spinning factories are responsible for delivering the yarns to the knitting factories which undergo the knitting process at our instruction. Upon discovery of any sub-standard or defective fabrics, we arrange for a reduction of processing fees to the knitting factories. Generally, it takes around two to five weeks to complete the knitting process.

(c) Dyeing factories

The dyeing factories are responsible for collecting the semi-finished fabrics from the knitting factories. The dyeing factories dye the grey fabrics into different colours based on our requirements. We pay processing fees for their dyeing services. If any sub-standard or defective fabrics are discovered by us, the processing fees payable to the dyeing factories will be reduced accordingly. Generally, it takes around one month to complete dyeing process.

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(d) Garment factories

The garment factories are responsible for producing the apparel primarily made from our own functional knitted fabrics based on our design. We pay processing fees to garment factories for their processing services. Generally, it takes around one to one and a half month to complete the production process, depending on the types and quantity of apparel to be processed.

Sales and distribution of fabrics to customers

Upon satisfactory inspection of the products by us, the dyeing factories are responsible for packaging and arranging delivery of our functional knitted fabrics to our customers at our cost. The garment factories are responsible for packaging and arranging delivery of apparel products to our customers at our cost.

CUSTOMERS, SALES AND MARKETING

Our Customers

As a provider of functional knitted fabrics in the PRC, our sales are conducted through direct sales to our customers. Our customers can be divided into three main categories, namely (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. The following table sets out the breakdown of our revenue by customer type during the Track Record Period:–

Customer type	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	% to total revenue	HK\$'000	% to total revenue	HK\$'000	% to total revenue
Lingerie and apparel brand owners	50,224	78.3	43,330	54.0	82,935	66.2
Sourcing agents	9,786	15.3	30,698	38.3	34,618	27.6
Garment manufacturers	<u>4,094</u>	<u>6.4</u>	<u>6,222</u>	<u>7.7</u>	<u>7,722</u>	<u>6.2</u>
Total	<u>64,104</u>	<u>100.0</u>	<u>80,250</u>	<u>100.0</u>	<u>125,275</u>	<u>100.0</u>

Note: To the best knowledge of the Directors, decrease in sales to lingerie and apparel brand owners customers in 2016 was primarily due to of the decrease in demand on thermal fabrics from our largest customer during the Track Record Period as a result of the change in their business strategy that less thermal intimate wear products were introduced in 2016.

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We have established relationships with major lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife who are our direct customers, as well as sourcing agents such as Itochu who on-sell to its customers which are lingerie and apparel brand owners and garment manufacturers.

As at the Latest Practicable Date, we did not enter into long-term sales agreements with our major customers.

We had entered into a framework agreement with Embry China in late 2016, the major terms of which are set out below:

Date of agreement:	December 2016
Duration:	Valid until termination
Product specification:	The individual purchase order will provide for the product specifications, technical requirements and instructions
Quantity ordered:	The quantity ordered will be specified in the purchase order. No minimum purchase amount or quantity is contained in the agreement
Quality assurance and product return:	We are required to repair or replace faulty products at our costs
Intellectual property:	Products shall not infringe the intellectual property rights of other third parties
Delivery:	We are responsible for the costs of delivery
Packaging:	Products should be packaged in accordance with the standards specified by Embry China
Termination:	The framework agreement may be terminated in writing if (i) we cannot perform the terms and conditions contained in the framework agreement, purchase orders or the relevant appendices; (ii) we become bankrupt or go into liquidation or if a petition has been filed for our bankruptcy; or (iii) we assign or transfer all or part of our rights and obligations under the framework agreement to a third party without the prior written consent of Embry China

BUSINESS

We enter into individual purchase orders with our customers in relation to the sales of our products, which generally contain terms such as the product specification, composition of the raw materials, colour, weight, unit price, contract sum, delivery date and payment terms. Payments are mainly settled by way of bank transfer and bank acceptance bills. We generally offer our major customers a credit term ranging from 30 days to 90 days. For certain customers, we manage to obtain a prepayment of 30% of the sales amount upon confirmation of the orders.

Our Group transacted with 45, 47 and 80 customers in total for the years ended 31 December 2015, 2016 and 2017 respectively. In 2015, we had three recurring customers who had transacted with us prior to the year and with respective revenue generated accounted for approximately 14.8% of the total revenue for the year. In 2016, we had 15 recurring customers and with respective revenue generated accounted for 93.1% of our total revenue for the year. In 2017, we had 26 recurring customers and the respective revenue generated accounted for 66.2% of our total revenue for the respective year. The table below illustrates the details of movement in the number of customers during the Track Record Period:–

	For the year ended 31 December		
	2015	2016	2017
Number of customers as at 1 January <i>(Note 1)</i>	4	45	47
Add: number of new customers during the year <i>(Note 2)</i>	42	32	54
Less: number of customers which had not transacted with us during the year	<u>(1)</u>	<u>(30)</u>	<u>(21)</u>
Number of customers as at year end	<u><u>45</u></u>	<u><u>47</u></u>	<u><u>80</u></u>

Note 1: The number represents the number of customers which transacted with our Group immediately before the said year.

Note 2: The number represents the number of new customers which had never transacted with our Group.

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For the years ended 31 December 2015, 2016 and 2017, we transacted with 13, 19 and 12 sourcing agents. Our Group negotiates and concludes sales agreements with the sourcing agents independently. Our Directors confirm that our sales are conducted through direct sales to our customers and we do not have any arrangements between our Group, sourcing agents and lingerie and apparel brand owner customers for our sales to the sourcing agents. As advised by CIC, it is an industry practice for lingerie and apparel brand owners to purchase materials such as functional knitted fabrics from different sources including fabrics suppliers and sourcing agents and they may have different merchandising teams to source fabrics for different products or business lines. Our Directors also confirm that our lingerie and apparel brand owner customers may purchase from us or their sourcing agents, with the consideration of price, quality of products, delivery schedule, credit terms and other strategic considerations. Our Group has no knowledge of the identity of the customers of the sourcing agents, the quotation provided by the sourcing agents or the negotiations between them. In addition, since (i) we enter into contracts directly with the sourcing agents and we are not subject to any terms and conditions between the sourcing agents and their customers, (ii) our sales are recognised upon delivery of our products in accordance with the contract terms and our Group's accounting policies, and (iii) the corresponding account receivables are settled directly by the sourcing agents based on the credit terms agreed under the contracts, the sourcing agents assume all risk and rewards of the goods and we are not subject to the terms and conditions between the sourcing agents and their customers. Sourcing agents usually pay a certain percentage as upfront payment for their purchase orders and the increase in sales from these sourcing agents may strengthen our operating cash flow. We entered into sales agreements directly with sourcing agents such as Itochu. The sales agreement that we entered into with Itochu has a term of two years. Itochu is required to make an upfront payment of 30% of the contract price to us by bank transfer within 30 days upon confirmation of orders. We provide a warranty period of six months to Itochu during which we are responsible for rectifying defects of our products. We enter into individual purchase orders with our sourcing agent customers which in general contain terms such as the product specifications, quantity, unit price, total contract sum, packaging requirements and payment terms.

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The table below is a breakdown of our revenue by our five largest customers during the Track Record Period.

For the year ended 31 December 2015

Customer	Place of establishment/ incorporation	Business Nature	Principal products sold	Year commencing business relationship	Typical credit terms/ payment method	Revenue	
						HK\$'000	% of revenue
Aimer	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2015	Credit period of 60 days; Payment by bank transfer	39,231	61.2
Customer A	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2015	Credit period of 60 days; Payment by bank transfer	8,502	13.3
Itochu	PRC	Sourcing agent	Functional knitted fabrics	2014	Prepayment of 30% of sales amount upon confirmation of orders; Credit period of 30 days; Payment by bank transfer	5,929	9.2
Zhongshan Leaseng Garment	PRC	Garment manufacturer	Functional knitted fabrics	2014	Credit period of 90 days; Payment by bank transfer	1,986	3.1
Zhuhai Zhaotian Trading	PRC	Sourcing agent	Synthetic fibres and functional knitted fabrics	2012	Credit period of 30 days; Payment by bank transfer	1,557	2.4
Total revenue derived from our five largest customers						57,205	89.2

BUSINESS

For the year ended 31 December 2016

Customer	Place of establishment/ incorporation	Business Nature	Principal products sold	Year commencing business relationship	Typical credit terms/ payment method	Revenue	
						HK\$'000	% of revenue
Aimer	PRC	Lingerie and apparel brand owner	Functional knitted fabrics and apparel	2015	Credit period of 60 days; Payment by bank transfer	20,477	25.5
Itochu	PRC	Sourcing agent	Functional knitted fabrics	2014	Prepayment of 30% of sales amount upon confirmation of orders; Credit period of 30 days; Payment by bank transfer	13,451	16.8
Bonny	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2015	Prepayment of 30% of sales amount upon confirmation of orders; Credit period of 30 days; Payment by bank transfer	8,454	10.5
Zhuhai Zhaotian Trading	PRC	Sourcing agent	Yarns, synthetic fibres and functional knitted fabrics	2012	Credit period of 30 days; Payment by bank transfer	7,563	9.4
Customer A	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2015	Credit period ranging from 60 to 90 days; Payment by bank transfer	7,210	9.0
Total revenue derived from our five largest customers						57,155	71.2

BUSINESS

For the year ended 31 December 2017

Customer	Place of establishment/ incorporation	Business Nature	Principal products sold	Year commencing business relationship	Typical credit terms/ payment method	Revenue	
						<i>HK\$'000</i>	<i>% of revenue</i>
Aimer	PRC	Lingerie and apparel brand owner	Functional knitted fabrics and apparel	2015	Credit period of 60 days; Payment by bank transfer	28,684	22.9
Itochu	PRC	Sourcing agent	Functional knitted fabrics	2014	Payment of 30% of sales amount upon confirmation of orders; Credit period of 30 days; Payment by bank transfer	26,254	21.0
Customer B	Hong Kong	Lingerie and apparel brand owner	Functional knitted fabrics and apparels	2015	Credit period of 30 days; Payment by bank transfer	13,095	10.5
Embry	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2017	Credit period of 60 days; Payment by bank transfer	9,218	7.4
Beijing Cherishlife	PRC	Lingerie and apparel brand owner	Functional knitted fabrics	2014	Credit period of 30 days; Payment by bank transfer	5,894	4.7
Total revenue derived from our five largest customers						<u>83,145</u>	<u>66.5</u>

Aimer was incorporated in the PRC in 1981 and principally engages in the sales of intimate wear products with 15 branch offices in the PRC. It owns a number of lingerie and apparel brands such as 愛慕女士 (Aimer Women), 愛慕先生 (Aimer Men), 愛慕兒童 (Aimer Kids), MODELAB and 蘭卡文 (LA CLOVER). They mainly focus on the PRC market. It also sells its products to the U.S.. Our Group established our business relationship with Aimer in textile industry exhibition.

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Customer A is a lingerie and apparel brand owner established in 2007 and listed on Shenzhen Stock Exchange. It has its own factories and offices in Shantou, Jiangxi and Wuhan. It owns various lingerie and apparel brands in the PRC. Our Group established our relationship with Customer A in textile industry exhibition and through visiting their office introducing our products to them. The sales to Customer A, represents the aggregate of (i) sales to Customer A and (ii) sales to three wholly-owned subsidiaries of Customer A, Subsidiary A, Subsidiary B and Subsidiary C, which were also our direct customers during the Track Record Period. Our sales to Customer A amounted to approximately HK\$14,000, HK\$0.7 million and HK\$0.2 million for the years ended 31 December 2015, 2016 and 2017, representing approximately 0.02%, 1.0% and 0.2% of revenue for the corresponding years, respectively. Our sales to Subsidiary A amounted to approximately HK\$6.5 million, HK\$5.0 million and HK\$1.9 million, representing approximately 10.2%, 6.2% and 1.5% of revenue for the corresponding years, respectively. Sales to Subsidiary B amounted to approximately HK\$2.0 million, HK\$1.6 million and HK\$0.6 million, representing approximately 3.0%, 1.9% and 0.5% of revenue for the corresponding years, respectively. Sales to Subsidiary C amounted to nil, nil and approximately HK\$12,000, representing nil, nil and approximately 0.01% of the revenue for the corresponding years, respectively.

Bonny is a joint stock company established in the PRC in 2001 and principally engages in manufacturing and sales of intimate wear products with its own factory in Zhejiang. Their products are mainly sold under their brand, namely Bonny and they are also an OEM and ODM provider to international lingerie and apparel brand owners. They sell their products to both PRC market and western countries such as the U.S., Canada and Australia, etc.. Our Group established our business relationship with Bonny in textile industry exhibition.

Itochu was established in the PRC in 1998 and it is a wholly-owned subsidiary of a company listed on the Tokyo Stock Exchange. It principally engages in trading of textile products including fibres, fabrics and other textile products. Our Group established business relationship with them by visiting their office introducing our products to them and commenced business relationship with Itochu in 2014.

Zhongshan Leaseng Garment is principally engaged in manufacturing and sales of garment and indirectly owned as to one-third by Mr. Wong and as to two-thirds by the father of Mr. Wong. See the sub-section headed “Relationship with our Controlling Shareholders – Operational independence” in this prospectus for further details. Our Directors further confirm that our Group had discontinued the above transactions for the financial year commencing from 1 January 2017.

BUSINESS

Zhuhai Zhaotian Trading is principally engaged in sales of fabrics and then owned as to 60% by an uncle of Mr. Wong and 40% by Mr. Xi, our executive Director. Mr. Xi resigned from his directorship and legal representative position in Zhuhai Zhaotian Trading in November 2016 and disposed of his 40% equity interest in Zhuhai Zhaotian Trading to an Independent Third Party in March 2017. To the best knowledge of our Directors, because of the retirement plan of the uncle of Mr. Wong, Zhuhai Zhaotian Trading has not contracted for new orders since 1 January 2017 and will proceed to complete the winding down of its business after performance and settlement of the existing orders.

Customer B was incorporated in Hong Kong in 1983 and principally engaged in manufacturing and sales of intimate wear and apparels. It owns its own lingerie and apparel brand. Our Group established our business relationship with Customer B in 2015. The sales to Customer B represents the aggregate of sales to its wholly-owned subsidiaries, namely Subsidiary D and Subsidiary E which were the Group's direct customers during the year ended 31 December 2017. Sales to Subsidiary D and Subsidiary E amounted to approximately HK\$6.1 million and HK\$7.0 million representing approximately 4.9% and 5.6% of revenue for the year ended 31 December 2017, respectively.

Embry is a lingerie and apparel brand owner in China. We have established business relationships with two of its indirect wholly-owned subsidiaries by referral of our suppliers, including Embry China and Embry Shandong. Embry China and Embry Shandong mainly focus on the manufacture and sales of intimate wear products in the PRC market and have their own lingerie and apparel brands. The sales to Embry represents the aggregate of sales to Embry China and Embry Shandong. Our sales to Embry China amounted to nil, nil and approximately HK\$4.2 million for the years ended 31 December 2015, 2016 and 2017, representing nil, nil and approximately 3.3% of revenue for the corresponding years, respectively. Our sales to Embry Shandong amounted to nil, nil and approximately HK\$5.1 million for the years ended 31 December 2015, 2016 and 2017, representing nil, nil and approximately 4.0% of revenue for the corresponding years, respectively.

Beijing Cherishlife was established in the PRC in 2005 and principally engages in manufacturing and sales of intimate wear products. It mainly focuses on the PRC market and has its own lingerie and apparel brand in the PRC. Our Group established business relationship with them in textile industry exhibition.

Customer concentration

For the years ended 31 December 2015, 2016 and 2017, revenue from our five largest customers in aggregate accounted for approximately 89.2%, 71.2% and 66.5%, respectively, of our revenue. During the same years, revenue from our largest customer accounted for approximately 61.2%, 25.5% and 22.9%, respectively, of our revenue.

BUSINESS

Despite the concentration of major customers during the Track Record Period, our Directors consider that our Group's business is sustainable in view of the following factors:

- **Expansion of customer base:** Our Group has its own marketing capabilities to source new customers. As at the Latest Practicable Date, our sales team consisted of 22 employees, responsible for carrying out marketing activities and soliciting customers. We also intend to devote more resources in intensifying our sales efforts, including expanding our current operations in Beijing and Shanghai, by establishing fabric and sample apparel showrooms and recruiting additional sales and marketing staff as well as engaging in more marketing activities through participation in trade shows and industry exhibitions to increase our market presence and broaden our clientele. For the year ended 31 December 2017, we secure 54 new customers including Embry and revenue generated from these new customers amounted for approximately 33.8% of our total revenue for the year. Subsequent to the Track Record Period and up to the Latest Practicable Date, revenue derived from new customers who have not purchased from us before, amounted to approximately HK\$0.7 million. These new customers mainly include lingerie and apparel brand owners, sourcing agents and some garment manufacturers. For details of our business strategies, please see the paragraph headed "Business – Increase our market coverage in the PRC by intensifying our sales efforts".
- **Product diversification and adaptability of business model:** Our Directors consider that our Group is able to manage its level of reliance on a particular or a group of customer(s). For the years ended 31 December 2015, 2016 and 2017, our Group transacted with 45, 47 and 80 customers respectively. As part of our business strategies, we intend to develop and explore new customers and increase our sales to existing customers through improving and widening our product offerings of functional knitted fabrics for use in sportswear, children's wear and maternity wear. It is expected that the expanded portfolio of products would diversify our income source. As at Latest Practicable Date, we had 14 projects, in which it is expected that approximately 189 new products will be introduced in around 2018 and 2019. These projects are at planning stage and mainly develop fabric in moisture management, thermal and stretch functions for use of intimate wear as well as sportswears, children's wear and maternity wear. For details of our product diversification plan, please see the section headed "Business – Research and development – Our in-house research and development team". Further, in order to create cross-selling opportunity, we also engage in the sales of apparel made of our functional knitted fabrics to our customers which are lingerie and apparel brand owners.

BUSINESS

- **Increasing market demand:** According to the CIC Report, sales value of functional knitted fabrics in China will increase at a CAGR of 9.7% from approximately RMB30,511.3 million in 2018 to approximately RMB44,114.4 million in 2022. In particular, given their comfort and value-added functions, sales value of intimate wear functional knitted fabrics has been experiencing a fast growth in recent years. It is expected that the sales value of intimate wear functional knitted fabrics in China will reach RMB15,041.3 million by 2022, representing a CAGR of 9.3% between 2018 and 2022. It is expected that future growth is likely to be driven by demands for functional fabric products from end consumers and garment manufacturers. The expanding industry provides our Group more business opportunities and with the implementation of our business strategies, it is expected to have increment in revenue and profitability in the future.
- **Reduction in level of reliance:** Revenue from our five largest customers (excluding Zhuhai Zhaotian Trading and Zhongshan Leaseng Garment) decreased by approximately 21.9% from approximately 83.7% for the year ended 31 December 2015 to approximately 61.8% for the year ended 31 December 2016. By implementing our Group's strategies to widen our product offerings as well as intensifying sales efforts, it is expected that our Group will be able to broaden our clientele and further decrease level of reliance on a single major customer. In particular, clientele of the Group was expanded and three out of the five largest customers for the year ended 31 December 2017 were not our five largest customers for the years ended 31 December 2016 which demonstrated our Group's ability to sustain continual growth by maintaining existing customers without placing undue reliance on them whereas at the same time expanding customer base to new quality customers.
- **Industry landscape dominated by a few players:** According to the CIC Report, China's intimate wear market is fragmented with around 3,000 brands and only 1% of the brands (i.e. 30 brands) recorded sales revenue of more than RMB100 million and the top ten players in total accounted for approximately 11% of market share in 2017. However, as most of the intimate wear providers mainly supply mid-to-low-end products which do not adopt functional knitted fabrics, customers of functional knitted fabrics in intimate wear industry are concentrated. As such, it is normal for functional knitted fabrics suppliers to focus on a few major customers and establish stable relationships with them. Most of our major customers during the Track Record Period, including Aimer, Bonny and Embry, are major and reputable lingerie and apparel brand owners in the intimate wear industry. For the years ended 31 December 2015, 2016 and 2017, according to the CIC Report, our five largest customers consist of two, three and four lingerie and apparel brand owners which in aggregate accounted for a share of more than 10.0% in the market of intimate wear using functional knitted fabrics in each of the years.

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- ***Reliance is mutual and complementary:*** We have maintained stable business relationships with our major customers and our Directors believe that it would be difficult and not commercially viable for them to replace us with other suppliers having similar capability of providing high quality functional knitted fabrics with knowledge of their procurement requirements. To the best knowledge of our Directors, the costs of purchasing fabrics from our Group by Aimer, Bonny, Customer B and Embry, being our five largest customers during the Track Record Period, accounted for 50% or more of their respective total costs of purchasing similar products in the respective year. As such we are a major supplier of these customers during the Track Record Period.

- ***Stable and continuing relationship with existing customers:*** Our Directors believe that the major customers (excluding Zhuhai Zhaotian Trading and Zhongshan Leaseng Garment) will continue to purchase from our Group and we have no significant difficulties in maintaining business relationships with these customers:
 - (i) For the years ended 31 December 2016 and 2017, the revenue of our Group increased by approximately 56.0% from approximately HK\$80.3 million to approximately HK\$125.3 million;
 - (ii) It is considered that long-term sales agreement may demand for commitment in purchase order and/or compromise in price and therefore may restrict the business development of our Group. As advised by CIC, it is not a common market practice in the industry to enter into a long-term binding agreement on sales of knitted fabrics; and
 - (iii) Our Group has maintained stable relationships with our major customers. Aimer and Itochu were the major customers of our Group throughout the Track Record Period.

Save as disclosed above, as confirmed by our Directors, none of our Directors, their respective close associates or any Shareholder who, to the best knowledge of our Directors, owned more than 5% of our share capital, had any interests in any of our five largest customers during the Track Record Period.

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Marketing and promotion

As at the Latest Practicable Date, our sales team consisted of 22 employees and is responsible for conducting marketing activities and soliciting new customers.

Our key marketing strategy is to focus on the quality of our products and to continue to develop ways to meet our customers' changing product requirements. Our sales team maintains frequent and personal contact with our key customers in order to promptly serve their needs. Our sales team holds periodic meetings to discuss product offerings, industry trends and latest requirements with our new and existing customers to help us gain a better understanding of our customers' needs. We also promote our products through advertisements, social media, internet search engine optimisation, business referrals, participating in trade shows and industry exhibitions such as China International Trade Fair for Apparel Fabrics and Accessories (中國國際紡織面料及輔料博覽會) which takes place annually in Shanghai, respectively, to strengthen our market presence and expand our potential customer base.

Seasonality

Our sales are subject to seasonality. Based on our sales trends, we generally deliver products to customers and experience higher sales during second half of the year as the demand for fabrics and garments products is generally higher in the fall and winter seasons. Textile industry, as an upstream industry of garment industry, needs to start early to reserve time for production, logistics and marketing arrangements. A larger number of orders for fabrics are received during March to May for further preparation of garment manufacturing by our customers and we recognise revenue upon delivery of our products.

Our pricing strategy

We normally adopt a cost-plus pricing strategy for our customers, taking into consideration a range of factors including the cost of raw materials, processing fees, research and development costs, staff costs as well as estimated profit margin and prices are quoted in RMB. The unit selling price of our fabrics is measured by kg, and the price of the apparel is measured by unit. Prices are negotiated on an individual basis with each customer. As we adopt a cost-plus pricing strategy, we are generally able to pass on any increase in the production costs to our customers and any such increase would not have material effect on our profitability.

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AFTER-SALE SERVICES, PRODUCT RETURN AND WARRANTY

We do not have a product return policy. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material product return incidents. We generally offer a warranty period of 10 days for our products. Our sales executives are responsible for liaising with our customers during the ordering stages and keeping close contact with our customers after delivery to make sure we would be informed of any quality problems. In the event any product is found by our customers to be unsatisfactory within this timeframe, our sales executives communicate with our customers to resolve the problems.

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

THIRD PARTY FACTORIES AND RAW MATERIALS SUPPLIERS

Third Party Factories

During the Track Record Period, we outsourced our production processes to more than 40 third party factories, all of which are located in the PRC. For the years ended 31 December 2015, 2016 and 2017, our processing fees amounted to approximately HK\$18.1 million, HK\$21.3 million and HK\$39.3 million, representing approximately 44.1%, 47.4% and 48.8% of the total costs of sales, respectively.

We select third party factories based on various factors such as their geographical location, production capabilities, the result and quality of the product prototypes, whether such factories have obtained the requisite licences and permits and their quality control standards. Only those which meet our stringent requirements are qualified as our approved factories. During the Track Record Period, the processing fees to third party factories are on normal commercial terms and we generally have a credit period ranging from 30 to 60 days upon delivery of the goods. The terms for procurement of processing services by us from the third party factories are set out in the purchase order we place each time. Our typical purchase orders include terms such as the quantity, processing fees per unit, total purchase amount, credit terms and payment method. We negotiate the processing fees payable by us to these factories with reference to market rate, production capacity and the complexity of the processes undertaken at the respective factories. As

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at the Latest Practicable Date, we have entered into processing agreements with five of these factories and the processing fees attributable to these factories amounted to approximately HK\$3.4 million, HK\$2.5 million and HK\$20.5 million for the years ended 31 December 2015, 2016 and 2017. As advised by our PRC Legal Advisers, the processing agreements were valid, legally binding and enforceable under the relevant PRC laws and regulations, the major terms of which are as follows:

- Contract period: Two years.
- Provision of raw materials/ products to be processed: We shall provide the raw materials or semi-finished products to the factories for processing within 60 working days after confirmation of the respective orders. These factories are responsible for the safe keeping of the raw materials or semi-finished products and shall not use them for other purposes.
- Product quality: We are entitled to inspect the quality of the semi-finished or finished products in accordance with our customers' specification, market demand and national or industry standards. The third party factories shall rectify any defective products and ensure the products comply with our specifications, and be responsible for all losses arising from any defective products.
- Warranty period: 60 days after completion of the production processes, during which we are entitled to conduct sample checks and ensure the products meet our quality requirements.
- Licences and permits: The third party factories warrant that they possess valid and necessary licences and permits, including the possession of pollutants emission permits and the relevant ISO or quality certifications and the completion of the environmental protection procedures.
- Intellectual property rights and trade secrets: The third party factories shall keep confidential of our intellectual property rights and trade secrets and shall not use or disclose them without our authorisation.
- Renewal: The parties shall negotiate on the renewal of the agreement within 30 days before the expiry of the agreement. We shall enjoy preferential right to renew the agreement over other third parties.
- Termination: The agreement shall be terminated in the following circumstances: (i) the occurrence of any force majeure events; (ii) the expiry of the term and the agreement is not renewed; (iii) where the agreement shall be terminated under the applicable laws and regulations; (iv) any material breach of any of the parties; (v) the mutual consent of the parties; (vi) the loss of contracting capacity of any of the parties; and (vii) other circumstances agreed by the parties.

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During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material issues or disputes with any of these factories, nor any disruption, shortage or delay in the production of our products or damage to products in the delivery process which may materially and adversely affect our operations and financial conditions.

Raw materials suppliers

To maintain high quality, costs effectiveness and stability of raw materials supply, we procure synthetic fibres and yarns used in the production of our functional knitted fabrics directly from our raw material suppliers in Japan and yarn spinning factories in the PRC, respectively. We generally provide the synthetic fibres which we directly procure from our raw material suppliers in Japan where we have established relationships to the yarn spinning factories for the yarn spinning process. In other cases we directly procure yarns from yarn spinning factories in the PRC. Most of our purchases are denominated in USD, RMB and JPY.

Synthetic fibres mainly consist of acrylic fibres, cupro fibres and Mobilon, which are made entirely from synthetic materials such as petrochemicals. The quality and physical properties of the fibres directly affect the characteristics and functions of our functional knitted fabrics. Due to the fact that physical properties of synthetic fibres are easy to manipulate, fabrics with various kinds of value-added functions can be made from synthetic fibres. We also procured other kinds of synthetic fibres and natural fibres from other reputable raw material suppliers through the yarn spinning factories during the Track Record Period.

We operate a continuous procurement cycle. We recorded an inventory turnover days of 19 days, 17 days and 34 days as at 31 December 2015, 2016 and 2017 respectively. Our procurement team closely monitors the inventory level of the raw materials as well as their market price to minimise our risks to their price fluctuation. In cases where the raw materials are customised or sourced for particular orders, we procure these raw materials after receipt of purchase orders from our customers and our procurements are made on a case-by-case basis depending on the types and specifications of the fabrics ordered.

In selecting raw material suppliers, we mainly consider their product quality. If the products of the raw material suppliers can meet our specifications, we also consider a number of other factors such as (i) the requirements of our customers in terms of the types of fabrics ordered; (ii) the delivery schedule; (iii) whether they possess the requisite licences and certifications and have fulfilled the relevant industrial standards, laws and regulations; and (iv) pricing.

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In January 2016, we have entered into a long-term cooperation agreement with Toyobo, our major raw material supplier during the Track Record Period, to ensure a stable supply of quality raw materials from Toyobo. The long-term cooperation agreement has a term of five years. Our Group is entitled to enjoy priority in purchasing the EXLAN brand fibres over other customers of Toyobo in the PRC. Toyobo has also agreed to supply not less than a minimum of 500,000 kg of the EXLAN brand fibres per annum during the term of the long-term cooperation agreement upon our request. We do not have any minimum purchase commitment and the agreement does not contain any renewal and termination clauses. During the Track Record Period, our Directors are not aware of any breach of the agreement. We enter into individual purchase orders with our raw material suppliers on normal commercial terms, which in general contain terms such as the product specifications, quantity, unit price, total contract sum, place of delivery and payment terms. Our raw material suppliers generally grant us a credit period of 0 to 90 days. We generally settle by bank transfer and letter of credit.

During the Track Record Period, we procured synthetic fibres directly from three raw materials suppliers and yarns from 62 raw material suppliers. For the years ended 31 December 2015, 2016 and 2017, the total costs in purchasing synthetic fibres from our raw materials suppliers amounted to approximately HK\$14.3 million, HK\$15.9 million and HK\$8.7 million, accounted for approximately 34.8%, 35.3% and 10.8% of our total cost of sales for the same years, respectively. According to the CIC Report, since the price of synthetic fibres are correlated with the crude oil price, the price of synthetic fibres to certain extent follows the fluctuation in the crude oil price.

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material issues or disputes with any of our raw material suppliers, nor any disruption, shortage or delay in the supply of our raw materials which may materially and adversely affect our operations and financial conditions. Our Directors also confirm that, we had not entered into any arrangements to hedge our foreign currency transactions and/or fluctuations in prices of the raw materials during the Track Record Period and up to the Latest Practicable Date.

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Supplier concentration

The table below is a breakdown of our purchases from and processing fees to our five largest suppliers during the Track Record Period.

For the year ended 31 December 2015

Supplier	Place of establishment/ incorporation	Business Nature	Principal products purchased/production processes undertaken	Year commencing business relationship	Typical credit terms/ payment method	Purchases and processing fees HK\$'000	% of our purchases and processing fees
Toyobo	Japan	Supplier of fibres	Purchase of acrylic fibres	2011	Letter of credit at 90 days after bill of lading date; Payment by letter of credit	11,415	29.8
東莞富達染廠有限公司 (Dongguan Fuda Dyeing Factory Co., Ltd.*)	PRC	Dyeing factory	Provision of dyeing services	2014	Credit period of 60 days; Payment by bank transfer	7,366	19.3
Wuxi Tianhe Textile ^(Note)	PRC	Yarn spinning factory	Purchase of yarns	2015	Credit period of 30 days; Payment by bank transfer	1,693	4.4
GSI	Japan	Supplier of fibres	Purchase of cupro fibres	2011	Payment before delivery by bank transfer	1,569	4.1
Supplier A	PRC	Yarn spinning factory	Purchase of yarns	2014	Payment upon delivery by bank transfer	1,372	3.6
Total purchases from and processing fees to our five largest suppliers						<u>23,415</u>	<u>61.2</u>

Note: We had ceased to purchase yarns from Wuxi Tianhe Textile since April 2016. Wuxi Tianhe Textile was a subsidiary of Zhuhai Zhaotian Trading, which was then owned as to 60% by an uncle of Mr. Wong and 40% by Mr. Xi, our executive Director. Mr. Xi resigned from his directorship and legal representative position in Zhuhai Zhaotian Trading in November 2016 and disposed of his 40% equity interest in Zhuhai Zhaotian Trading to an Independent Third Party in March 2017. Wuxi Tianhe Textile was deregistered on 12 June 2017.

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For the year ended 31 December 2016

Supplier	Place of establishment/ incorporation	Business Nature	Principal products purchased/ production processes undertaken	Year commencing business relationship	Typical credit terms/ payment method	Purchases and processing fees <i>% of our purchases and processing fees</i> HK\$'000	
Toyobo	Japan	Supplier of fibres	Purchase of acrylic fibres	2011	Letter of credit at 90 days after bill of lading date; Payment by letter of credit	14,133	33.6
東莞富達染廠有限公司 (Dongguan Fuda Dyeing Factory Co., Ltd.*)	PRC	Dyeing factory	Provision of dyeing services	2014	Credit period of 60 days; Payment by bank transfer	9,014	21.4
山東聯潤新材料科技有限公司 (Shandong Lianrun New Material Technology Co., Ltd.*)	PRC	Yarn spinning factory	Provision of spinning services	2015	Credit period of 30 days; Payment by bank transfer	2,812	6.7
德州華源生態科技有限公司 (Dezhou Huayuan Ecological Technology Co., Ltd.*)	PRC	Yarn spinning factory	Purchase of yarns	2014	Credit period of 30 days; Payment by bank transfer	1,181	2.8
Supplier A	PRC	Yarn spinning factory	Purchase of yarns	2014	Payment upon delivery by bank transfer	972	2.3
Total purchases from and processing fees to our five largest suppliers						28,112	66.8

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For the year ended 31 December 2017

Supplier	Place of establishment/ incorporation	Business Nature	Principal products purchased/production processes undertaken	Year commencing business relationship	Typical credit terms/ payment method	Purchases and processing fees <i>% of our purchases and processing fees</i> HK\$'000	
陵縣恒豐紡織品有限公司 (Lingxian Hengfeng Textile Products Co., Ltd*)	PRC	Yarn spinning factory	Provision of spinning services and purchase of yarns	2012	Credit period of 30 days; Payment by bank transfer	17,955	21.7
東莞世麗紡織有限公司 (Dongguan Shili Textile Co., Ltd*)	PRC	Dyeing factory	Provision of dyeing services	2017	Credit period of 60 days; Payment by bank transfer	16,735	20.3
山東聯潤新材料科技有限公司 (Shandong Lianrun New Material Technology Co., Ltd.*)	PRC	Yarn spinning factory	Purchase of yarns	2015	Credit period of 30 days; Payment by bank transfer	9,520	11.5
Toyobo	Japan	Supplier of fibres	Purchase of acrylic fibres	2011	Letter of credit at 90 days after bill of lading date; Payment by letter of credit	7,551	9.1
德州華源生態科技有限公司 (Dezhou Huayuan Ecological Technology Co., Ltd.*)	PRC	Yarn spinning factory	Purchase of yarns	2014	Credit period of 30 days; Payment by bank transfer	3,638	4.4
Total purchases from and processing fees to our five largest suppliers						55,399	67.1

Save as disclosed above, as confirmed by our Directors, none of our Directors, their respective close associates or any Shareholder who, to the best knowledge of our Directors, owned more than 5% of our share capital, had any interests in any of our five largest suppliers during the Track Record Period.

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The raw materials which we directly purchase were primarily from Toyobo. For the years ended 31 December 2015, 2016 and 2017, the Group purchased approximately 391,000 kg, 663,000 kg and 431,000 kg of EXLAN brand fibres from Toyobo and the total purchase from Toyobo amounted to approximately HK\$11.4 million, HK\$14.1 million and HK\$7.6 million, being approximately 59.6%, 77.2% and 22.9% of our total cost of raw materials during the Track Record Period. Despite such supplier concentration, our Directors consider that the following factors should contribute to the sustainability of our business in view of the reliance on Toyobo:

- **Reduction in level of reliance:** Toyobo was the top supplier in each of the years ended 31 December 2015 and 2016 and became our fourth largest supplier for the year ended 31 December 2017. It is because we continuously expand our product offerings and procure yarns directly from yarns spinning factories which were made of other synthetic fibres. For the year ended 31 December 2017, more functional knitted fabrics sold to the customers were produced from non-Toyobo synthetic fibres which gave rise to the decrease in proportion of the purchase cost of acrylic fibres to the total cost of sales and the drop of the ranking of Toyobo as our top suppliers for the year ended 31 December 2017. These synthetic fibres were directly used by the yarn-spinning factories to process yarns and then supply to our Group. Costs of yarns increased from 5.4% of the total costs of sales for the year ended 31 December 2016 to 30.3% in 2017. The products produced from non-Toyobo synthetic fibres were sold to the major customers such as Embry, Beijing Cherishlife, Itochu and Customer A for the year ended 31 December 2017. As confirmed by our Directors, the change in our product mix sold to our customers for the year ended 31 December 2017 was mainly driven by the demand of different customers according to their business and marketing strategies that change from time to time based on the market condition.
- **Industry norm to maintain stable relationships:** According to the CIC Report, it is the industry norm that fabric providers and raw material suppliers maintain stable relationships to control the quality of the raw materials, reduce time used for supplier verification and lower the cost of raw materials by bulk purchase.
- **Capacity of maintaining revenue in the future in light of the reliance:** We have developed and maintained stable relationship with Toyobo. In January 2016, we entered into a long-term cooperation agreement with Toyobo. The long-term cooperation agreement has a term of five years. Although the long-term cooperation agreement is non-exclusive, our Group is entitled to enjoy priority in purchasing the EXLAN brand fibres over other customers of Toyobo in the PRC. Toyobo has also agreed to supply not less than a minimum of 500,000 kg of the EXLAN brand fibres per annum during the term of the long-term cooperation agreement upon our request. EXLAN brand fibres is the only type of fibre we purchased from Toyobo since we commenced business relationship with Toyobo in 2011. For further details, please see the paragraph headed “Third Party factories and raw material suppliers – Raw materials suppliers” in this section.

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- ***Reliance is mutual and complementary:*** We believe that there is mutual reliance as Toyobo would like to expand their market share in the PRC. Toyobo confirmed that they solely supplied their EXLAN brand fibres to us in respect of the lingerie market in the PRC during the Track Record Period and up to the Latest Practicable Date. We intend to maintain a relatively long term collaborative relationship with Toyobo, which has a positive impact to the sustainability of our business. Given our established relationship with Toyobo since December 2011, it would not be in the commercial interest of Toyobo to replace us with other providers of functional knitted fabrics of similar size, capability and market position within a short period of time. To the best knowledge of our Directors, as at the Latest Practicable Date, Toyobo did not have any plans to appoint other business partners in the PRC lingerie market. Our Directors confirmed that we had maintained a good business relationship with Toyobo and expected to continue a stable business relationship with Toyobo in the foreseeable future.

Our Directors believe that it is our quality of and strong product innovation capability on our functional knitted fabrics, complemented by our services that earns our customers' loyalty and market reputation. The fact that our products were made from Toyobo's patented fibres is only one of the factors which might lead our major customers to purchase our products. As at 31 December 2017, among our product portfolio of approximately 1,500 products, approximately 38.6% of our products contains Toyobo's fibres, while the rest of our products contain different combination of over 10 types of fibres. For the years ended 31 December 2015, 2016 and 2017, the sales of products that contain Toyobo's patented fibres amounted to approximately 67.6%, 55.0% and 66.8% of our total revenue in the same years, respectively. According to the CIC Report, Toyobo is one of the top functional acrylic fibres suppliers in the world and widely recognised and welcomed by downstream customers. Toyobo's fibres are of high quality and have various functionalities such as thermal, moisture absorption, anti-odor and anti-bacterial with applications in intimate wear and sportswear. However, the quality of our products does not only depend on the fibres used in production, but also depends on the methods used in the production processes to achieve the value-added functions. Generally, a combination of different type of fibres are used in the production of our functional knitted fabrics which normally include three to six types of fibres including acrylic fibres, regenerated fibres, polyester fibres and cotton. When we introduce our products to customers, we explain the texture, style and functionality of the products as well as types and/or brands of raw materials used. Nonetheless, although some of our major customers may specify the composition of different components such as acrylic fibres or other kinds of synthetic fibres in the functional knitted fabrics to be supplied by us to them in the purchase order, none of our major customers specifically request us to use Toyobo's fibres.

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- **Ability to find substitute suppliers:** As we are not bound to make purchases solely from Toyobo, we maintain flexibility in supplier selection. According to the CIC Report, in June 2017, there were approximately 100 suppliers of acrylic fibres in China, which provide abundant supply of such materials in the market. We have also obtained quotations from different fibre suppliers and our Directors confirm that there are alternative suppliers in the market which can supply acrylic fibres and synthetic fibres at comparable terms, prices and quantities. According to the CIC Report, top players in the China's intimate wear industry including some of our major customers mainly use acrylic fibres with comparable quality provided by four suppliers, including Toyobo, for their production and all of them are well-known sizable foreign enterprises, in their products whereas there are about 10 suppliers in total who can provide acrylic fibres with comparable functions and quality in the PRC. Our Directors believe the Group is able to source acrylic fibres or other raw materials with comparable quality in the market and we do not have any practical difficulties to purchase raw materials from alternative raw material suppliers at comparable prices.

Overlapping of customers and suppliers

During the Track Record Period, Customer C, a wholly-owned subsidiary of Toyobo, our top supplier in each of the years ended 31 December 2015, 2016 and 2017, purchased functional knitted fabrics from us while we procured synthetic fibres from Toyobo. Toyobo mainly engages in various business segments including films and functional polymers, industrial materials, healthcare and textiles and trading while Customer B is a sourcing agent. Our sales of functional knitted fabrics to Customer C amounted to approximately HK\$0.5 million, HK\$2.1 million and HK\$0.1 million for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 0.7%, 2.6% and 0.1% of our revenue in the same years. Gross profits derived from the sales of products to Customer C were approximately HK\$0.1 million, HK\$0.8 million and HK\$0.06 million for the years ended 31 December 2015, 2016 and 2017, respectively. The amount of purchases from Toyobo amounted to approximately HK\$11.4 million, HK\$14.1 million and HK\$7.6 million, respectively, representing approximately 27.9%, 31.4% and 9.4% of our total costs of sales in the same years.

Zhuhai Zhaotian Trading, one of our top five customers in each of the years ended 31 December 2015 and 2016, purchased yarns, synthetic fibres and functional knitted fabrics from us while we procured yarns from Wuxi Tianhe Textile, which was a wholly-owned subsidiary of Zhuhai Zhaotian Trading. Wuxi Tianhe Textile was a yarn spinning factory and Zhuhai Zhaotian Trading is a sourcing agent. Our sales to Zhuhai Zhaotian Trading amounted to approximately HK\$1.6 million, HK\$7.6 million and nil for the years ended 31 December 2015, 2016 and 2017, respectively, representing approximately 2.4%, 9.4% and nil of our revenue in the same years.

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Gross profits derived from the sales of products to Zhuhai Zhaotian Trading were approximately HK\$0.2 million, HK\$3.0 million and nil for the years ended 31 December 2015, 2016, and 2017, respectively. Our sales to Zhuhai Zhaotian Trading had been discontinued since January 2017. The amount of purchases from Wuxi Tianhe Textile for the years ended 31 December 2015, 2016 and 2017 amounted to approximately HK\$1.6 million, HK\$34,000 and nil, respectively, representing approximately 2.6%, 0.04% and nil of our total purchases in the same years. The yarns we purchased from Wuxi Tianhe Textile and the yarns we offered to Zhuhai Zhaotian Trading are different in nature as yarns from Wuxi Tianhe Textile are used for production of cooling fabrics whereas yarns we offered to Zhuhai Zhaotian Trading were produced by acrylic fibres from Toyobo for the production of thermal fabrics.

Our Directors confirmed that negotiation of the salient terms of our sales to Customer C and purchase from Toyobo as well as our sales to Zhuhai Zhaotian Trading and purchase from Wuxi Tianhe Textile were conducted separately and the sales and purchases were neither interconnected nor inter-conditional with each other. The terms of transactions with Customer C, Toyobo, Wuxi Tianhe Textile and Zhuhai Zhaotian Trading are similar to those transactions with our other customers and suppliers, which our Directors considered to be on normal commercial terms. Our Directors confirmed that, during the Track Record Period, the synthetic fibres we purchased from Toyobo were not subsequently sold to Customer C, or vice versa and the yarns we purchased from Wuxi Tianhe Textile were not subsequently sold to Zhuhai Zhaotian Trading, or vice versa.

As at the Latest Practicable Date, Zhuhai Zhaotian Trading was owned as to 60% by an uncle of Mr. Wong and 40% by an Independent Third Party and Wuxi Tianhe Textile was deregistered on 12 June 2017. To the best knowledge and belief of our Directors, Toyobo and Customer C are Independent Third Parties of our Group. None of our Directors, their respective close associates, or any Shareholder who, to the best knowledge of our Directors, owns more than 5% of our issued capital, has any interest in Customer C or Toyobo for the years ended 31 December 2015, 2016 and 2017, respectively. Save as disclosed above, to the best knowledge of the Directors, none of our suppliers are also our major customers during the Track Record Period.

QUALITY CONTROL

As at the Latest Practicable Date, we had 23 quality control personnel. Our quality control team is headed by an experienced manager in the textile industry, including the field of quality control, who is familiar with the quality standards in the textile industry and is responsible for setting the quality control standards and ensuring the provision of reliance and high-quality fabrics to our customers.

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We believe that our products are widely recognised for their quality in the textile industry. In May 2016, we were accredited with OEKO-Tex Standard 100 certificate in recognition of our products fulfilling human-ecological requirements for infant products. The OEKO-Tex Standard 100 is a widely used in the textile industry as a globally uniform testing and certification system which tests harmful substances in textile raw materials, intermediate and end products at different stages of production. The products which comply with strict testing and inspection procedures as well as verifiable quality assurance are allowed to place the OEKO-Tex label on their products. We have engaged National Quality Supervision and Inspection Centre of Knitted Products (國家針織產品質量監控檢驗中心) to conduct tests on our products. The results show that our products comply with the requirements set out in various national product standards.

We have implemented stringent quality control standards in each of the following stages:

- (1) Raw materials procurement quality control: We select our raw materials suppliers mainly based on the product quality. We review the performance of our raw materials suppliers from time to time to ensure that their raw materials can meet our quality standards.
- (2) Output quality control on third party factories: Staff of our quality control team examine all the semi-finished and finished products after each of the yarn spinning, knitting and dyeing processes. Specific written technical requirements and guidance are set out in the standardised technical checklist which are given by us to them and these factories are required to comply with the applicable technical requirements. We also provide product prototypes which have been approved by our customers to these factories to ensure compliance with our customers' requirements.

We adopt trial production in our operation process under which we require third party factories to provide samples of their products before mass production. For instance, we collect samples of finished yarns and send them to our in-house laboratories to conduct tests on the composition, strength and functionality of the yarn samples. We also provide at least one batch of dyeing samples to our customers for confirmation.

In addition, our staff either station at or pay regular visits to the production facilities of these factories to provide onsite guidance and inspect the semi-finished and finished products. Any defects found are immediately remedied.

During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of our products and there was no incident of failure of our quality control systems which had a material and adverse impact on our business operation.

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COMPETITION

According to the CIC Report, functional knitted fabric market is highly fragmented with a large number of market participants concentrated in Shandong, Zhejiang and Guangdong Provinces. Our Directors believe that the market of functional knitted fabric market is intense, and our Group competes with other players which are similar to us in terms of product range, pricing, research and quality of products. With a highly fragmented market, we may face intense competition from existing players and new entrants based in the PRC and other countries. Please see “Risk Factors – We operate in a competitive industry and failure to compete could materially and adversely affect our business” in this prospectus for further details.

Even though the functional knitted fabric market is becoming increasingly competitive, through our strong product design and development capability and well-established relationship with major fibre suppliers, we believe we possess competitive advantages over our competitors. For details of the competitive landscape of the industry we are in, please see the section headed “Industry Overview” in this prospectus.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

We are subject to the PRC laws and regulations on labour, safety and work-related incidents. We have in place safety guidelines for our employees working in our third party manufacturers’ production facilities.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we have not encountered any incidents or complaints that would materially and adversely affect our operations nor any material accidents or claims for personal or property damages.

As advised by our PRC Legal Advisers, during the Track Record Period, we have complied with the PRC workplace safety regulatory requirements in all material respects.

We engage third party factories to carry out the production processes. To the best knowledge of our Directors, these factories have obtained the relevant environmental permits necessary to conduct their manufacturing procedures and have complied with the relevant environmental laws and regulations in the PRC in all material respects. As advised by our PRC Legal Advisers, we are not liable to or responsible for any non-compliance incidents of these factories.

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During the Track Record Period and up to the Latest Practicable Date, we had complied with the applicable laws and regulations relating to environmental protection and had not been subject to any penalties or fines by the competent authority for any non-compliance with the relevant environmental protection laws and regulations. Our Directors have confirmed that we did not experience any incident or complaint or claim relating to environmental hazard which had a material impact on us during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, we did not incur significant expenses in relation to the compliance with the applicable environmental laws, rules and regulations.

INVENTORY CONTROL

We engage third party factories to manufacture our functional knitted fabrics and apparel. As such, we did not have a warehouse. Our inventory, which consists all the raw materials, semi-finished products, are stored in these factories.

We are able to manage our inventory levels by procuring the raw materials only after confirmation of orders from the customers. This allows us to have a better understanding of the raw materials required for a particular order and as a result minimise the possibility of having either a shortage or an excess of raw materials.

For the years ended 31 December 2015, 2016 and 2017, our Group recorded inventory turnover days of 19 days, 17 days and 34 days, respectively. Please see the section headed “Financial Information – Analysis of various items from the combined statements of financial position – Inventories” for details.

INTELLECTUAL PROPERTY

We rely on a combination of laws and regulations including patent and trademark laws to protect our intellectual property rights. We have adopted measures and policies to protect our intellectual property rights and prevent any misuse or leakage of our intellectual property rights to external parties. Our employees are required to sign a non-disclosure agreement which prohibits the disclosure of any of our proprietary intellectual property to any third parties. All employees of our Group have to comply with the regulations in our employee handbook and working manual, which require that all the confidential information, including all the information from our customers, company designs and production processes information, should not be divulged to any third parties and that all such information should be properly kept and employees should not, without proper authorisation, make copies of or carry such information out of the company's premises. Pursuant to the confidentiality agreement, the intellectual property rights of all inventions, technology, confidential information created by the research and development staff during their term of employment shall belong to our Group. We have also assigned a specialised team to manage and handle our trademarks and patents to protect our rights from infringement. During the production process of our functional knitted fabrics, security measures are put in place to monitor any mishandling our patented production processes. While we engage third party factories to carry out production processes, our staff either station at or pay regular visits to these

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factories to monitor the production processes and to ensure that security measures are properly implemented to monitor any mishandling and prevent their leakage. In addition, we engage different third party factories to conduct each of the spinning, knitting and dyeing processes separately to lower the risk of misuse and leakage of our patented production processes. For the product development and trial production which we would need to utilise the production facilities at third party factories, they are managed and monitored by our production control and quality control teams who would provide supervision and guidance to these factories and ensure that security measures are properly implemented to maintain confidentiality. All the third party factories engaged by us are required to comply with the use of intellectual property rights and proper security measures for protection of confidential information. We have also entered into processing agreements with third party factories with stringent terms to ensure confidentiality of our intellectual property rights.

As at the Latest Practicable Date, we were the registered owner of eight patents in functional knitted fabrics as well as production and dyeing processes, and eight of our patent registration in the PRC were under process. As at the same date, we were also the registered owner of eight trademarks in the PRC. Please see the paragraph headed “Statutory and general information – 8. Intellectual property rights” in this section for further details.

During the Track Record Period, to the best knowledge of our Directors, we have not infringed or were not alleged to infringe any intellectual property rights owned by third parties and we had not been subject to any material intellectual property claims against us or involved in any material intellectual property dispute.

RESEARCH AND DEVELOPMENT

The textile industry is constantly subject to rapid changes in terms of fashion trends and demand for new materials and fabrics. We are highly committed to innovate our products and conducts market research to develop functional knitted fabrics which can meet the market demand. In some occasions, our customers may request for fabrics with specific features or specifications. After taking into account factors such as functions, appearance and design trends, we translate the concept into fabrics design with specified composition of different components, which are subject to multiple evaluations and alterations. During the Track Record Period, expenditure in research and development activities were recognised as an expense which is in accordance with applicable accounting standards.

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Our in-house research and development team

We are highly committed to our research and development function and focus our efforts on the development of new products and the application of new materials and production techniques. Our research and development team focuses on developing fabrics with more functions and thereby improve the quality of our products. Our research and development team takes active steps in product innovation and works closely with our production control and quality control teams. In occasional cases, our customers may provide sample fabrics and request our Group to develop fabrics with similar features. As at the Latest Practicable Date, our research and development team comprised 17 skilled technicians including (i) five managers and assistant managers who supervise and provide advice and technical training to the research and development team; (ii) 10 specialists and designers who analyse the technical aspects and designs and adjust the composition and features of our functional knitted fabrics as well as to work closely with our major raw material suppliers, third party factories and external institutions to devise and improve our functional knitted fabrics and (iii) two officers who communicate with our sales, quality control and production control teams to understand the specifications of our customers and technical issues encountered during the production process. Most of our research and development team members have received tertiary education and 11 members of our research and development team obtained relevant diplomas in textile engineering and related profession. As at 31 December 2017, our product portfolio consists of approximately 1,500 products, representing different types of functional knitted fabrics developed in-house which have passed through all product testings and trial production and are launched in the market for sales to our customers. During the years ended 31 December 2015, 2016 and 2017, our Group introduced 488, 371 and 452 new products respectively. The new products differentiate by their composition, components, functionalities, colours as well as knitting and dyeing processes and have different functions such as products with higher moisture absorbing and dissipation, thermal resistance, softer texture and higher recovery and elongation properties.

Our research and development team is capable of making fabrics of different physical properties, such as stretchability, thermal insulation and moisture control abilities, by varying compositions of raw materials. Currently, we have in-house equipment and facilities for our research and product testing and consist of: (i) a physics laboratory equipped with laboratory equipment dedicated to study the attributes of fibres, yarn and the fabrics such as the weight, strength, elasticity, density, colour fastness, peeling and shrinkage rate; and (ii) a chemical laboratory which focuses on measuring harmful substance in dye stuff and chemical additives, colour and pH value of our raw materials, semi-finished products and mass produced products. Whilst we have in-house facilities for our research and product testing, we do not possess production facilities and therefore we utilise the production facilities at third party factories by applying various knitting and dyeing techniques researched by our team for product development and trial production. The knitting and dyeing processes in sample production are supervised and managed by our research and development team and the third party factories are only involved by providing production facilities for knitting and dyeing processes in sample production. Samples produced in third party factories will be sent to our research and development team and they will

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evaluate the product as well as make necessary modifications to the products to ensure the fabrics possess the expected functions. During the Track Record Period, we paid to third party factories for product development and trial production, of approximately HK\$82,000, HK\$273,000 and HK\$457,000, respectively.

In addition to our internal research and development efforts, we collaborate with third parties to develop and innovate our products. We work closely with our major suppliers which are major raw material suppliers in the textile industry on innovative functional materials and application solutions.

As at Latest Practicable Date, we had 14 projects, in which it is expected that approximately 189 new products will be introduced in around 2018 and 2019. These projects are at planning stage and relate to developing fabrics with functions in moisture management, thermal and stretch functions for use of intimate wear as well as children's wear, casual wear and maternity wear. The following table sets out the major projects which are under development and their details:

Major projects	Commercial applications	Status
To develop coconut fibre products with rapid-dyeing and anti-bacterial properties	Porous structure of coconut fabrics absorb water quickly and have anti-odor and anti-bacterial properties for children's wear and intimate wear	In the process of feasibility study
To develop functional fabrics incorporated cupric ions with anti-bacterial properties	Fabrics with anti-bacterial qualities used for children's wear and underpants	In the process of feasibility study
To develop kapok fabrics with thermal functions	Coloured fabrics with less chemical additives used and thermal properties for children's wear	In the process of feasibility study
To develop semi-shiny fabrics with improved appearance	Monofilament with shiny nylon thread (單絲有光尼龍絲) for intimate wear	Feasibility studies completed and the project is technically and economically viable. Testing procedures to be commenced

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Our co-operation with Donghua University

Since October 2014, we have worked with Donghua University on product and technology development and technical training. On 8 October 2014, we entered into a cooperation agreement with Donghua University for an initial term of three years. Pursuant to the agreement, Donghua University provides us with the updated market information in the textile industry, and conducts research with us on our selected new technology and products, the intellectual property rights of which shall be jointly owned by us and Donghua University and shall be exclusively used by us in the commercial-related aspects. As advised by our PRC Legal Advisers, the cooperation agreement was valid, legally binding and enforceable under the relevant PRC laws and regulations.

Set out below are the major terms of our cooperation agreement with Donghua University:

Date and term of the agreement	8 October 2014, for an initial period of three years and automatically renewed for three years
Rights and obligations of Donghua University	<ul style="list-style-type: none">• Provide our Group with new products and technology for research and development, and submit the budget for research and development projects for approval by our Group• Assist our Group in implementation of our marketing plans in respect of new products• Provide our Group with the latest news on new product and technology• Provide training and education to the staff of our Group
Rights and obligations of our Group	<ul style="list-style-type: none">• Provide venue, raw materials, equipment and staff for carrying out the research and development project• Responsible for the costs of research and development through provision of the initial fund

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Cost allocation arrangement	<ul style="list-style-type: none">• Our Group invested RMB1.0 million as the initial fund of research and development and was managed a personnel sent by each party. Use of such fund needs to comply with the guidelines set down and requires approval of Group• The use of the fund shall be reported to our Group every year and our Group has the right to audit
Intellectual property rights of results of research and development	<ul style="list-style-type: none">• The intellectual property rights of any products developed shall be owned by the parties jointly• Our Group owns the right to exclusive use and commercial benefits in respect of the products developed under this agreement
Termination and renewal	Automatic renewal for three years unless there is any objection from either party. If any party intends to amend the terms of the agreement or terminate the agreement, that party should raise three months prior to the expiry of the agreement

During the Track Record Period and up to the Latest Practicable Date, we have not developed new products or technology under the cooperation agreement with Donghua University.

In July 2015, we were awarded by 中國紡織工業聯合會 (China National Textile and Apparel Council*), 中國紡織信息中心 (China Textile Information Centre*) and 國家紡織產品開發中心 (China Textiles Development Centre*) as 國家功能性針織產品開發基地 (National Functional Knitted Products Development Centre*). We received 中國針織行業科技貢獻獎(2011年至2015年) (China Knitting Industry Science and Technology Contribution Award for the years 2011-2015*) by 中國針織工業協會 (China Knitting Industry Association*) in December 2015 and were recognised as a High and New Technology Enterprise in November 2016.

Our research and development expenses which include staff costs and research and development project expenses, amounted to approximately HK\$2.4 million, HK\$4.0 million and HK\$7.1 million for the years ended 31 December 2015, 2016 and 2017 accounted for approximately 3.7%, 5.0% and 5.7% of our total revenue for the years ended 31 December 2015, 2016 and 2017. All of the aforesaid amount were expensed. We intend to enhance our research and development resources mainly by establishing a new research and development centre and acquiring new machineries for the research and development centre. Please see the sub-section

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headed “Business Strategies – Strengthen our innovation capabilities and increase research and development as well as product testing resources” for further details in relation to our future plans regarding research and development to be undertaken by our Group. The expected increase in research and development expenses, including the staff cost, depreciation and other overheads which is expected to increase accordingly along with our business expansion. It is expected that the new products developed by our in-house research and development team would take time to increase awareness of our target customers by promotion, advertising and participation in trade shows and industry exhibitions. In the short run, our Group will spend approximately HK\$13.9 million of the proceeds from the Share Offer to establish the new research and development centre and a significant portion of it will be incurred as capital expenditure including purchase of machinery and decoration expenditure. Following the introduction of our new products from time to time and the increase in our market coverage in the PRC as well as the future growth of the demand for functional knitted fabrics for intimate wear, sportswear, maternity wear and children’s wear based on the CIC Report, our Directors are of the view that the increase in the amount of annual research and development expenses would be outweighed by the growth of our revenue in the medium and long term and enables our Group to improve and widen our product offerings and enhance our profitability going forward.

INSURANCE

We carry insurance covering risks in respect of vehicles and employee compensation. We contribute to social security insurance for our employees in accordance with the relevant PRC laws and regulations, which includes contributions for basic pension insurance, basic medical insurance, occupational injury insurance, maternity insurance and unemployment insurance. We maintain insurance coverage against potential losses or damages arising from fire, flood and other natural disasters in respect of our offices. We maintain property insurance for raw materials which are procured by us and supplied to the third party factories in their production processes. We also maintain travel insurance for some of our employees who are required to travel on business trips. We do not maintain insurance coverage in relation to our products. As advised by our PRC Legal Advisers, product insurances are not mandatory under the PRC laws and regulations.

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

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OUR PROPERTIES

As at the Latest Practicable Date, we entered into six leases relating to six properties situated in Dongguan, Hong Kong, Beijing and Shanghai, which are primarily used as our offices and research and development centre. The following table sets forth a summary of the properties leased by us as at the Latest Practicable Date:

Address of the leased property	Approximate GFA	Our use of property	Expiry of the lease
Hong Kong			
1. Room 1006, 10/F, Centre Point, 181-185 Gloucester Road, Wanchai, Hong Kong	827.0 sq. ft.	Offices	31 December 2018
Dongguan			
2. Units 15/17, 4/F, Block A1, Tianan Digital City, No.1 Golden Road, Nancheng District, Dongguan, Guangdong Province, the PRC	729.5 sq. m.	Offices	31 October 2020
3. Unit 19, 4/F, Block A1, Tianan Digital City, No.1 Golden Road, Nancheng District, Dongguan, Guangdong Province, the PRC	311.4 sq. m.	Offices and research and development centre	31 October 2020
4. Unit 23, 4/F, Block A1, Tianan Digital City, No.1 Golden Road, Nancheng District, Dongguan, Guangdong Province, the PRC	169.4 sq. m.	Offices and research and development centre	4 March 2019
Beijing			
5. Room 706, 7/F, Block 5, Jinyu International, No.48 Wangjing West Road, Chaoyang District, Beijing, the PRC	130.8 sq. m.	Offices	15 June 2018
Shanghai			
6. Room 1608, Oasis Middlering Business Centre, No 915, Zhenbei Road, Putuo District, Shanghai, the PRC	114.8 sq. m.	Offices	25 April 2020

Note: During the Track Record Period, we entered into a lease for the property located at No. 6, Lane 9, Meiyuan Road, Nancheng Baima Community, Dongguan, Guangdong Province, the PRC with a lease area of 260.0 sq. m., which was primarily used as staff dormitory and the lease was terminated on 31 January 2017.

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Pursuant to the leases, rental for our offices in Beijing and Shanghai is payable on a quarterly basis, and in other cases, rental is payable on a monthly basis. The following table sets forth the breakdown of our rental expenses in respect of our leases for the years indicated:–

	For the year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Rental expenses for:						
– Offices	881	93.1	952	92.3	1,111	81.8
– Staff dormitory	<u>65</u>	<u>6.9</u>	<u>79</u>	<u>7.7</u>	<u>248</u>	<u>18.2</u>
Total	<u><u>946</u></u>	<u><u>100.0</u></u>	<u><u>1,031</u></u>	<u><u>100.0</u></u>	<u><u>1,359</u></u>	<u><u>100.0</u></u>

The following set out certain deficiencies relating to our leased properties:

As at the Latest Practicable Date, due to the non-cooperation of the relevant lessors and the nature of the leased properties, five of the leases relating to properties situated in the PRC which we were the lessee had not been registered with the relevant PRC government authorities. If we fail to complete the lease registration with local housing authority in accordance with Administrative Measures for Commodity House Leasing (商品房屋租賃管理辦法), the local authority may order us for registration within a certain timeframe, failing which we may be fined with an amount between RMB1,000 and RMB10,000. So far as our Directors are aware, there is no difference in terms of rental for the unregistered leases. As advised by the PRC Legal Advisers, the five lease agreements relating to properties situated in the PRC which we were the lessees are valid and enforceable.

During the Tack Record Period and up to the Latest Practicable Date, as we had no single property with a carrying amount of 15% or more of our total assets, on this basis, we are not required by Rule 8.01A of the GEM Listing Rules to include in this prospectus any valuation report. Pursuant to section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings.

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LICENCES AND PERMITS

During the Track Record Period and as at the Latest Practicable Date, we have obtained all material requisite licences, approvals and permits from the relevant authorities for our business operations. We did not experience any material difficulties in renewing our business licences during the Track Record Period, and our Directors do not expect any material difficulties in renewing such licences. As part of our quality control procedures, we examine and confirm that the third party factories have all the material requisite licences, permits and approvals before engaging them. During the Track Record Period and up to the Latest Practicable, we did not experience and do not expect difficulty in maintaining or renewing the relevant permits and approvals.

EMPLOYEES

Number of employees by function

As at the Latest Practicable Date, we had a total of 96 employees, among which four of them were stationed in Hong Kong, the rest of them were based in the PRC. The following table sets forth the number of our full-time employees by function as at the Latest Practicable Date:

Function	Number of employees
Executive Directors	3
Sales	22
Procurement	3
Research and development	17
Production control	19
Quality control	23
Finance	5
Human resources and administration	4
Total	96

Relationship with employees

Our Directors believe that we have maintained a good relationship with our employees. We had not experienced any significant problem or labour dispute with our employees during the Track Record Period.

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Training and recruitment policies

Our Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve our Group. Our Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with our business development. All new employees are required to attend induction courses to ensure that they are equipped with the necessary skills to perform their duties. Our Group also provides regular training to our employees on areas such as technical know-how, industrial knowledge and hands-on skills. In addition, we have collaborated with external institutions to organise visits to Japan where some of our major raw materials suppliers are located, for our employees to learn about their corporate culture and customer skills.

AWARDS AND RECOGNITION

We have been awarded a number of awards and recognition in relation to the quality of our products and research and development effort. The following table sets forth the major awards and recognitions we recently obtained:

Date of grant	Award/recognition	Issuing authority
December 2016	2016年《自由裁針織服裝》行業標準制定工作主要起草單位 (Core drafting unit for “free-style cutting knitted apparel” industry standards in 2016*)	全國紡織品標準化技術委員會針織品分會 (National Standardised Technical Committees on textile products – sub-committee for knitted products*)
November 2016	High and New Technology Enterprise	廣東省科學技術廳 (Science and Technology Department of Guangdong Province*), 廣東省財政廳 (Department of Finance of Guangdong Province*), 廣東省國家稅務局 (State Administration of Taxation of Guangdong Province*) and 廣東省地方稅務局 (Local Tax Bureau of Guangdong Province*)
September 2016	2017/2018秋冬中國流行面料入圍企業 (2017/2018 Autumn Winter Fabrics China Appraisal Entry Enterprise*)	中國紡織信息中心 (China Textile Information Centre*) and 國家紡織產品開發中心 (China Textiles Development Centre*)
May 2016	OEKO-Tex Standard 100	TESTEX AG, Swiss Textile Testing Institute

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Date of grant	Award/recognition	Issuing authority
December 2015	中國針織行業科技貢獻獎(2011年至2015年) (China Knitting Industry Science and Technology Contribution Award for the years 2011-2015*)	中國針織工業協會 (China Knitting Industry Association*)
July 2015	國家功能性針織產品開發基地 (National Functional Knitted Products Development Centre*)	中國紡織工業聯合會 (China National Textile and Apparel Council*), 中國紡織信息中心 (China Textile Information Centre*) and 國家紡織產品開發中心 (China Textiles Development Centre*)
January 2015	2014年《熱濕舒適性針織內衣》行業標準制定工作主要起草單位 (Core drafting unit for “thermal and humid comfortable knitted innerwear” industry standards in 2014*)	全國紡織品標準化技術委員會針織品分會 (National Standardised Technical Committees on textile products-sub-committee for knitted products*)

LEGAL COMPLIANCE

Non-compliance incidents	Reasons for non-compliance	Relevant laws and regulations and legal consequences	Enhanced internal control measures
During the Track Record Period, Guangdong Smart Team, Smart Union and Magic Team did not make adequate contributions to housing provident fund to some of their employees.	The breach was not wilful and was due to the inadvertent oversight of the responsible staff and the absence of timely and professional advice at the material time.	As advised by our PRC Legal Advisers, if an employer fails to pay its housing provident fund contributions in accordance with the Regulations concerning the Administration of Housing Provident Fund (住房公積金管理條例), the regulator may order for payment of contributions within the prescribed time limit, failing which the regulator may apply to the People’s Court for compulsory enforcement.	As advised by our PRC Legal Advisers, since April 2017, we were in compliance with the requirements relating to housing provident fund contributions in material respects and had made contributions for housing provident fund in accordance with the Regulations concerning the Administration of Housing Provident Fund. We have already made provisions in the amount of HK\$171,377 in aggregate for the unpaid amounts of housing provident fund contributions during the Track Record Period. Our Directors believe that such provision is sufficient to cover our liabilities in respect of the unpaid housing provident fund contributions.

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Non-compliance incidents	Reasons for non-compliance	Relevant laws and regulations and legal consequences	Enhanced internal control measures
			<p>In addition, our Controlling Shareholders have undertaken to, pursuant to the terms and conditions of the Deed of Indemnity, indemnify us against any losses and penalties which we may suffer as a result of the failure of our Group to comply with the relevant laws, rules or regulations concerning housing provident fund contributions.</p> <p>We have implemented internal control policies relating to the compliance with the requirements of housing provident fund. Please see the paragraph headed “Internal control” in this section.</p> <p>Since (i) as at the Latest Practicable Date, we had not received any demand or order from the competent authorities requesting us to settle any overdue housing provident fund contributions; (ii) our PRC Legal Advisers are of the view that the possibility of our Group being penalised due to the above non-compliance incidents is low; and (iii) in light of the rectification measures taken, our Directors are of the view that such historical non-compliance incidents do not and will not have any material financial or operational impact on us.</p>

LEGAL PROCEEDINGS

During the Tack Record Period and up to the Latest Practicable Date, we were not aware of any current, pending or threatened litigation, arbitration proceedings or administrative proceedings against us or any of our subsidiaries or any of Directors which could have a material adverse effect on our financial condition, results of the operation or reputation.

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INTERNAL CONTROL

Our Board of Directors recognise the importance of good corporate governance and strives to improve it through a variety of means. We entered into an engagement letter with an independent internal control consultant, SHINEWING Risk Services Limited (the “**Internal Control Consultant**”), in December 2016 to review our internal control system. The scope of the engagement mainly entailed: (i) conducting a review of our internal control at corporate level and business operation level; (ii) reporting major risks and operational inefficiencies; (iii) assessing whether policies and operation procedures documents are being appropriately maintained and properly executed; (iv) recommending improvements; (v) communicating with our Directors and senior management to report the findings and recommendations of the review; and (vi) conducting follow-up reviews and reporting on the findings.

Upon completion of the internal control review in December 2016, the Internal Control Consultant identified a number of findings which mainly related to non-compliance incidents of housing provident fund contributions and insufficient details in certain of our formalised policies and procedures to reflect our operational, risk management and internal control practices. We have implemented all the internal control enhancement measures recommended by the Internal Control Consultant including enhancing relevant policies and practices. We have also adopted all of the following specific measures to help prevent the recurrence of any non-compliant incidents:

- (i) We have appointed Sunfund Capital Limited as our compliance adviser with effect from Listing to advise us on on-going compliance with the GEM Listing Rules and other applicable securities laws and regulations in Hong Kong;
- (ii) We will appoint legal advisers as to the laws of Hong Kong and the PRC to advise our Group on the laws and regulations of Hong Kong and the PRC applicable for us; and
- (iii) In relation to the historical non-compliance incidents of housing provident fund contributions as disclosed in the paragraph headed “Non-compliance” in this section, our human resources department is responsible for regularly reviewing the payment certificates in respect of our contributions to the housing provident fund contributions. Mr. Li Yanmin, our deputy general manager and human resources controller, is responsible for preparing the monthly summary of statistics of payment for employee’s salary and housing provident fund contributions, which shall be approved by both the head of human resources department and our management team. The amount of housing provident fund contributions shall be calculated in accordance with the Regulations concerning the Administration of Housing Provident Fund to ensure compliance with the relevant laws and regulations of the PRC. Our finance department shall pay the wages to the employees at the end of the month in accordance with the approved payment summary.

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- (iv) we have also established the Audit Committee comprising independent non-executive Directors as part of our measures to improve corporate governance. The primary duties of the audit committee are to provide our Directors with an independent review of the effectiveness of the financial reporting process, internal control and risk management system of our Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Directors.

The Internal Control Consultant conducted a follow up review of our internal control system (including those non-compliance incidents) in March 2017. No further material deficiencies were identified.

Based on the above, our Directors are of the view that the non-compliance incidents disclosed above were due to inadvertent oversight and did not involve any element of fraud or dishonesty and we have taken all reasonable steps to establish a proper internal control system to prevent future non-compliance with the relevant laws and regulations and that such non-compliance incidents have not resulted, and are not expected to result, in any material impact on our financial conditions and results of operations. Our Directors are of the view that our Company has taken reasonable steps to establish internal control system and procedures to enhance the control environment and the enhanced internal control measures adopted by our Group are adequate and effective.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

OVERVIEW

The Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors.

The following table sets out certain information of our Directors and senior management:

Name	Age	Position	Date of appointment	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Directors and/or senior management
Wong Kai Hung Kelvin (黃繼雄)	42	Executive Director and Chairman of the Board	21 February 2017 (designated as executive director on 1 April 2017)	4 October 2011	Responsible for the overall business strategies, planning, management and operational development of our Group; chairman of the corporate governance committee and member of the remuneration committee and nomination committee	Nil
Xi Bin (奚斌)	42	Executive Director and chief executive officer	31 March 2017 (designated as executive director on 1 April 2017)	4 October 2011	Participating in formulating our Company's operations, corporate and business strategies; managing and overseeing the operations and sales function of our Group	Nil
Hung Yuk Miu (洪育苗)	37	Executive Director, chief financial officer and company secretary	31 March 2017 (designated as executive director on 1 April 2017)	13 May 2014	Participating in formulating our Company's operations, corporate and business strategies; managing and overseeing the financial management of our Group and company secretarial duties	Nil
Ng Wing Heng Henry (伍永亨)	35	Independent non-executive Director	23 April 2018	23 April 2018	Responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company; chairman of the audit committee and member of the remuneration committee, nomination committee and corporate governance committee	Nil
Sze Irons (施榮楨)	56	Independent non-executive Director	23 April 2018	23 April 2018	Responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company; chairman of the nomination committee and member of the audit committee	Nil
Fong Kin Tat (方建達)	43	Independent non-executive Director	23 April 2018	23 April 2018	Responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company; chairman of the remuneration committee and member of the audit committee and corporate governance committee	Nil

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name	Age	Position	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Directors and/or senior management
Xu Guohua (徐國華)	52	Deputy general manager	28 August 2015	Responsible for our Group's research and development, production control and operations	Nil
Li Yanmin (李彥敏)	52	Deputy general manager and human resources controller	May 2015	Responsible for operating and overseeing the human resources department	Nil
Lin Huijun (林輝軍)	27	Research and development manager	14 April 2014	Responsible for our Group's research and development function	Nil

DIRECTORS

The Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The functions and duties of the Board include convening shareholders' meetings, reporting on the Board's work at these meetings, implementing the resolutions passed at these meetings, determining business and investment plans, formulating our annual budget and final accounts, and formulating our proposals for profit distributions and for the increase or reduction of registered capital. In addition, the Board is responsible for exercising other powers, functions and duties in accordance with the Articles of Association.

Executive Directors

Mr. Wong Kai Hung Kelvin (黃繼雄), aged 42, founded our Group in October 2011. He was appointed as a Director on 21 February 2017 and became the chairman of our Board and executive Director on 1 April 2017. Mr. Wong is responsible for the overall business strategies, planning, management and operational development of our Group.

Mr. Wong has over 18 years of experience in business administration. From July 1999 to March 2004, Mr. Wong was the general manager of Leahander Group Limited (利興強集團有限公司), an investment holding company, where he was responsible for managing staff, and establishing and accomplishing business objectives. From January 2002 to January 2016, Mr. Wong worked in K&T Investments Limited, a company engaging in manufacturing and distribution of knitted fabrics and an investment holding company, with his last position as the general manager, responsible for managing staff, and establishing and accomplishing business objectives.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wong graduated from the University of Southern California in the United States with a Bachelor of Science (business administration) (major in science (business administration) and minor in architecture) in May 1999. Mr. Wong is currently an executive member of the 10th Executive Committee of The Y. Elites Association (香港菁英會). In October 2013, he was awarded the honorary citizenship of Jiangmen of Guangdong Province (廣東省江門市榮譽市民).

Mr. Wong was a director of the companies below, which were dissolved by way of deregistration as these companies ceased to carry on business. As confirmed by Mr. Wong, each of these companies was inactive and solvent at the time when they were dissolved and so far as he was aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Method of dissolution
All Harvest Corporation Limited	Hong Kong	Trademark holding	8 April 2016	Deregistration of a defunct private company
Star Seekers International Limited	Hong Kong	Trading	11 September 2009	Deregistration of a defunct private company
Barcode (China) Limited	Hong Kong	Dormant	30 June 2006	Deregistration of a defunct private company
Sun Leader (HK) Garments Limited	Hong Kong	Garment	13 January 2006	Deregistration of a defunct private company
Oriental Timber Limited	Hong Kong	Trading	30 July 2004	Deregistration of a defunct private company
Comicsunion Limited	Hong Kong	Online cartoon trading	19 July 2002	Deregistration of a defunct private company

On the Listing Date, Cosmic Bliss, a company wholly owned by Mr. Wong, will be interested in 360,000,000 Shares. By virtue of the provisions of Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss. Please see the sub-section headed “Statutory and general information – C. Further Information about Directors and Shareholders” set out in Appendix IV to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Wong was a director of 利興強(恩平)紡織有限公司 (Li Xingqiang (Enping) Textile Co., Ltd.*) (“**Li Xingqiang**”) during the period from 25 September 2003 to 6 December 2016. Li Xingqiang was established on 25 September 2003. The sole shareholder of Li Xingqiang has been Leahander Trading Limited (“**Leahander Trading**”) since its establishment. As at 25 September 2003, Leahander Trading was owned as to 15,999,999 shares by Mr. Wong’s father and 1 share by Mr. Wong’s mother. On 24 August 2015, Mr. Wong’s father transferred all his shares in Leahander Trading to Mr. Wong, Mr. Wong’s brother and Mr. Wong’s mother comprising 2,400,000 shares to each of Mr. Wong and Mr. Wong’s brother and 11,199,999 shares to Mr. Wong’s mother. As a result, Mr. Wong, Mr. Wong’s brother and Mr. Wong’s mother were respectively interested in 15%, 15% and 70% shareholding of Leahander Trading which directly held Li Xingqiang. On 7 March 2017, Mr. Wong transferred all his 15% shareholding in Leahander Trading to his mother. Since then and up to the Latest Practicable Date, Mr. Wong had no beneficial interest in Leahander Trading and thus Li Xingqiang. As at the Latest Practicable Date, Mr. Wong’s brother and Mr. Wong’s mother were respectively interested in 15% and 85% shareholding in Leahander Trading which directly held Li Xingqiang.

Li Xingqiang was primarily engaged in the business of production and trading of combed yarn, carded yarn, compact spinning, cotton spinning and blended yarn. Li Xingqiang’s business required importation of cotton in the PRC to enable the processing of cotton into yarn. Under the relevant PRC law, a 53% import tax is payable on cotton imported into the PRC. If the cotton is imported under the manual for processing trade (加工貿易手冊)(the “**Manual**”) with quota for processing and exported out of the PRC, no such import tax would be imposed. In 2007, the General Administration of Customs promulgated a policy that yarn would be deemed exported under the Manual if it was delivered to the bonded zone. Under the policy, Li Xingqiang could import the cotton under the Manual and delivered the processed yarn to the bonded zone, instead of physically exporting outside the PRC, to write off the quota in the Manual and no import tax would be imposed for the importation of cotton. From 2009 to early 2010, Li Xingqiang adopted the following procedures: (i) cotton was imported tax free under the Manual; (ii) cotton was processed into yarn at its own factory; (iii) the yarn was exported to the bonded zone over the year until all processed yarn was exported and as a result, the quota in the Manual was written off completely and hence no import tax would be imposed for the importation of cotton; and (iv) the yarn was simultaneously re-imported into the PRC through PRC Customs and 22% import tax was imposed for the importation of yarn (the “**Same Day Export/Re-import Arrangement**”). Under the Same Day Export/Re-import Arrangement, every bale of processed yarn did go in and out of the bonded zone. Having consulted the defence lawyer of the Case, Mr. Wong understands that the Same Day Export/Re-import Arrangement did not violate the relevant PRC laws and regulations. Mr. Wong confirmed that he was aware of the Same Day Export/Re-import Arrangement and believed that Li Xingqiang’s operation at the material time was lawful under the PRC laws and regulations.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

In the latter half of 2010, unknown to Mr. Wong, Li Xingqiang adopted the following procedures for the purpose of reducing the transportation costs: (i) cotton was imported tax free under the Manual; (ii) cotton was processed into yarn at its own factory; (iii) some but not all of the yarn was delivered to the bonded zone and deemed exported over the year. Some quota of the Manual was written off accordingly; (iv) the yarn which were already exported and re-imported was then delivered again to the bonded zone. Some further quota of the Manual was written off accordingly; and (v) the yarn was again simultaneously re-imported into the PRC through the PRC Customs and 22% import tax was imposed on each bale of re-imported yarn (the “**Nominal Bale Arrangement**”). Under the Nominal Bale Arrangement, instead of every bale of yarn going in and out of the bonded zone, only some bales did so, albeit the bales that did go in and out of the bonded zone did so multiple times. In other words, Li Xingqiang stopped transporting every bale from its factory to the bonded zone and back to the factory. Instead, Li Xingqiang used certain number of bales that were moved in and out of the bonded zone on multiple occasions. Those bales were transported not from Li Xingqiang’s factory to the bonded zone and back, but rather from a location within a short distance from the bonded zone.

In March 2016, Li Xingqiang was found guilty by Zhuhai Intermediate People’s Court of Guangdong Province for smuggling of common goods during the period from October 2010 to August 2014 (the “**Case**”). According to the Zhuhai Intermediate People’s Court of Guangdong Province, lower tax rate of 22% was only payable on a bale of yarn that physically went in and out of the bonded zone. Since some of the yarn produced by Li Xingqiang was not physically delivered to the bonded zone under the Nominal Bale Arrangement, such yarn was deemed not to have been exported or re-imported. As a result, the quota of the cotton which was processed into such yarn was not written off, and hence duty at a higher rate of 53% ought to have been paid. As a result, Li Xingqiang was found guilty for smuggling of common goods and ordered to pay fine and evaded duties of approximately RMB57 million. Mr. Wong’s father, who was the legal representative, chairman and director of Li Xingqiang and two staff who were the general manager and a customs filing staff of Li Xingqiang, were sentenced to prison for a term ranging from four years and nine months to eight years and nine months. The hearing of the appeal (the “**Appeal**”) took place on 8 December 2016 at the Higher People’s Court of Guangdong Province (the “**Higher People’s Court**”). One of the grounds for the Appeal is that the Nominal Bale Arrangement was actually fiscally neutral to the tax revenue of the PRC. This is because even though not all of the bales physically went to the bonded zone, but those bales that went in and out of the bonded zone did so on multiple occasions, the combined effect was (i) the total number of bales that went in and out of the bonded zone was equivalent to the total number of bales that would have gone in and out of the bonded zone had every bale in the factory been physically transported to and from the bonded zone and (ii) tax was paid on the correct total tonnage of yarn as though it had all gone in and out of the bonded zone. The only fiscal impact of the Nominal Bale Arrangement to Li Xingqiang was the reduction of transportation costs. As at the Latest Practicable Date, Li Xingqiang was waiting for the result of the Appeal against the first instance decision. As advised by the PRC Legal Advisers, the first instance decision of the Case is subject to the decision of the Appeal and has not been enforced. The Case was not related to the Group and Mr. Wong was not a defendant of the Case and had not been asked to assist in the investigation of the Case by the relevant authorities. As advised by Mr. Wong, Li Xingqiang is still in operation and had not received the appeal decision as at the Latest Practicable Date.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

According to our PRC Legal Advisers, in the PRC, if an appealing or protesting case cannot be concluded within two months, the relevant court has the right to apply for trial extension from its higher courts. The application for time extension of trial of a criminal case is governed by several laws and judicial interpretations, including the PRC Criminal Procedure Law (《刑事訴訟法》), the Provisions Concerning the Strict Implementation of the Time Limit of Hearing Issued by the Supreme People’s Court (《最高人民法院關於嚴格執行案件審理期限制度的若干規定》) and the Interpretation Concerning the Application of the PRC Criminal Procedure Law Issued by the Supreme People’s Court (《最高人民法院關於適用〈中華人民共和國刑事訴訟法〉的解釋》)(together the “**Relevant Laws and Regulations**”). On 28 March 2018, Li Xingqiang was informed by the Higher People’s Court that the case should be submitted to the Supreme People’s Court for trial extension. Since the extension application is an internal process of the courts and the parties to the Case would not have knowledge of the application process, as at the Latest Practicable Date, Li Xingqiang was waiting for the outcome of the extension application. Having consulted the defence lawyer of the Case, Mr. Wong understands that application for trial extension by courts is a common practice, and the waiting time for the appeal result of more than a year is not uncommon in the PRC.

During the period Li Xingqiang was found guilty for smuggling of common goods, it had three directors comprising Mr. Wong and his father and mother. Mr. Wong confirmed that he was a director taking a non-executive role and did not participate in the day-to-day operation or management of Li Xingqiang during his tenure as a director of Li Xingqiang, nor had he made any decision on the day-to-day operation and management activities. During his tenure as a director of Li Xingqiang, Mr. Wong discharged his duties by participating in regular board meetings and voting on the resolutions in relation to material activities of Li Xingqiang, including change in business scope or registered capital, which required the approval from directors. Mr. Wong further confirmed that he was not aware of the adoption of Nominal Bale Arrangement of Li Xingqiang at the relevant times. As confirmed by the Directors, none of the previous or current directors, senior management or other staff of Li Xingqiang who were found guilty in the Case had or have any past or present role and involvement of the Group. The Directors further confirmed that save as disclosed above, there is no other past or present relationship, business or otherwise, between Li Xingqiang and the Company, its subsidiaries, their shareholders, directors, senior management or any of their respective associates.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Having regard to his previous role as a director of Li Xingqiang, the Sole Sponsor considered that Mr. Wong is suitable to act as a Director pursuant to GEM Listing Rules 5.01 and 5.02. In arriving the view, the Sole Sponsor has taken into consideration the following:

- (i) As advised by the PRC Legal Advisers, whether a director of an enterprise in the PRC should be prosecuted shall be determined by the level of involvement, role, function and circumstances that the director engages in the incident. In light of the aforesaid, it is noted that Mr. Wong was not a defendant of the Case. As confirmed by Mr. Wong, he was not interviewed by the PRC regulatory bodies nor otherwise treated as a person of interest in the investigation of the Case;
- (ii) Mr. Wong was neither named nor referred to in the first instance judgement of the Case, which he is not subject to any legal liability or consequences in connection with the Case as at the Latest Practicable Date as confirmed by the PRC Legal Advisers;
- (iii) Based on the review of relevant documents and as confirmed by Mr. Wong, he was a director taking a non-executive role and did not involved in the day-to-day operation or management of Li Xingqiang during his tenure as a director of Li Xingqiang or made any decisions on the day-to-day operation and management activities;
- (iv) As confirmed by the PRC Legal Advisers, the day-to-day operations of Li Xingqiang do not require nor are subject to directors' approval as specified in and in accordance with the relevant PRC Company Law and the articles of association of Li Xingqiang and Mr. Wong had discharged his duties as a director of Li Xingqiang;
- (v) Mr. Wong was aware of the Same Day Export/Re-import Arrangement, which did not violate the relevant PRC laws and regulations after Mr. Wong having consulted the defence lawyer of the Case. As such, Mr. Wong believed that Li Xingqiang's operation at the material time was lawful under the PRC laws and regulations;
- (vi) Given the fact that the application of Nominal Bale Arrangement only involved procedural arrangement that had been undergoing as daily operations which did not fall under matters to be approved by directors, Mr. Wong in his only capacity as one of the directors of Li Xingqiang was not precluded to believe in good faith that the daily operation was handled by the staff properly and there was no reason for him to doubt the legality and the appropriateness of the daily operational activities of Li Xingqiang;

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

- (vii) There is no evidence showing that Mr. Wong was involved in or knew the Nominal Bale Arrangement. The theoretical transportation costs saved (being the average transportation costs per ton times tons of processed yarn being challenged) for the period that Li Xingqiang was found guilty for smuggling of common goods, i.e. October 2010 to August 2014, ranged from approximately RMB0.2 million to RMB1.4 million per year. Therefore, the adoption of the Nominal Bale Arrangement would only increase its gross profit margin of not more than 0.4% over the years concerned. As such, the savings in transportation costs and improvement in profit margin of Li Xingqiang by the adoption of the Nominal Bale Arrangement alone were not significant to the extent that a director could possibly have noticed such adoption from the financial statements given to the board. In addition, the papers given to the board would unlikely have delivered into a level of detail that would permit any director to know whether all bales of yarn were in fact being sent to the bonded zone as that would only be evident from transportation documents;
- (viii) There is no evidence that the Case involved any act of dishonesty, fraudulence or suggested any issue of integrity on the part of Mr. Wong which would affect his suitability as a director of a listed company;
- (ix) The ordinary business of the Group does not and will not involve any import and export arrangement; and
- (x) Mr. Wong has never been convicted either in Hong Kong or in another jurisdiction of any criminal offence or found guilty of any misconduct by any local or overseas authorities.

Mr. Xi Bin (奚斌), aged 42, joined our Group in October 2011. He was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. He is responsible for managing and overseeing the operations and sales function of our Group and is the chief executive officer of our Group.

Mr. Xi has over 20 years of experience in the textile industry. From April 1997 to November 2007, Mr. Xi worked as the merchandising manager of Dongguan Julong Textile Company Limited* (東莞聚龍製衣有限公司), a company engaging in textile-related business, responsible for sales and marketing. From January 2007 to November 2016, Mr. Xi worked as general manager in Zhuhai Zhaotian Trading, a sourcing agent, responsible for its overall operation. From October 2015 to June 2017, Mr. Xi was the legal representative in Wuxi Tianhe Textile. Mr. Xi graduated from Xidian University (西安電子科技大學) in the PRC with a Bachelor of Business Administration in March 2011. Mr. Xi was awarded the degree of Master of Business Administration in November 2016 by China Europe International Business School (中歐國際工商學院) in the PRC.

Mr. Xi was a director of Wuxi Tianhe Textile, which was dissolved by way of deregistration as this company ceased to carry on business. As confirmed by Mr. Xi, this company was inactive and solvent as at the time when it was dissolved and so far he was aware, the dissolution of the company has not resulted in any liability or obligation being imposed against him.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Hung Yuk Miu (洪育苗), aged 37, was appointed as a Director on 31 March 2017 and became our executive Director on 1 April 2017. Mr. Hung was also appointed as the company secretary of the Company on 3 April 2017. Mr. Hung joined our Group in May 2014 and is responsible for managing and overseeing the financial management of our Group and is the chief financial officer of our Group.

From August 2004 to October 2006, Mr. Hung worked at Deloitte Touche Tohmatsu, Hong Kong branch, an accountancy firm, and his last position was senior accountant, responsible for external audit works. From October 2006 to May 2014, he worked at Deloitte Touche Tohmatsu Certified Public Accountants LLP, Shenzhen branch, an accountancy firm, and his last position was manager in audit department, responsible for external audit works.

Mr. Hung graduated from Curtin University of Technology in Australia with a Bachelor of Commerce (double major in accounting and finance) in September 2004. In November 2007, Mr. Hung was admitted as a certified practising accountant of the Certified Practising Accountant of CPA Australia Ltd. Since January 2011, he has been a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Independent Non-Executive Directors

Mr. Ng Wing Heng Henry (伍永亨), aged 35, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company.

Mr. Ng has over nine years of experience in accounting, auditing, corporate governance and capital market. After graduation from the University of Southern California in the United States in 2005, Mr. Ng studied full time in preparation for accounting professional examination. From January 2008 to March 2010, Mr. Ng worked at PricewaterhouseCoopers, Hong Kong branch, an accountancy firm, as the senior associate at Assurance of Financial Services Practice, responsible for the auditing and accountancy procedures of Hong Kong companies. Since September 2010, he has worked at Tony Kwok Tung Ng & Co., an accountancy firm, and was appointed as a principal in January 2013, responsible for reviewing statutory audit files of both local and multinational companies, managing the audit teams and leading the non-audit projects and consulting services.

In May 2005, Mr. Ng was awarded the Bachelor of Science (accounting) by the University of Southern California in the United States. In August 2007, he was admitted as a member of the American Institute of Certified Public Accountants. In May 2012, he was admitted as a practising member in Washington State Board of Accountancy. Since January 2017, he has been a practising certified public accountant of the Hong Kong Institute of Certified Public Accountants.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Ng was a director of the companies below, which were dissolved by way of striking off or deregistration as these companies ceased to carry on business. As confirmed by Mr. Ng, each of these companies was inactive and solvent at the time when they were dissolved and so far as he was aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Method of dissolution
Ao Fai Investment Company Limited	Hong Kong	Retail	10 February 2017	Striking off
Absolute Recruitment Specialist Limited	Hong Kong	Human Resources	13 December 2013	Deregistration of a defunct private company
A & F Agency Company Limited	Hong Kong	Human Resources	1 November 2013	Deregistration of a defunct private company

Mr. Sze Irons BBS, JP (施榮懷), aged 56, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company. Mr. Sze has extensive experience in investment and corporate management. His major experience in listed companies is set out as below:

Period	Name of employer	Principal business of the previous employer	Position	Duties and responsibilities
Since 2 October 2008	Continental Holdings Limited (stock code: 513)	Design, manufacturing, marketing and trading of fine jewellery and diamonds; property investment; mining operation; and investment	Independent non-executive director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct
Since 4 May 2011	China Weaving Materials Holdings Limited (stock code: 3778)	Manufacturing and trading of polyester yarns, polyester-cotton blended yarns, cotton yarns and cotton	Non-executive director	Advising on overall strategic planning but does not participate in the day-to-day management of its business operation
Since 25 November 2016	Chevalier International Holdings Ltd. (stock code: 25)	Construction and engineering, insurance and investment, property, food and beverage, computer and information communication technology and others	Independent non-executive director	Responsible for providing independent judgment on the issues of strategy, performance, resources and standard of conduct
Since 1 February 2017	Bel Global Resources Holdings Limited (stock code: 761)	Trading of mineral resources, trading of tanned leather and fur pelts; manufacture and sale of leather garments, fur garments and fabric garments	Non-executive director	Advising on overall strategic planning but does not participate in the day-to-day management of its business operation

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Sze graduated with a Bachelor of Science from the University of Wisconsin-La Crosse in the United States in May 1985. Mr. Sze is the vice president of the Population, Resources and Environment Committee of the National Committee (全國政協—人口資源環境委員會副主任) and an executive member of the Beijing Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議), and currently the permanent honorary president of the Chinese Manufacturers' Association of Hong Kong. He is also a member of election committee of the Chief Executive of the Hong Kong Special Administrative Region.

Save as disclosed below, Mr. Sze was a director of the companies below, which were dissolved by way of striking off or deregistration as these companies ceased to carry on business. As confirmed by Mr. Sze, each of these companies was inactive and solvent at the time when they were dissolved and so far as he was aware, the dissolution of these companies has not resulted in any liability or obligation being imposed against him.

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Method of dissolution
Supreme Bright Development Company Limited	Hong Kong	Dormant	25 November 2016	Deregistration of a defunct private company
CMA Marketing Solutions Limited	Hong Kong	Provision of professional marketing services	15 July 2016	Deregistration of a defunct private company
Capital Hall (Hong Kong) Limited	Hong Kong	Dormant	12 February 2010	Deregistration of a defunct private company
Berco Group Company Limited	Hong Kong	Dormant	13 April 2007	Deregistration of a defunct private company
Flamingo Property Agency Limited	Hong Kong	Dormant	4 March 2005	Deregistration of a defunct private company
Sun Fortune Properties Limited	Hong Kong	Dormant	20 June 2003	Striking off
Yan Tung Investment Limited	Hong Kong	Dormant	20 June 2003	Striking off
Grandrays Precision Products Limited	Hong Kong	Dormant	11 October 2002	Striking off
Best Liaison International Limited	Hong Kong	Dormant	6 September 2002	Striking off
King Mate (H.K.) Limited	Hong Kong	Dormant	6 September 2002	Striking off
Realgood International Investment Limited	Hong Kong	Dormant	6 September 2002	Striking off
Glory Hall Properties Limited	Hong Kong	Dormant	21 September 2001	Striking off
Jack King Limited	Hong Kong	Dormant	9 February 2001	Deregistration of a defunct private company

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Sze was a director of Treasure Properties Limited, a company incorporated in Hong Kong with limited liability on 7 April 1994 and was principally engaged in property development. Mr. Sze was one of the directors and shareholders of Treasure Properties Limited since its incorporation. On 11 May 2004, the directors of Treasure Properties Limited filed a statement with the Companies Registry pursuant to section 228A(1) of the predecessor Companies Ordinance to commence voluntary winding-up of Treasure Properties Limited. Treasure Properties Limited was subsequently dissolved on 3 August 2007. As confirmed by Mr. Sze, all liquidation documents in relation to Treasure Properties Limited had already been filed; the liquidation process of Treasure Properties Limited has been completed and that there was no outstanding unresolved issue relating thereto; and no action had been brought by the creditors or court against Mr. Sze in his capacity of a director of Treasure Properties Limited.

Mr. Fong Kin Tat (方建達), aged 43, was appointed as an independent non-executive Director on 23 April 2018. He is primarily responsible for bringing an independent judgment to ensure the continuing effectiveness of the management of our Company.

Mr. Fong has extensive experience in corporate management. From August 1997 to July 2000, Mr. Fong worked at IBM, a multinational technology company, as an advisory IT specialist, responsible for pitching the IT solution concept to IBM clientele. From August 2000 to August 2004, he worked at AGENDA (H.K.) Limited (now under Wunderman, formerly PNM Solutions), a digital marketing company, as a sales and marketing manager, responsible for sourcing customers in Hong Kong and China. From August 2004 to November 2011, he worked at Sun Tze Swimwear Printing Co., Ltd., a specialised printer for stretch fabrics, as the managing director, responsible for overall operation and management. Since December 2011, he has been the managing director of Times Swimwear Printing Co., Ltd., a company engaging in printing of swimwear, responsible for marketing and overall management.

In June 1997, Mr. Fong graduated from the University of Toronto in Canada with a Bachelor of Science.

Mr. Fong was a director of the company below, which was dissolved by way of deregistration as this company ceased to carry on business. As confirmed by Mr. Fong, this company was inactive at the time when it was dissolved and so far as he was aware, the dissolution of this company has not resulted in any liability or obligation being imposed against him.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Name of company	Place of incorporation	Nature of business before dissolution	Date of dissolution	Method of dissolution
Comicsunion Limited	Hong Kong	Online cartoon trading	19 July 2002	Deregistration of a defunct private company

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

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs 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 (v) of the GEM Listing Rules as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Xu Guohua (徐國華), aged 52, is the deputy general manager of the Group and responsible for our Group's research and development and production control and operations.

Mr. Xu has over 30 years of experience in the textile industry. From 1987 to 1994, Mr. Xu worked at Jiangxi Knitted Products Quality Supervision, Inspection and Testing Centre* (江西省紡織產品質量監督檢驗測試中心), as the dyeing officer, responsible for testing the textile products. From April 1994 to January 2015, he worked at Dongguan Hongmei Fuda Dyeing Company Limited* (東莞市洪梅鎮富達染廠有限公司), a company engaging in fabrics dyeing business, as the director of the production department, responsible for technical production related matters.

In July 1987, he obtained his Bachelor of Engineering (Textile Chemical Engineering) from the then China Textile University (中國紡織大學), which is currently named Donghua University (東華大學).

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Li Yanmin (李彥敏), aged 52, joined our Group in May 2015 as deputy general manager and human resources controller. He is responsible for operating and overseeing the human resources department of our Group.

From November 2004 to July 2010, he was employed by Fu Yu Precision Component (Kun Shan) Co., Ltd.* (富鈺精密組件(昆山)有限公司), a company engaging in electronic research & processing, with his last position as human resources officer, responsible for human resources management. From July 2010 to February 2012, he worked at PanAsialum (China) Company Limited* (滎陽鋁業(中國)有限公司), a company engaging in aluminium trading, as the assistant chief executive officer, responsible for overall operation support to the management.

Mr. Li graduated from Central South University of Technology (中南工業大學) with a Bachelor of Engineering (Mining Engineering), specialising in engineering surveying in July 1988.

Ms. Lin Huijun (林輝軍), aged 27, joined our Group in April 2014 as research and development manager. She is responsible for operating and overseeing the research and development department of our Group.

From March 2009 to May 2014, she was an assistant to research and development manager at Zhucheng Yumin Knitting Co., Ltd.* (諸城裕民針織有限公司), responsible for research and development related matters.

She graduated from Guangxi City College* (廣西城市職業學院) with a diploma of Computer Application in June 2012.

Our senior management has not been a director of any other publicly listed company during the three years prior to the Latest Practicable Date.

COMPANY SECRETARY

Mr. Hung Yuk Miu (洪育苗), an executive Director, was appointed as the company secretary of the Company on 3 April 2017. Please see the paragraph headed “Directors” of this section for further details of the biography of Mr. Hung.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE OFFICER

Mr. Hung Yuk Miu (洪育苗) is the compliance officer of the Group. Please see paragraph headed “Directors” in this section for further details of the biography of Mr. Hung.

BOARD COMMITTEES

Audit Committee

Our Company established an audit committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The audit committee has three members, namely Mr. Ng Wing Heng Henry, Mr. Sze Irons and Mr. Fong Kin Tat, all being our independent non-executive Directors. Mr. Ng Wing Heng Henry has been appointed as the chairman of the audit committee, and is our independent non-executive Director possessing the appropriate professional qualifications. The primary duties of the audit committee include, among other things, making responsibilities to the Board on the appointment, reappointment and removal of the external auditor, reviewing our Group’s financial information, overseeing our Group’s financial reporting system, risk management and internal control systems.

Remuneration Committee

Our Company established a remuneration committee with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The remuneration committee has three members, namely Mr. Fong Kin Tat, Mr. Wong Kai Hung Kelvin and Mr. Ng Wing Heng Henry. Mr. Fong Kin Tat has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee include, among other things, making recommendations to the Board on our Group’s policy and structure for all Directors’ and senior management’s remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy and on the remuneration packages of individual executive Directors and senior management.

Nomination Committee

Our Company established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The nomination committee has three members, namely, Mr. Sze Irons, Mr. Wong Kai Hung Kelvin and Mr. Ng Wing Heng Henry. Mr. Sze Irons has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee include, among other things, making recommendations on any proposed changes to the Board to complement our Company’s corporate strategy.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Corporate Governance Committee

Our Company established a corporate governance committee with written terms of reference. The corporate governance committee has three members, namely Mr. Wong Kai Hung Kelvin, Mr. Ng Wing Heng Henry and Mr. Fong Kin Tat. Mr. Wong Kai Hung Kelvin has been appointed as the chairman of the corporate governance committee. The primary duties of the corporate governance committee include, among other things, developing and reviewing our Company's policies and practices on corporate governance and making recommendations to the Board, and reviewing and monitoring the training and continuous professional development of the directors and senior management of our Group.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration from our Group in the form of salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind. The remuneration package of each of our Directors is determined by reference to market terms, seniority experiences, duties and responsibilities of that Director within our Group.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to the Directors for the years ended 31 December 2015, 2016 and 2017 were approximately HK\$0.4 million, HK\$0.6 million and HK\$2.5 million, respectively. None of the Directors had waived any remuneration during the same period.

The aggregate amounts of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including Directors, for the years ended 31 December 2015, 2016 and 2017 were approximately HK\$2.0 million, HK\$2.3 million and HK\$3.0 million, respectively.

No payment was made by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office in respect of the Track Record Period.

Save as disclosed above, no other payments have been made or are payable in respect of the Track Record Period by any of member of the Group to any of the Directors.

Under the arrangements currently in force, we estimate the aggregate remuneration, excluding discretionary bonus, of the Directors (including the independent non-executive Directors) for the year ending 31 December 2018 to be approximately HK\$3.2 million.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

COMPLIANCE ADVISER

We have appointed Sunfund Capital Limited as our compliance adviser in compliance with Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where its business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the securities of our Company, the possible development of a false market in the securities of our Company or any other matters.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date as required under Rule 18.03 of the GEM Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, the following persons individually and/or collectively are entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of our Company.

Name	Capacity/nature of interests	Number of Shares held immediately after the Share Offer and the Capitalisation Issue	Approximate percentage of shareholding in our Company immediately after the Share Offer and the Capitalisation Issue
Cosmic Bliss ^(Note 1)	Beneficial owner	360,000,000	75.00%
Mr. Wong ^(Note 2)	Interest in a controlled corporation	360,000,000	75.00%
Kwan, Vivian Wun-kwan ^(Note 3)	Interest of spouse	360,000,000	75.00%

Note:

1. The issued share capital of Cosmic Bliss is wholly owned by Mr. Wong.
2. As Mr. Wong controls more than one-third of the voting power of Cosmic Bliss, by virtue of the provisions in Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares in which Cosmic Bliss is interested or deemed to be interested.
3. Ms. Kwan, Vivian Wun-kwan is the wife of Mr. Wong. By virtue of the provisions in Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares in which Mr. Wong is interested or deemed to be interested.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Our Directors do not expect that there will be any significant transactions between our Group and our Controlling Shareholders upon or shortly after the Listing. Having considered the following factors, our Directors believe that we are capable of carrying on our business independently of our Controlling Shareholders and their respective associates after Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Financial independence

Our Directors are of the view that we do not unduly rely on advances from our Controlling Shareholders and their related parties for our business operations. We have independent financial and accounting systems, independent treasury function for receiving cash and making payments and independent access to third party financing without relying on any guarantee from our Controlling Shareholders. We make financial decisions according to our own business needs.

While the banking facilities granted to us by our principal bankers during the Track Record Period and up to the Latest Practicable Date were secured by, among others, personal guarantees from Mr. Wong and Mr. Xi (collectively, “**Third Party Security**”) and a guarantee from The Hong Kong Mortgage Corporation Limited (“**HKMC**”) in respect of our Group’s borrowing from one of our bankers under HKMC’s SME Financing Guarantee Scheme, our principal bankers have agreed to release all the Third Party Security upon the Listing and such Third Party Security would be replaced by corporate guarantees to be provided by our Company. In addition, our Group has also liaised with HKMC and the relevant banker for the release of the guarantee by the HKMC upon the Listing as our Group will no longer be eligible to participate in the SME Financing Guarantee Scheme after the Listing.

As at 31 December 2017, our Group owed to Mr. Wong, our Controlling Shareholder and chairman of our Board, an aggregate sum of approximately HK\$9.4 million. All such sums will be settled either by way of repayment in cash or, as the case may be, by an irrevocable and unconditional waiver by Mr. Wong prior to the Listing.

Based on the above, our Directors are of the view that our Board and our senior management are capable of carrying our business independently of, and do not place undue reliance on our Controlling Shareholders and their close associates after the Listing.

Operational independence

Our Group has established our own set of organisational structure made up of individual departments, each with specific areas of responsibilities. We have independent access to our suppliers, contractors and customers. We have also established a set of internal control procedures to facilitate the effective operation of the business. All the registered trademarks, patents and other intellectual property necessary or desirable for our business are registered in the name of our Group. Our Directors are of the view that there is no operational dependence on our Controlling Shareholders and their respective close associates and has its independent access to customers and suppliers.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As disclosed in the Accountants' Report set out in Appendix I to this Prospectus, our Group had conducted the following transactions with entities in which Mr. Wong has direct or indirect interest as a minority shareholder during the Track Record Period:

1. our Group made sales to Zhongshan Leaseng Garment, a company indirectly owned as to one-third by Mr. Wong and as to two-thirds by the father of Mr. Wong. The aggregate revenue received by our Group from such connected person amounted to approximately HK\$2.0 million and approximately HK\$4.3 million for the years ended 31 December 2015 and 2016, respectively and representing approximately 3.1% and 5.4% of the revenue of our Group for the corresponding period respectively;
2. our Group purchased yarns from 中山市大涌線廠有限公司 (Zhongshan Da Chong Elastic Thread Factory Ltd.*), a subsidiary of a company owned as to 15% by Mr. Wong and 85% collectively by the brother and the mother of Mr. Wong. The aggregate amount of the yarns purchased from such connected person amounted to approximately HK\$0.4 million and HK\$0.6 million for the years ended 31 December 2015 and 2016, respectively and representing approximately 1.1% and 1.4% of the purchases and processing fees of our Group for the corresponding period respectively;
3. our Group paid processing fee for sample production to 恩平盈豐整染有限公司 (Enping Ying Fung Dyeing Factory Ltd.*), a subsidiary of a company owned as to 25% by Mr. Wong and 75% by the father of Mr. Wong. The processing fee paid by our Group to such connected person amounted to approximately HK\$289,000 and approximately HK\$32,000 for the years ended 31 December 2015 and 2016, respectively and representing approximately 0.8% and 0.1% of the purchases and processing fees of our Group for the corresponding period respectively;
4. our Group paid rental expenses to Leahander Trading Limited which mainly engages in the trading of yarns, property investment and investment holding, a company then owned as to 15% by Mr. Wong and 85% collectively by the brother and the mother of Mr. Wong, for leasing an office premises in Hong Kong. Such rental expenses amounted to HK\$240,000 for each of the years ended 31 December 2015 and 2016. On 7 March 2017, Mr. Wong has disposed of his 15% shareholding interest in Leahander Trading Limited to his mother at nil consideration as his family arrangement; and
5. our Group paid management fee to Leaseng Garment (Hong Kong) Limited, a company owned as to one-third by Mr. Wong and as to two-thirds by the father of Mr. Wong, for the provision of administrative and accounting services in Hong Kong to our Group. Such management fee amounted to HK\$260,000 and HK\$240,000 for the years ended 31 December 2015 and 2016 respectively.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Directors confirm that all the above transactions were conducted on terms determined and agreed at after arm's length negotiations between the relevant parties and all terms, which are on normal commercial terms, are fair and reasonable as far as our Group and our Shareholders were concerned. Our Directors further confirm that in preparation for the Listing, our Group has not continued the above transactions starting from 1 January 2017. In this connection, our Group has leased an office premises from an Independent Third Party and recruited our own additional accounting staff.

On the basis of the matters disclosed above, our Directors believe that our Group can operate independently from an operational perspective upon the Listing.

Management independence

Our Board

Our Board comprises six Directors, which include three executive Directors, namely Mr. Wong, Mr. Xi and Mr. Hung Yuk Miu; and three independent non-executive Directors, namely Mr. Ng Wing Heng Henry, Mr. Sze Irons *BBS JP* and Mr. Fong Kin Tat. Mr. Wong is the chairman of our Board and is one of our Controlling Shareholders. Save as disclosed above, no other Controlling Shareholder or their representative hold any directorship in our Company.

To ensure that our Group can operate independently from our Controlling Shareholders, certain corporate governance measures have been adopted. All of our independent non-executive Directors are experienced and capable of monitoring the operations of our Group independently from our Controlling Shareholders. Therefore, our Directors are of the view that the interests of the Shareholders can be safeguarded. For details of our Directors, please see the section headed "Directors, senior management and employees" in this prospectus. 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 there are conflicts of interests for approving a proposed transaction due to the dual positions of our Director(s) acting as director of our Company and another company, pursuant to the relevant provisions of the Articles, the interested Director(s) shall abstain from voting (nor be counted in the quorum) in the resolutions of our Board approving such transaction.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

According to the service agreements entered into between our Company and our executive Directors, each of our executive Directors has undertaken to our Group, among other things, that he will not, without any prior written approval from our Board, (i) accept any position of a company whose business may directly or indirectly compete with our Group's business or be engaged in any business which may directly or indirectly compete with our Group's business; or (ii) solicit any employee of our Group or induce them to leave our Group or solicit any customers of our Group, during the term of service with our Group and within the 12 months after expiry or termination of his service agreement.

Committees

Our Board has established (i) the audit committee; (ii) the remuneration committee; (iii) the nomination committee; and (iv) the corporate governance committee. Each committee consists of a majority of independent non-executive Directors to monitor our operations.

The audit committee is responsible for reviewing and supervising our Group's financial reporting process and risk management and internal control systems whereas the remuneration committee's role is to ensure that our Directors are properly remunerated without being influenced by our Controlling Shareholders. The nomination committee ensures that only persons with capability and relevant experience are appointed as Directors to avoid the appointment of individuals who may affect the independence of our Board. The corporate governance committee monitors our Group's compliance with legal and regulatory requirements.

Senior Management

Our Group is also managed by the senior management who can work and carry on our business independently from our Controlling Shareholders. None of the senior management personnel serves any executive or managerial role in Cosmic Bliss or has a position in another company which may result in any conflict of interests between his/her duties as a senior management of the Company and his/her personal interest. For details of our senior management, please see the section headed "Directors, senior management and employees" in this prospectus.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that our Group is capable of managing its business independently from our Controlling Shareholders and their respective close associates after Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUTSIDE INTERESTS

Apart from the interests of the business of the Group, Mr. Wong holds a minority interest in a number of companies in Hong Kong and the PRC which are principally engaged in, among other businesses, textile related businesses and controlled by certain of his family members (“**Family Textile Business**”).

The Family Textile Business include the following companies:

Name (Place of incorporation/ establishment)	Principal business	Role of Mr. Wong (prior to his resignation)	Shareholder(s)
Leaseng Garment (Hong Kong) Limited (Hong Kong)	Sale of garment products manufactured by Zhongshan Leaseng Garment	Director	Owned as to one-third by Mr. Wong and as to two-thirds by the father of Mr. Wong
Zhongshan Leaseng Garment (PRC)	Manufacturing and sale of garment on an original equipment manufacturer (OEM) basis	Legal representative and director	Wholly owned by Leaseng Garment (Hong Kong) Limited
Sky Textiles Holdings Limited (Hong Kong)	Sale of dyed fabrics and yarns (sale of dyed fabrics has ceased since January 2016)	Director	Owned as to 25% by Mr. Wong and as to 75% by the father of Mr. Wong
	Provision of dyeing services		
恩平盈豐整染有限公司 Enping Ying Fung Dyeing Factory Limited* (PRC)	Dyeing of fabrics and yarns	Legal representative and director	Wholly owned by Sky Textiles Holdings Limited

Our Group’s business and the Family Textile Business are independent to each other with separate operations. They have different management personnel that function independently of each other. As at the Latest Practicable Date, there was no overlapping of personnel and none of the third party factories engaged by our Group was a company comprised in the Family Textile Business.

In addition, since our Group commenced its operation in late 2011, Mr. Wong has focused on the management and strategic planning of our Group and not participated in the day-to-day management of the Family Textile Business. To ensure there is independence, Mr. Wong, our executive Director and chairman of our Board, has resigned from all his directorships and legal representative positions in the Family Textile Business prior to the Latest Practicable Date and as at the Latest Practicable Date, has not maintained any other role in the Family Textile Business other than as a passive minority shareholder.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Apart from the Family Textile Business as described above, certain family members of Mr. Wong are also interested in the following companies which were principally engaged in textile related businesses as at the Latest Practicable Date (“**Other Family Textile Business**”):

Name (Place of incorporation/ establishment)	Principal business	Ultimate shareholder(s)
中山新泰紡織有限公司 Zhongshan Xin Tai Textiles Limited* (PRC)	Processing and sale of yarns	Owned as to 35% by a third party and 65% collectively by the brother and mother of Mr. Wong
中山市大涌線廠有限公司 Zhongshan Da Chong Elastic Thread Factory Limited* (PRC)	Processing and sale of yarns	Owned as to approximately 85% by the mother of Mr. Wong, 15% by the brother of Mr. Wong and less than 0.01% by the father of Mr. Wong
中山佳達定型紡織品有限公司 Zhongshan Jia Da Textile Limited* (PRC)	Provision of heat-setting services	Owned as to 24.5% by third party and 75.5% collectively by the brother and mother of Mr. Wong
中山市愛絲龍彈力纖維有限公司 Zhongshan Aceland Elastic Fibre Limited* (PRC)	Processing and sale of yarns	Owned as to approximately 85% by the mother of Mr. Wong, approximately 15% by the brother of Mr. Wong and less than 0.01% by the father of Mr. Wong
Lonady Textiles Limited (Hong Kong) and 中山奴多姿紡織廠有限公司 Zhongshan Lonady Textiles Limited* (PRC)	Manufacturing and sale of panty-hose	Owned as to 55% by the father of Mr. Wong, 29.75% by the mother of Mr. Wong and 15.25% by the brother of Mr. Wong
中山市配絲麗貿易有限公司 Zhongshan Prisla Trading Limited* (PRC)	Sale of yarns	Wholly owned by father of Mr. Wong
恩平市利興強貿易有限公司 Enping Leahander Trading Limited* (PRC)	Sale of yarns	Owned as to 85% by the mother of Mr. Wong and 15% by the brother of Mr. Wong
中山市大涌織造廠有限公司 Zhongshan Da Chong Knitting Factory Limited* (PRC)	Provision of knitting services	Owned as to 85% by the mother of Mr. Wong and 15% by the brother of Mr. Wong
Li Xingqiang (PRC)	Manufacturing and sale of yarns	Owned as to 85% by the mother of Mr. Wong and 15% by the brother of Mr. Wong

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

A comparison of the business between our Group, Family Textile Business and Other Family Textile Business is set out below.

	Our Group's business	Family Textile Business and other Family Textile Business
1. Differences in the businesses	<ul style="list-style-type: none"> • Principally engaged in the supply of functional knitted fabrics including: <ul style="list-style-type: none"> – Design our own functional knitted fabrics; – Source synthetic fibres directly from our suppliers; and – Engage third party factories to manufacture our functional knitted fabrics for our direct sales and delivery to our customers • No manufacturing business 	<ul style="list-style-type: none"> • Principally engaged in: <ul style="list-style-type: none"> – Processing and sale of yarns; – Manufacturing of garments, yarns and panty-hose; – Dyeing of fabrics and yarns; and – Knitting and heat-setting services
2. Difference in products/ services provided	<ul style="list-style-type: none"> • Functional knitted fabrics • Apparel mainly include housewear and innerwear 	<ul style="list-style-type: none"> • Garments mainly include casual wear and panty-hose • Yarns • Provision of dyeing, knitting and heat-setting services
3. Separate facilities	<ul style="list-style-type: none"> • Our Group does not have own production facilities and we engage third party factories to manufacture our products. 	<ul style="list-style-type: none"> • Family Textile Business and Other Family Textile Business own plants and production facilities
4. Difference in clientele	<ul style="list-style-type: none"> • Lingerie and apparel brand owners, sourcing agents and garment manufacturers in the PRC who demand for functional knitted fabrics 	<ul style="list-style-type: none"> • Mainly apparel brand owners in Hong Kong or overseas who demand for garments • Garment manufacturers and fabrics providers who demand for yarns dyeing, knitting and heat-setting services

Having considered the nature of such businesses, our Directors confirmed that none of the Family Textile Business and the Other Family Textile Business is in competition with the business of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

Subject to the terms therein, our Controlling Shareholders as covenantors (collectively, the “**Covenantors**”) entered into the Deed of Non-Competition in favour of our Company, pursuant to which each of the Covenantors has undertaken to our Company (for our Company and for the benefit of our subsidiaries) that it/he will not, and will procure that its/his close associates will not (i) either on its/his own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly be interested or involved or engaged in or acquire or hold an interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise) in any business which competes or is likely to compete directly or indirectly with our Group’s business in Hong Kong, the PRC and any other country or jurisdiction in which our Group and/or any member of our Group carries on business from time to time (“**Restricted Business**”) or (ii) either on its/his own account or in conjunction with or on behalf of any person, firm or company, or as a principal, shareholder, partner, agent, consultant, employee or otherwise and whether for profit, reward or otherwise, directly or indirectly, solicit, interfere with or endeavour to entice away from any member of our Group any person, firm, company or organisation who to its or his knowledge is now or has been a customer, supplier or employee of any member in our Group.

Each of the Covenantors has also undertaken that (i) it/he will promptly notify our Company in writing (by email, facsimile or otherwise) and provide any relevant information in respect of any new business opportunity which competes or may compete with the existing and future business of our Group to assess such new business opportunity and will assist our Company in obtaining such business opportunity in the terms being offered to it/he or more favourable terms being acceptable to our Company, (ii) it/he will, and will procure its/his close associates with material interests to, abstain from voting at all meetings of Directors and holders of Shares on resolutions involving the exercise or non-exercise of the right of our Group to participate in the relevant Restricted Business, (iii) it/he will provide all information reasonably required or necessary to our Company for the enforcement of the Deed of Non-Competition, and (iv) it/he will make an annual declaration in favour of our Company on whether it/he has fully complied with its/his obligations under the Deed of Non-Competition, for inclusion in the annual reports of our Company in the manner consistent with the principles of making voluntary disclosures in the section headed “Corporate governance report” of the annual reports prepared in accordance with the requirements of the GEM Listing Rules from time to time.

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

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The obligations of the Covenantors under the Deed of Non-Competition will remain in effect until:

- (a) the date on which our Shares cease to be listed on the Stock Exchange; or
- (b) the day on which such Covenantors and its/his close associates, individually or taken as a whole, cease to be controlling shareholder (within the meaning defined in the GEM Listing Rules from time to time) of our Company,

whichever occurs first.

Each of the Covenantors also represented and warranted to our Company in the Deed of Non-Competition that neither of it/he nor any of its/his close associates is currently interested, involved or engaging, directly or indirectly, in (whether as a shareholder, partner, agent or otherwise and whether for profit, reward or otherwise) the Restricted Business otherwise than through our Group.

Under the Deed of Non-Competition, each and every obligation, covenant, and undertaking of Mr. Wong and Cosmic Bliss therein are joint and several.

As the Covenantors have given non-competition undertakings in favour of our Company, and none of them have interests in other businesses that compete or are likely to compete with the business of our Group, our Directors are of the view that they are capable of carrying on our Group's business independently of the Covenantors following the Listing.

None of the Covenantors and our Directors has interests in any business which competes or is likely to compete with the business of our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the potential conflict of interests arising from competing business and to safeguard the interests of the Shareholders:

- (1) our independent non-executive Directors will review, on an annual basis, the Deed of Non-Competition to ensure compliance with the non-compete undertaking by the Controlling Shareholders;
- (2) our Controlling Shareholders have undertaken to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and compliance with the Deed of Non-Competition;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (3) our Company has appointed Sunfund Capital Limited as its compliance adviser as required under Rule 6A.19 of the GEM Listing Rules. Please see the section headed “Directors, senior management and employees” in this prospectus for further details in relation to the appointment of compliance adviser;
- (4) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance with the Deed of Non-Competition in the annual reports of the Company in accordance with the GEM Listing Rules;
- (5) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-Competition in the annual report of the Company; and
- (6) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective associates, the interested Director(s) shall not participate in the relevant Board meetings when matters in which they/their close associates have a material interest are discussed.

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 close associates and our Group and to protect the interests of the Shareholders.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Share Offer (assuming that the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, the following persons will have an interest or short position in Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the issued voting shares of our Company:

Name	Capacity	Number of Shares held	Position	Percentage of shareholding
Cosmic Bliss	Beneficial owner	360,000,000	Long	75.00%
Mr. Wong	Interest in controlled corporation	360,000,000 <i>(Note 1)</i>	Long	75.00%
Kwan, Vivian Wun-kwan	Interest of spouse	360,000,000 <i>(Note 2)</i>	Long	75.00%

Notes:

1. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. By virtue of the provisions of Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss.
2. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong. By virtue of the provisions of Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares in which Mr. Wong is interested or deemed to be interested.

SHARE CAPITAL

SHARE CAPITAL

Assuming the Offer Size Adjustment Option is not exercised, our issued share capital immediately following the Share Offer and the Capitalisation Issue will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
10,000,000,000	100,000,000
Shares	

Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer and the Capitalisation Issue:

10,000,000	Shares in issue as of the date of this prospectus	100,000
120,000,000	Shares to be issued under the Share Offer	1,200,000
350,000,000	Shares to be issued pursuant to the	3,500,000
	Capitalisation Issue	
480,000,000	Shares	4,800,000

If the Offer Size Adjustment Option is exercised in full, our issued share capital immediately following the Share Offer and the Capitalisation Issue will be as follows:

<i>Authorised share capital</i>	<i>HK\$</i>
10,000,000,000	100,000,000
Shares	

Issued and to be issued, fully paid or credited as fully paid upon completion of the Share Offer and the Capitalisation Issue:

10,000,000	Shares in issue as of the date of this prospectus	100,000
138,000,000	Shares to be issued under the Share Offer and the exercise of the Offer Size Adjustment Option	1,380,000
350,000,000	Shares to be issued pursuant to the	3,500,000
	Capitalisation Issue	
498,000,000	Shares	4,980,000

SHARE CAPITAL

The Shares referred to in the above tables have been or will be fully paid or credited as fully paid when issued.

Assumptions

The above tables assume that the Share Offer and the Capitalisation Issue become unconditional and the issue of Shares pursuant thereto is made as described herein. They take no account of any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus and will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares save with respect to the Capitalisation Issue.

ISSUING MANDATE

Subject to the conditions set out in the section headed “Structure and conditions of the Share Offer” in this prospectus being fulfilled, our Directors have been granted a general mandate to exercise all the powers of our Company to allot, issue and deal with the Shares with an aggregate number not exceeding:

- 20% of the number of our Shares in issue immediately following completion of the Share Offer (but excluding any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option) and the Capitalisation Issue, and
- the aggregate number of our Shares repurchased by our Company (if any) pursuant to the Repurchase Mandate.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate,

whichever is the earliest.

SHARE CAPITAL

For further details of the Issuing Mandate, please see the paragraph sub-section headed “5. Resolutions in writing of our sole Shareholder passed on 23 April 2018” in Appendix IV to this prospectus.

REPURCHASE MANDATE

Subject to the conditions set out in the section headed “Structure and conditions of the Share Offer” in this prospectus being fulfilled, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares up to such number representing 10% of the number of our Shares in issue following the completion of the Share Offer (but excluding any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option) and the Capitalisation Issue.

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), and which are in accordance with all applicable laws and the GEM Listing Rules. A summary of the relevant requirements of the GEM Listing Rules on the Repurchase Mandate is set out in the sub-section headed “6. Repurchase by our Company of our own securities” in Appendix IV to this prospectus.

This mandate will expire:

- at the conclusion of the next annual general meeting of our Company; or
- upon the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking or varying such mandate,

whichever is the earliest.

For further information about the Repurchase Mandate, please see the sub-section headed “5. Resolutions in writing of our sole Shareholder passed on 23 April 2018” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our Group's historical financial information, including the notes thereto, as set out in the Accountants' Report set out in Appendix I to this prospectus ("Historical Financial Information"). Our Group's historical financial information has been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"). You should read the entire Accountants' Report on Historical Financial Information and not merely rely on the information contained in this section.

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

OVERVIEW

We are a provider of functional knitted fabrics in the PRC. Our products are primarily sold directly to (i) lingerie and apparel brand owners; (ii) sourcing agents; and (iii) garment manufacturers. We design functional knitted fabrics through our product innovation capabilities, source our raw materials comprising primarily synthetic fibres and yarns and engage third party factories to carry out production processes comprising yarn spinning, knitting and dyeing, for our direct sales of functional knitted fabrics to our customers. With a view to diversifying our source of revenue and creating cross-selling-opportunity, we also engage in the sales of apparel made of our functional knitted fabrics to customers which are lingerie and apparel brand owners.

Our products carry different features such as stretch, skin-care, anti-bacterial, rapid drying and moisture management. We offer functional knitted fabrics which fall into two main categories, namely (i) thermal fabrics; (ii) cooling fabrics.

Our revenue was approximately HK\$64.1 million and HK\$80.3 million for the years ended 31 December 2015 and 2016 respectively, representing an increase of approximately 25.3%. Revenue further increased from approximately HK\$80.3 million for the year ended 31 December 2016 to approximately HK\$125.3 million for the year ended 31 December 2017, representing an increase of approximately 56.0%. Our profit for the years ended 31 December 2015, 2016 and 2017 was approximately HK\$12.1 million, HK\$18.5 million and HK\$20.2 million, respectively, representing an increase of approximately 52.9% from 2015 to 2016 and approximately 9.2% from 2016 to 2017.

Please see the section headed "Business – Overview" for an overview of our business.

FINANCIAL INFORMATION

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 February 2017. In anticipation of the Listing, we underwent the Reorganisation, pursuant to which our Company became the holding company of the subsidiaries now comprising our Group on 28 February 2018. The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined cash flow statements are prepared as if the current group structure had been in existence throughout the Track Record Period. The combined statements of financial position as at 31 December 2015, 2016 and 2017, present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been in existence at those dates. The combined financial information have been prepared in accordance with the accounting policies in compliance with HKFRSs.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our operating results are significantly affected by the following factors:

Our ability to maintain/establish our relationships with existing/new customers for our products

Our Group's development and profitability are heavily dependent on our ability to maintain close and mutual beneficial relationships with our existing customers. It is also very important for us to expand our business to new customers, especially those looking for functional knitted fabrics with high quality and performance. These potential customers are normally willing to pay a higher premium for products under their specific requirements. We will continue to secure new customers through participation in trade shows and industry exhibitions. Our Directors believe that many market participants have positive views on our product quality, product development capability and quality control.

Demands for our products

A key driver of our revenue is customer demand for our functional knitted fabrics and apparel. If there is a decline in the market demand for our products, or if the market demand of our products does not increase, or if we fail to direct our efforts to product development, our business, financial condition, and operation results may be adversely affected. Our business may be affected significantly by natural, economic or social events and circumstances in the PRC. If these events of circumstances arise in the PRC and cause detrimental effect to us, our business, financial condition, operation results and growth prospects may be materially and adversely affected.

FINANCIAL INFORMATION

Product mix

The selling prices of our functional knitted fabrics products and the mix of products with various specification also affect our revenue. Changes in the prices and product specification of our functional knitted fabrics sold to our customers affect our financial position and operation results. Our product price heavily depends on the complexity and functionality of knitted fabrics we produce. Our fabrics feature a variety of functions with the combination of different fibre mix, cotton counts and knitting methods as well as dyeing methods. We possess the capability to incorporate our customers' requirements and design concepts into new products. These capabilities add additional value to functional knitted fabrics, which therefore command higher selling prices and generate higher profit margins for us.

Our research and development department, to a certain extent, are driven by the fashion trend and the ability to develop different products mix which fit the market preferences and fashion trend. We continuously adjust our product mix, taking into account the market conditions of our raw materials from time to time. We actively manage our purchase of raw materials with a view to control our cost of raw materials and to ensure sufficient supply of raw materials for processing.

Seasonality

Our business and results of operations are subject to seasonal fluctuation. We generally deliver products to customers and experience higher revenue during the second half of a year as majority of our revenue were derived from our thermal fabrics during the Track Record Period and the demand for thermal fabrics and garments products is generally higher in the fall and winter seasons due to weather conditions. Textile industry, as an upstream industry of garment industry, needs to start early to reserve time for production, logistics and marketing arrangements. A larger number of orders of fabrics are received during March to May for further preparation of garment manufacturing by our customers. In addition, there are other factors relevant to seasonality which may affect our sales, such as weather conditions, the timing of launch of new products and the timing of delivery of products.

FINANCIAL INFORMATION

Cost of raw materials

Our ability to source a steady supply of raw materials at reasonable price is one of the key factors affecting our results of operations. Among the raw materials we used in the processing of functional knitted fabrics, cost of acrylic fibres accounted for a major proportion. For the years ended 31 December 2015, 2016 and 2017, acrylic fibres accounted for approximately 27.9%, 31.4% and 9.4%, respectively, of our total cost of sales. The average unit purchase price of acrylic fibres significantly decreased by approximately 26.3% from approximately USD3.8/kg for the year ended 31 December 2015 to approximately USD2.8/kg for the year ended 31 December 2016 and further decreased by approximately 17.9% to approximately USD2.3/kg for the year ended 31 December 2017.

According to the CIC report, the price of import acrylic fibre dropped by approximately 20.2% from December 2014 to December 2016, and increased by approximately 1.7% from January 2017 to December 2017. Synthetic fibres are made entirely from synthetic materials such as petrochemicals, and as such the price is correlated with the price of crude oil. The price of crude oil dropped sharply by approximately 41.8% in 2014. Between 2015 and 2017, the price of crude oil experienced slight fluctuations and gradually recovered since 2016. Price of import acrylic fibres also followed a similar overall recovering trend since the second half year of 2016. Apart from the impact of price of crude oil, other factors such as fluctuation of exchange rate also affect our purchase price of acrylic fibres. We did not engage in any hedging activity nor enter into any future contract to manage price fluctuations of our raw materials, including the price of crude oil, during the Track Record Period.

We generally do not use long-term purchase contracts to limit our exposure to fluctuations in the price of our raw materials, nor is there any price adjustment clause where our customers will compensate us for unexpected increase in the prices of raw materials after placing the purchase orders.

We try to manage the impact of such fluctuations on our profitability through adjustments to the unit selling prices of our products from time to time according to prevailing market prices of functional knitted fabrics and movements in our raw material costs, with a view to pass on any increase in the cost of our raw materials to our customers to an extent that it is commercially practicable.

FINANCIAL INFORMATION

Processing fees

During the Track Record Period, we engaged third party factories to process functional knitted fabrics for our direct sales to our customers. We engage these factories for the yarn spinning, knitting and dyeing processes. However, we do not enter into long-term agreements with any of these factories. There is no assurance that all of these factories will continue their business relationships with us. There is also no assurance that these factories will continue to be able to supply products to us at our desired quality or in a timely manner or on commercially acceptable terms. In the event of termination of the business relationships with these factories or if there is any change to the current arrangement, our Group may not be able to locate comparable alternatives which provide products that meet our quality requirement and delivery schedule or on commercially acceptable terms, and therefore may materially and adversely affect our financial conditions and results of operations.

SENSITIVITY ANALYSIS

Hypothetical fluctuations in cost of raw materials

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our cost of raw materials on our profit before tax during the Track Record Period, assuming the fluctuation of cost of raw materials to be 15% and 30% during the years ended 31 December 2015, 2016 and 2017 with other variables remaining constant.

	+/-15%	+/-30%
	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in profit before tax		
For the year ended 31 December 2015	-/+ 2,873	-/+ 5,746
For the year ended 31 December 2016	-/+ 2,746	-/+ 5,492
For the year ended 31 December 2017	-/+ 4,955	-/+ 9,910

Hypothetical fluctuations in processing fee

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our processing fee on our profit before tax during the Track Record Period, assuming the fluctuation in processing fee to be 5% and 10% during the years ended 31 December 2015, 2016 and 2017 with other variables remaining constant.

	+/-5%	+/-10%
	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in profit before tax		
For the year ended 31 December 2015	-/+ 903	-/+ 1,806
For the year ended 31 December 2016	-/+ 1,066	-/+ 2,132
For the year ended 31 December 2017	-/+ 1,963	-/+ 3,926

FINANCIAL INFORMATION

Hypothetical fluctuations in foreign exchange rate

During the Track Record Period, the Group's operational activities were mainly denominated in RMB and US dollars. As we prepare our combined financial statements in Hong Kong dollars for reporting purposes, foreign currency denominated monetary items are translated into Hong Kong dollars. As at 31 December 2015, 2016 and 2017, foreign currency denominated monetary items mainly comprised of trade and bills receivables, bank and cash balances and trade payables in RMB and US dollars. Fluctuations in currency exchange rates between the Hong Kong dollars and these currencies may result in volatility in our results of operations.

Having considered that Hong Kong dollars and US dollars are pegged under linked-exchange rate system, the effect of such currency fluctuation is not significant and not included in this sensitivity analysis.

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in RMB of 5% and 10% on our profit before tax during the Track Record Period with other variables remaining constant.

The sensitivity analysis include only outstanding foreign currency denominated monetary items and adjust their translation at the end of each reporting period for the above mentioned hypothetical change in the exchange rate of RMB against Hong Kong dollars.

	<i>+/-5%</i>	<i>+/-10%</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Changes in profit before tax		
For the year ended 31 December 2015	+/- 153	+/- 306
For the year ended 31 December 2016	+/- 144	+/- 288
For the year ended 31 December 2017	+/- 156	+/- 312

Taxation

Pursuant to the PRC EIT Law, a unified EIT rate of 25% is imposed upon both domestically-invested enterprises and foreign-invested enterprises.

In addition, the Measures of Accreditation and Administration for Hi-tech Enterprise (《高技術企業認定管理辦法》) which promulgated on 29 January 2016, and the Circular of the State Administration of Taxation in Relation to the Implementation of Preferential Income Tax Policies for Hi-Tech Enterprises (《國家稅務總局關於實施高技術企業所得稅優惠政策有關問題的公 告》) which promulgated on 19 June 2017 has specified the accreditation of a hi-tech enterprise and the application of tax preference for hi-tech enterprises, pursuant to which hi-tech enterprises are deemed to be supported primarily by the state, and they will be qualified to enjoy a preferential income tax rate at 15%.

FINANCIAL INFORMATION

Guangdong Smart Team was recognised as a High and New Technology Enterprise in 2016 and is entitled to enjoy a concessionary tax rate of 15% starting from 1 January 2016.

The effective tax rate for the years ended 31 December 2015, 2016 and 2017, was approximately 13.6%, 17.3% and 21.7%, respectively. Any increase in the effective tax rate will increase the income tax expenses and result in negative impact on our operation results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Group has identified certain accounting policies that are significant to the preparation of the combined financial information in accordance with HKFRSs. These significant accounting policies are important for an understanding of the financial condition and results of operations of our Group and such accounting policies are set forth in the Accountants' Report in Appendix I to this prospectus. Some of the accounting policies are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities. We base our estimates on historical experience and other assumptions which our management believes to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our management has identified the following accounting policies that are most critical to the preparation of our combined financial information.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales-related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed. Our revenue excludes value added tax or other sales taxes and is after deduction of any returns and trade discounts. We recognise our sales when our products are delivered to the designated locations of our customers.

Service income is recognised when services are provided.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

FINANCIAL INFORMATION

Plant and equipment

Plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group’s financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

FINANCIAL INFORMATION

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables and deposits, amount due from a related company, pledged bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for the short-term receivables where the recognition of interest would be immaterial.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade and bills payables, other payables and accruals, amounts due to related parties, amounts due to a director and bank borrowing and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

FINANCIAL INFORMATION

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Taxation

Income tax expense represents the sum of current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the combined statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

FINANCIAL INFORMATION

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

RESULTS OF OPERATIONS

The selected financial information from our combined statements of profit or loss and combined statement of cash flows, for the years ended 31 December 2015, 2016 and 2017, as well as our combined statements of statements of financial position as at 31 December 2015, 2016 and 2017, set forth below are derived from our Accountants' Report in Appendix I to this prospectus, and should be read in conjunction with the Accountants' Report and this section.

FINANCIAL INFORMATION

Combined statements of profit or loss

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	64,104	80,250	125,275
Cost of sales	<u>(40,934)</u>	<u>(45,034)</u>	<u>(80,379)</u>
Gross profit	23,170	35,216	44,896
Other income	1,846	502	1,734
Selling and distribution expenses	(2,502)	(3,380)	(2,931)
Administrative and other expenses	(8,482)	(9,828)	(17,714)
Finance costs	<u>–</u>	<u>(94)</u>	<u>(215)</u>
Profit before tax	14,032	22,416	25,770
Income tax expenses	<u>(1,912)</u>	<u>(3,872)</u>	<u>(5,595)</u>
Profit for the year	<u><u>12,120</u></u>	<u><u>18,544</u></u>	<u><u>20,175</u></u>
Profit/(loss) for the year attributable to:			
– Owners of the Company	12,051	18,895	20,252
– Non-controlling interests	<u>69</u>	<u>(351)</u>	<u>(77)</u>
	<u><u>12,120</u></u>	<u><u>18,544</u></u>	<u><u>20,175</u></u>

FINANCIAL INFORMATION

PRINCIPAL COMBINED STATEMENTS OF PROFIT OR LOSS LINE ITEMS

Revenue

Our revenue is mainly derived from (i) sales of functional knitted fabrics, (ii) sales of apparel and (iii) others.

The following table sets forth a breakdown of our Group's revenue by products during the Track Record Period:-

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	<i>% to total revenue</i>	<i>HK\$'000</i>	<i>% to total revenue</i>	<i>HK\$'000</i>	<i>% to total revenue</i>
Functional knitted fabrics	62,466	97.4	70,034	87.3	110,961	88.6
Apparel	137	0.2	2,446	3.0	12,760	10.2
Others (<i>Note</i>)	<u>1,501</u>	<u>2.4</u>	<u>7,770</u>	<u>9.7</u>	<u>1,554</u>	<u>1.2</u>
Total	<u><u>64,104</u></u>	<u><u>100.0</u></u>	<u><u>80,250</u></u>	<u><u>100.0</u></u>	<u><u>125,275</u></u>	<u><u>100.0</u></u>

Note: Others represent sales of synthetic fibres and yarns processed with synthetic fibres procured by our Group. During the years ended 31 December 2015, 2016 and 2017, approximately HK\$0.7 million, HK\$7.3 million and nil of sales of synthetic fibres and yarns were made to Zhuhai Zhaotian Trading. Our sales to Zhuhai Zhaotian Trading were driven by their demand which had been discontinued since January 2017 as a result of the plan to wind down their business. Please refer to the description of Zhuhai Zhaotian Trading in the sub-section headed "Business – Customers, sales and marketing – Our customers".

Our revenue generated from sales of functional knitted fabrics, sales of apparel and others. During the Track Record Period, we principally focus on sales of functional knitted fabrics. Our functional knitted fabrics can be used in the manufacturing of a wide range of apparel including intimate wear, casual wear, sportswear and children's wear products. Majority of our revenue were derived from sales of functional knitted fabrics, which increased from approximately HK\$62.5 million for the year ended 31 December 2015 to approximately HK\$70.0 million for the year ended 31 December 2016 and further increased to approximately HK\$111.0 million for the year ended 31 December 2017. The increase in revenue from sales of functional knitted fabrics for the year ended 31 December 2017 by approximately 58.4% was mainly due to (i) expansion of customer base of functional knitted fabrics from 42 customers for the year ended 31 December 2016 to 70 customers for the year ended 31 December 2017 and (ii) increase in sales of functional knitted fabrics to our major customers including Itochu, Beijing Cherishlife and Embry of an aggregate of approximately HK\$27.9 million, net of decrease in sales of functional knitted fabrics to Bonny and Customer A of an aggregate of approximately HK\$9.7 million.

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We also engaged in sales of apparel using our functional knitted fabrics which helps us attracting both of existing and new customers to use our services and new products. Revenue from sales of apparel increased from approximately HK\$0.1 million for the year ended 31 December 2015 to approximately HK\$2.4 million for the year ended 31 December 2016 since our Group member, Magic Team, which is principally engaged in design and sales of apparel was established in July 2015. Revenue from sales of apparel increased from approximately HK\$2.4 million for the year ended 31 December 2016 to approximately HK\$12.8 million for the year ended 31 December 2017 which was mainly attributed to the expansion of our customer base by three customers including the increase in sales of apparel to Customer B and Aimer of approximately HK\$7.0 million and HK\$2.8 million, respectively.

Revenue from sales of other products increased from approximately HK\$1.5 million for the year ended 31 December 2015 to approximately HK\$7.8 million for the year ended 31 December 2016 was mainly due to increase in sales of synthetic fibres and yarns of approximately HK\$7.3 million to Zhuhai Zhaotian Trading. To the best knowledge of the Directors, the increase in sales to Zhuhai Zhaotian Trading in 2016 was mainly due to increase in purchase orders for functional knitted fabrics received by Zhuhai Zhaotian Trading in 2016 from its customers mainly comprising sourcing agents and garment manufacturers. As at the Latest Practicable Date, all these purchase orders have been completed and the products were subsequently delivered to its customers who are Independent Third Parties. Revenue from sales of other products decreased from approximately HK\$7.8 million for the year ended 31 December 2016 to approximately HK\$1.6 million for the year ended 31 December 2017 which was mainly due to the discontinuance of sales to Zhuhai Zhaotian Trading since January 2017. The sales of other products for the year ended 31 December 2017 represented sales of synthetic fibres to Independent Third Parties.

The following table sets forth a breakdown of our Group's revenue by customer type during the Track Record Period:–

Customer type	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	% to total revenue	HK\$'000	% to total revenue	HK\$'000	% to total revenue
Lingerie and apparel brand owners	50,224	78.3	43,330	54.0	82,935	66.2
Sourcing agents	9,786	15.3	30,698	38.3	34,618	27.6
Garment manufacturers	4,094	6.4	6,222	7.7	7,722	6.2
Total	64,104	100.0	80,250	100.0	125,275	100.0

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Majority of our sales were made to lingerie and apparel brand owners such as Aimer, Bonny, Embry and Beijing Cherishlife during the Track Record Period. The remaining portion were made to sourcing agents such as Itochu and garment manufacturers. The proportion of sales made to lingerie brand and apparel owners to total revenue dropped from approximately 78.3% for the year ended 31 December 2015 to approximately 54.0% for the year ended 31 December 2016 and the amount decreased from approximately HK\$50.2 million in 2015 to approximately HK\$43.3 million in 2016. Decreasing revenue made to the lingerie and apparel brand owners during the years ended 31 December 2015 and 2016 was mainly attributed to the decrease in the sales to Aimer from approximately HK\$39.2 million for the year ended 31 December 2015 to approximately HK\$20.5 million for the year ended 31 December 2016. The decrease in sales to Aimer in 2016 was mainly due to the decrease in their demand on thermal fabrics resulted from change in their business strategy that less thermal intimate wear products were introduced in 2016. However, the decrease in sales made to lingerie brand owners was overwhelmed by the significant increase in the sales made to sourcing agents which amounted to approximately HK\$30.7 million for the year ended 31 December 2016 as compared to that of approximately HK\$9.8 million in 2015. With our intensified effort in the sale of apparels and increased variety of the product offering of our apparel products, Aimer increased its purchase of our apparel products in the year ended 31 December 2017, which outweighed its reduced demand on thermal product. To the best knowledge of our Directors, lingerie and apparel brand owners normally source fabrics through different sourcing channels based on their product development plans which caused the fluctuation of the sales made to sourcing agents.

The proportion of sales made to lingerie brand and apparel owners to total revenue increased from approximately 54.0% for the year ended 31 December 2016 to approximately 66.2% for the year ended 31 December 2017 and the amount increased from approximately HK\$43.3 million for the year ended 31 December 2016 to approximately HK\$82.9 million in 2017. The increase in revenue was mainly attributed to the increase in revenue derived from four major customers, namely Embry, Aimer, Customer B and Beijing Cherishlife of approximately HK\$9.2 million, HK\$8.2 million, HK\$8.0 million and HK\$5.9 million respectively. All of them have their own lingerie and apparel brands in the PRC. Sales made to sourcing agents increased by approximately 12.7% from approximately HK\$30.7 million for the year ended 31 December 2016 to approximately HK\$34.6 million for the year ended 31 December 2017. Given the discontinuance of sales to Zhuhai Zhaotian Trading since January 2017 which contributed to revenue of approximately HK\$7.5 million for the year ended 31 December 2016, we were still able to source more business from and sell more types of products to sourcing agents. In particular, our sales to Itochu during the year ended 31 December 2017 increased by approximately HK\$12.8 million as compared to 2016.

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The following table sets forth a breakdown of revenue, sales volume and average unit selling price of our functional knitted fabrics during the Track Record Period:—

	Year ended 31 December									
	2015			2016			2017			
	% of sales of functional knitted fabrics	Average unit selling price HK\$/kg	Sales Volume kg	% of sales of functional knitted fabrics	Average unit selling price HK\$/kg	Sales Volume kg	% of sales of functional knitted fabrics	Revenue HK\$'000	Average unit selling price HK\$/kg	Sales Volume kg
Functional knitted fabrics										
Thermal fabrics	91.0	143.5	396,266	93.7	142.1	461,838	91.5	101,498	143.6	706,818
Cooling fabrics	9.0	137.6	40,799	6.3	115.5	38,224	8.5	9,463	71.3	132,637
Total	100.0		437,065	100.0		500,062	100.0	110,961		839,455

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Total units sold

For the years ended 31 December 2015 and 2016, the total sales volume of functional knitted fabrics increased from approximately 437,065 kg in 2015 to approximately 500,062 kg in 2016. The increase was a net result of the increase in the sales volume of thermal fabrics for approximately 16.5% in 2016 as compared with the figures in 2015 and the slight decrease of the sales volume of cooling fabrics for approximately 6.3% in 2016. As compared with 2015, we were able to secure more customers and more sales made to sourcing agents for thermal fabrics in 2016, which resulted an increase in the sales volume of thermal fabrics.

For the years ended 31 December 2016 and 2017, the total sales volume of functional knitted fabrics increased from approximately 500,062 kg to approximately 839,455 kg. The increase was due to increase in both of the sales volume of thermal fabrics and cooling fabrics by approximately 53.0% and 247.0% in 2017 as compared with that of 2016 which was in line with the increase in total revenue for the year that mainly attributed to the increase in sales of thermal fabrics to Itochu, Embry and Beijing Cherishlife of approximately HK\$27.9 million in total and increase in sales of cooling fabrics to new customers.

Average unit selling prices

The average unit selling price of our thermal fabrics maintained at a similar level on approximately HK\$143.5 per kg for the year ended 31 December 2015 and approximately HK\$142.1 per kg for the year ended 31 December 2016. The average unit selling price of our cooling fabrics decreased from HK\$137.6 per kg for the year ended 31 December 2015 to HK\$115.5 per kg for the year ended 31 December 2016. Such decrease was mainly resulted from the decrease in sales volume of cooling fabrics with comparatively higher unit prices for the year ended 31 December 2015 from one of our customers in this segment.

For the years ended 31 December 2016 and 2017, the average unit selling price of our thermal fabrics maintained relatively stable of approximately HK\$142.1 per kg and HK\$143.6 per kg, respectively. The average unit selling price of our cooling fabrics decreased from approximately HK\$115.5 per kg for the year ended 31 December 2016 to approximately HK\$71.3 per kg for the year ended 31 December 2017 which was mainly due to more favourable prices were offered to attract new customers during the year of 2017 and increase in sales of cooling fabrics that are at lower selling prices with less functionalities, properties and specifications as requested by these new customers in 2017.

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Cost of sales

The key components of our cost of sales primarily consist of cost of raw materials, processing fees, staff costs and other costs.

The following table sets forth our cost of sales during the Track Record Period:–

	Year ended 31 December					
	2015		2016		2017	
	<i>% to total</i>		<i>% to total</i>		<i>% to total</i>	
	<i>cost of</i>	<i>cost of</i>	<i>cost of</i>	<i>cost of</i>	<i>cost of</i>	<i>cost of</i>
	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>	<i>HK\$'000</i>	<i>sales</i>
Cost of raw materials						
– Acrylic fibres	11,415	27.9	14,133	31.4	7,551	9.4
– Cupro fibres	1,568	3.8	802	1.8	–	–
– Mobilon	1,271	3.1	944	2.1	1,145	1.4
– Yarns	<u>4,902</u>	<u>12.0</u>	<u>2,426</u>	<u>5.4</u>	<u>24,336</u>	<u>30.3</u>
	19,156	46.8	18,305	40.7	33,032	41.1
Processing fees	18,062	44.1	21,328	47.4	39,253	48.8
Staff costs	2,549	6.2	3,097	6.9	5,479	6.8
Others	<u>1,167</u>	<u>2.9</u>	<u>2,304</u>	<u>5.0</u>	<u>2,615</u>	<u>3.3</u>
Total	<u><u>40,934</u></u>	<u><u>100.0</u></u>	<u><u>45,034</u></u>	<u><u>100.0</u></u>	<u><u>80,379</u></u>	<u><u>100.0</u></u>

Our Group's cost of sales primarily consisted of (i) cost of raw materials, mainly including acrylic fibres, cupro fibres, Mobilon and yarns; (ii) processing fees for outsourcing the yarn spinning, knitting and dyeing processes; (iii) staff costs incurred; and (iv) other miscellaneous production overheads. For the two years ended 31 December 2015 and 2016, the total cost of sales increased by approximately 10.0% from approximately HK\$40.9 million for the year ended 31 December 2015 to approximately HK\$45.0 million for the year ended 31 December 2016. The increase of cost of sales was lower than the approximately 25.3% increase in revenue from 2015 to 2016 which was mainly attributed to the decrease in purchase cost of raw materials particularly acrylic fibres from 2015 to 2016. The total cost of sales increased by approximately 78.7% from approximately HK\$45.0 million for the year ended 31 December 2016 as compared to approximately HK\$80.4 million 2017 which was mainly due to (i) increase in revenue of approximately 56.0%, (ii) increase in processing fee per each kg of fabric charged by third party factories, (iii) increase in purchase costs of yarns; and (iv) expansion of quality control and production control team in 2017.

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Our Group procure acrylic fibres, our major raw materials, directly from a raw materials supplier based in Japan for production of our functional knitted fabrics that accounted for approximately 27.9%, 31.4% and 9.4% of the total cost of sales of for the years ended 31 December 2015, 2016 and 2017, respectively. The decrease in both of the amounts of cost of acrylic fibres and the proportion of cost of acrylic fibres to the total cost of sales was mainly due to (i) the discontinuance of sales of synthetic fibres and yarns to Zhuhai Zhaotian Trading which made by acrylic fibres procured by our Group; (ii) the increase in sales to Beijing Cherishlife and Embry, our major customers, for the year ended 31 December 2017 of products made by yarns procured by our Group directly from yarn spinning factories; and (iii) the continuous decrease in our average purchase price of acrylic fibres from Toyobo. During the Track Record Period, our average purchase price of acrylic fibres decreased from approximately USD3.8/kg in 2015 to approximately USD2.8/kg in 2016 and further decreased to approximately USD2.3/kg for the year ended 31 December 2017, which was correlated to the decrease in price of import acrylic fibres by approximately 12.6% from December 2014 to December 2017.

Processing fees represented fees paid to third party factories which was the major component of our cost of sales during the Track Record Period. The processing fees charged by third party factories were based on the volume of each order, cost of raw materials to be sourced, timing of delivery, complexity of the steps involved in the process. During the Track Record Period, the processing fees increased from approximately HK\$18.1 million for the year ended 31 December 2015 to approximately HK\$21.3 million for the year ended 31 December 2016 and further increased to approximately HK\$39.3 million for the year ended 31 December 2017 which was mainly due to the increase in revenue and increase in processing fee per unit charged by third party factories during the Track Record Period.

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Gross profit and gross profit margin

Our gross profit was approximately HK\$23.2 million, HK\$35.2 million and HK\$44.9 million for the years ended 31 December 2015, 2016 and 2017, respectively. The following table sets forth an analysis of our gross profit and gross profit margin by products during the Track Record Period:-

	Year ended 31 December					
	2015		2016		2017	
	<i>Gross profit</i> <i>margin</i> <i>HK\$'000</i>	<i>Gross profit</i> <i>margin</i> <i>%</i>	<i>Gross profit</i> <i>margin</i> <i>HK\$'000</i>	<i>Gross profit</i> <i>margin</i> <i>%</i>	<i>Gross profit</i> <i>margin</i> <i>HK\$'000</i>	<i>Gross profit</i> <i>margin</i> <i>%</i>
Functional knitted fabrics						
Thermal fabrics	21,611	38.0	30,208	46.0	42,581	42.0
Cooling fabrics	<u>1,402</u>	25.0	<u>1,087</u>	24.6	<u>951</u>	10.0
	23,013	36.8	31,295	44.7	43,532	39.2
Apparel	83	60.6	860	35.2	1,313	10.3
Others	<u>74</u>	4.9	<u>3,061</u>	39.4	<u>51</u>	3.3
Total	<u><u>23,170</u></u>	36.1	<u><u>35,216</u></u>	43.9	<u><u>44,896</u></u>	35.8

The total gross profit increased from approximately HK\$23.2 million for the year ended 31 December 2015 to approximately HK\$35.2 million for the year ended 31 December 2016 and further increased to approximately HK\$44.9 million for the year ended 31 December 2017. Since functional knitted fabrics are our principal products during the Track Record Period, the gross profit generated from the sales of functional knitted fabrics accounted for approximately 99.3%, 88.9% and 97.0% of our total gross profit for the years ended 31 December 2015, 2016 and 2017, respectively.

The gross profit margin for our thermal fabrics increased from approximately 38.0% in 2015 to approximately 46.0% in 2016. Acrylic fibres are major raw materials and only applied to the production of thermal fabrics. The increase of gross profit margin was principally attributed to the decrease in average purchase price of acrylic fibres in 2016 by approximately 26.3% as compared with the year of 2015 which also followed the decrease of the price of import acrylic fibres in the same year, according to the CIC report. Gross profit margin for our thermal fabrics decreased from approximately 46.0% for the year ended 31 December 2016 to 42.0% for the year ended 31 December 2017. The decrease in gross profit margin of approximately 4.0% was a net effect of (i) increase in processing fee per each kg of fabrics; (ii) increase in purchase price of yarns; and (iii) decrease in the purchase price of acrylic fibres.

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For the year ended 31 December 2016, our gross profit margin for cooling fabrics was approximately 24.6% as compared with that of approximately 25.0% for the year ended 31 December 2015. The decrease in the gross profit margin for cooling fabrics was mainly attributed to the change of product mix and consistent to the decrease in average unit selling price in 2016. Our gross profit margin for cooling fabrics decreased from approximately 24.6% for the year ended 31 December 2016 to approximately 10.0% for the year ended 31 December 2017 which was mainly attributed to more favourable prices were offered to attract new customers during 2017 and increase in sales of cooling fabrics that are at lower margin with less functionalities, properties and specifications as requested by these new customers in 2017.

The gross profit margin for our apparel decreased from approximately 60.6% in 2015 to approximately 35.2% in 2016 and further decreased to approximately 10.3% in 2017. The sales of apparel business was commenced in July 2015, with a view to diversifying our source of revenue and creating cross-selling opportunity. As such, we endeavour to offer new products and explore new customers in this business segment, more cost were incurred for product development and more favourable terms were offered to attract new customers which resulted to the decrease in gross profit margin from approximately 35.2% in 2016 to approximately 10.3% in 2017.

Others represent sales of synthetic fibres and yarns procured by our Group during the Track Record Period. The significant increase in the gross profit and gross profit margin for others for the year ended 31 December 2016 were mainly due to sales of yarns to Zhuhai Zhaotian Trading of approximately HK\$7.3 million with a higher gross profit margin as compared to sales of synthetic fibres during the year ended 31 December 2016. Following the discontinuance of sales of yarns to Zhuhai Zhaotian Trading since January 2017, gross profit margin of others decreased to approximately 3.3% for the year ended 31 December 2017.

The following table sets forth a breakdown of our gross profit and gross profit margin by customer type during the Track Record Period:–

Customer type	Year ended 31 December					
	2015		2016		2017	
	Gross profit margin HK\$'000	Gross profit margin %	Gross profit margin HK\$'000	Gross profit margin %	Gross profit margin HK\$'000	Gross profit margin %
Lingerie and apparel brand owners	18,391	36.6	18,249	42.1	27,713	33.4
Sourcing agents	2,602	26.6	13,648	44.5	14,785	42.7
Garment manufacturers	<u>2,177</u>	53.2	<u>3,319</u>	53.3	<u>2,398</u>	31.0
Total	<u><u>23,170</u></u>	36.1	<u><u>35,216</u></u>	43.9	<u><u>44,896</u></u>	35.8

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Gross profit margin of lingerie and apparel brand owners increased from approximately 36.6% to 42.1% for the years ended 31 December 2015 and 2016 was mainly attributed to (i) decrease in average purchase price of acrylic fibres of approximately 26.3% in 2016 which was correlated to the price of crude oil (Brent) dropped by 14.5% from December 2014 to December 2016. To the best knowledge of the Directors, the price of acrylic fibres are usually negotiated and determined with Toyobo at the beginning of the year and with reference to the exchange rate of Japanese Yen against USD in the preceding year and therefore the drop in Japanese Yen against USD in 2015 also resulted to the decrease in the purchase price of acrylic fibres from Toyobo in 2016; and (ii) decrease in sales to a major customer for the year ended 31 December 2016 with lower gross profit margin of approximately 36.5% for the year ended 31 December 2015 as compared to the gross profit margin of approximately 41.1% for the year ended 31 December 2016. The revenue generated from such customer decreased from approximately HK\$39.2 million (representing approximately 61.2% of the total revenue) for the year ended 31 December 2015 to approximately HK\$20.5 million (representing approximately 25.5% of the total revenue) for the year ended 31 December 2016. Gross profit margin of sourcing agents increased from approximately 26.6% to 44.5% for the years ended 31 December 2015 and 2016, which was mainly due to (i) the effect of decrease in average purchase price of acrylic fibres and (ii) increase in sales to Zhuhai Zhaotian Trading of approximately HK\$6.0 million as well as the increase in gross profit margin from approximately 12.5% to 39.5% for the years ended 31 December 2015 and 2016. To the best knowledge of the Directors, the increase in sales to Zhuhai Zhaotian Trading was mainly due to increase in purchase orders for functional knitted fabrics received by Zhuhai Zhaotian in 2016 from its customers. As such, approximately HK\$7.3 million revenue in 2016 was derived from the sales of yarns to Zhuhai Zhaotian Trading, which recorded a gross profit margin of approximately 41.2%, leading to an overall increase of gross profit margin recorded from the sales of Zhuhai Zhaotian Trading in 2016. Since the yarns sold to Zhuhai Zhaotian Trading involved certain production processes as well as quality control procedures and other types of synthetic fibres and natural fibres were used in the yarn spinning process, our Group charged a higher gross profit margin for the sales of yarns as compared to sales of synthetic fibres.

Gross profit margin of lingerie and apparel brand owners decreased from approximately 42.1% to 33.4% for the year ended 31 December 2016 and 2017 which was mainly attributed to comparably lower gross profit margin were recorded from the sales of apparel to Aimer and Customer B of an aggregate of approximately HK\$11.2 million during the year ended 31 December 2017 for their large volume of purchase orders during the year. The Directors considered it is commercially-sensible and justified to offer favourable price for new products and attract new customers. Gross profit margin of sourcing agents remained stable of approximately 44.5% in 2016 and approximately of 42.7% in 2017.

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Other income

Other income were approximately HK\$1.8 million, HK\$0.5 million and HK\$1.7 million for the years ended 31 December 2015, 2016 and 2017, respectively. Compensation income represented the gain arising from compensation received from third party factories, net of purchase costs, for yarns which could not meet our specifications. The yarns were fully returned to the supplier and no loss was incurred by our Group in relation to such incidents. The following table sets forth the breakdown of our other income during the Track Record Period:–

	Year ended 31 December					
	2015		2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Bank interest income	86	4.7	39	7.8	88	5.1
Compensation income	1,690	91.5	214	42.6	219	12.6
Gain on disposal of plant and equipment	29	1.6	–	–	–	–
Government grants	23	1.2	202	40.2	1,180	68.1
Net foreign exchange gain	–	–	–	–	247	14.2
Others	18	1.0	47	9.4	–	–
	<u>1,846</u>	<u>100.0</u>	<u>502</u>	<u>100.0</u>	<u>1,734</u>	<u>100.0</u>
Total	<u>1,846</u>	<u>100.0</u>	<u>502</u>	<u>100.0</u>	<u>1,734</u>	<u>100.0</u>

The significant decrease in other income by 72.2% from approximately HK\$1.8 million for the year ended 31 December 2015 to approximately HK\$0.5 million for the year ended 31 December 2016 was mainly due to the decrease in the compensation income from third party factories for yarns which could not meet our specifications.

Other income increased from approximately HK\$0.5 million for the year ended 31 December 2016 to approximately HK\$1.7 million for the year ended 31 December 2017. It was mainly due to the increase in the government grants of approximately HK\$1.0 million for our research and development projects.

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Selling and distribution expenses

Selling and distribution expenses were approximately HK\$2.5 million, HK\$3.4 million and HK\$2.9 million, respectively, for the years ended 31 December 2015, 2016 and 2017, which represented approximately 3.9%, 4.2% and 2.3% of our total revenue of the respective year. The following table sets forth the breakdown of our selling and distribution expenses during the Track Record Period:–

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Advertising expenses	385	15.3	337	9.9	153	5.2
Entertainment	145	5.8	148	4.4	158	5.4
Rental expenses	207	8.3	231	6.8	239	8.2
Sample costs	24	1.0	173	5.1	115	3.9
Salaries and benefits	1,223	48.9	1,903	56.3	1,825	62.3
Travelling expenses	324	12.9	361	10.7	253	8.6
Others ^(Note)	194	7.8	227	6.8	188	6.4
Total	2,502	100.0	3,380	100.0	2,931	100.0

Note: “Others” principally represents consumable, courier, motor vehicles expenses, property management fee, telephone and communication and other expenses incurred by our sales department.

The increase in selling and distribution expenses by 36.0% from approximately HK\$2.5 million for the year ended 31 December 2015 to approximately HK\$3.4 million for the year ended 31 December 2016 was mainly due to the increase in average salaries and number of our marketing and sales personnel to cope with the increase in revenue in 2016.

Selling and distribution expenses decreased from approximately HK\$3.4 million for the year ended 31 December 2016 to approximately HK\$2.9 million for the year ended 31 December 2017. It was mainly due to the decrease in advertising expenses of approximately HK\$0.2 million in relation to trade shows and decrease in travelling expenses by approximately HK\$0.1 million.

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Administrative and other expenses

Administrative and other expenses were approximately HK\$8.5 million, HK\$9.8 million and HK\$17.7 million for the years ended 31 December 2015, 2016 and 2017 respectively, which represented approximately 13.2%, 12.2% and 14.1% of our total revenue of the respective year. The following table sets forth the breakdown of our administrative and other expenses during the Track Record Period:–

	Year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Depreciation	640	7.5	541	5.5	581	3.3
Entertainment	312	3.7	315	3.2	512	2.9
Legal and professional fees	303	3.6	357	3.6	843	4.8
Listing expenses	–	–	1,303	13.3	6,701	37.8
Office expenses	410	4.8	478	4.9	358	2.0
Rental expenses	620	7.3	695	7.1	727	4.1
Salaries and benefits	3,704	43.7	3,927	40.0	6,367	35.9
Travelling expenses	604	7.1	366	3.7	726	4.1
Inventory written off	–	–	725	7.4	–	–
Others ^(Note)	1,889	22.3	1,121	11.3	899	5.1
Total	8,482	100.0	9,828	100.0	17,714	100.0

Note: “Others” principally represents audit fee, bank charges, exchange losses, repair and maintenance, training and other expenses.

The increase in administrative and other expenses by 15.3% from approximately HK\$8.5 million for the year ended 31 December 2015 to approximately HK\$9.8 million for the year ended 31 December 2016 was mainly due to (i) the professional fees for the Listing of approximately HK\$1.3 million was recognised in 2016 while no such fee was recognised in 2015 and (ii) the inventory written off of approximately HK\$0.7 million as a result of damaged inventories recorded in 2016. No inventory written off was recorded in 2015.

The increase in administrative and other expenses from approximately HK\$9.8 million for the year ended 31 December 2016 to approximately HK\$17.7 million for the year ended 31 December 2017 was mainly due to (i) the increase in professional fees for the Listing of approximately HK\$5.4 million recognised for the year ended 31 December 2017 and (ii) increase in salaries and benefits of approximately HK\$2.4 million resulted from increase in number of our administrative staff and directors’ emoluments for the year ended 31 December 2017.

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Income tax expenses

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits during the Track Record Period.

PRC

Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC is 25% during the Track Record Period.

One of the Group's subsidiaries established in the PRC is recognised as a High and New-technology Enterprise in 2016 and is entitled to enjoy the PRC EIT at a concessionary rate of 15% starting from 1 January 2016 to 31 December 2018.

The increase in income tax expenses by 105.3% from approximately HK\$1.9 million for the year ended 31 December 2015 to approximately HK\$3.9 million for the year ended 31 December 2016 primarily was due to the increase in the profit before tax from approximately HK\$14.0 million in 2015 to approximately HK\$22.4 million in 2016. The effective tax rate increased from 13.6% for the year ended 31 December 2015 to 17.3% for the year ended 31 December 2016 mainly due to a net effect of (i) utilisation of tax losses brought forward from previous years in 2015; (ii) the increase in expenses in relation to the Listing which are not tax deductible; and (iii) the 15% preferential tax rate applied to one of the Group's subsidiaries in the PRC in 2016.

Income tax expenses increased by approximately 43.6% from approximately HK\$3.9 million for the year ended 31 December 2016 to approximately HK\$5.6 million for the year ended 31 December 2017 was primarily due to (i) the increase in profit before tax of approximately HK\$3.4 million; (ii) the non-tax deductible listing expenses of approximately HK\$5.4 million; and (iii) withholding tax paid on undistributed profits of a PRC subsidiary for the year ended 31 December 2017. As such, the effective interest rate increased from 17.3% for the year ended 31 December 2016 to 21.7% for the year ended 31 December 2017.

Profit for the year

The increase in profit for the year by 52.9% from approximately HK\$12.1 million for the year ended 31 December 2015 to approximately HK\$18.5 million for the year ended 31 December 2016, respectively, was in line with the increase in the revenue and gross profit for the same year with the reasons stated above.

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The increase in profit by approximately 9.2% from approximately HK\$18.5 million for the year ended 31 December 2016 to approximately HK\$20.2 million for the year ended 31 December 2017 was mainly the combined effect of (i) increase in gross profit of approximately HK\$9.7 million, (ii) increase in Listing expenses of approximately HK\$5.4 million and (iii) rise in staff costs of approximately HK\$1.8 million resulted from increase in number of administrative staff and directors' emoluments during the year ended 31 December 2017.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, our working capital needs and capital expenditure requirements have been primarily financed through a combination of Shareholders' equity and cash generated from operations.

The following table sets forth the cash flows for the years indicated:-

	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from/(used in) operating activities	12,945	8,501	(7,549)
Net cash used in investing activities	(1,779)	(3,316)	(1,013)
Net cash (used in)/from financing activities	<u>(10,277)</u>	<u>572</u>	<u>(5,711)</u>
Net increase/(decrease) in cash and cash equivalents	889	5,757	(14,273)
Cash and cash equivalents at the beginning of the year	11,500	11,984	16,657
Effect of foreign exchange rate changes	<u>(405)</u>	<u>(1,084)</u>	<u>735</u>
Cash and cash equivalents at the end of the year	<u><u>11,984</u></u>	<u><u>16,657</u></u>	<u><u>3,119</u></u>

Net cash from/(used in) operating activities

Our Group mainly derives our cash flows from operating activities from the receipt of payments from sales of our products and cash used in operating activities is mainly for the purchases of raw materials, payments for processing fees and expenses incurred in our daily operations.

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For the year ended 31 December 2015, our net cash generated from operating activities of approximately HK\$12.9 million, mainly reflecting our profit before tax of approximately HK\$14.0 million, which was mainly adjusted for (i) the increase in trade and other payables and accruals of approximately HK\$4.5 million due to the increase in the purchase of raw materials in 2015; (ii) depreciation of plant and equipment of approximately HK\$0.7 million; and (iii) increase in trade, bills and other receivables of approximately HK\$6.0 million due to the increase in the sales of functional knitted fabrics.

For the year ended 31 December 2016, we generated net cash from operating activities of approximately HK\$8.5 million, primarily reflecting the growth in sales of functional knitted fabrics that resulted to the profit before tax of approximately HK\$22.4 million, which mainly referred to a net result of (i) increase in the trade, bills and other receivables of approximately HK\$4.7 million; (ii) increase in amounts due from a related company of approximately HK\$7.3 million; (iii) increase in inventories of approximately HK\$0.9 million; and (iv) the payment of income tax of Hong Kong and PRC of approximately HK\$3.9 million.

For the year ended 31 December 2017, our net cash used in operating activities of approximately HK\$7.5 million, primarily reflecting (i) profit before tax for the period of approximately HK\$25.8 million; and (ii) increase in trade and other payables of approximately HK\$15.6 million; net of (i) increase in the trade and bills receivables of approximately HK\$24.2 million; (ii) increase in inventories of approximately HK\$9.9 million; and (iii) increase in deposits, prepayment and other receivables of approximately HK\$10.9 million that mainly attributable to prepayment for processing fee and professional fee for the Listing.

Net cash used in investing activities

For the year ended 31 December 2015, our net cash used in investing activities amounted to approximately HK\$1.8 million and was mainly the payment for acquisition of plant and equipment of approximately HK\$2.1 million.

For the year ended 31 December 2016, our net cash used in investing activities amounted to approximately HK\$3.3 million and was mainly to (i) the payment for acquisition of plant and equipment of approximately HK\$0.5 million; and (ii) increase in pledged bank deposit of approximately HK\$2.8 million.

For the year ended 31 December 2017, our net cash used in investing activities of approximately HK\$1.0 million was mainly due to payment for acquisition of plant and equipment of approximately HK\$1.0 million.

Net cash (used in)/from financing activities

For the year ended 31 December 2015, our net cash used in financing activities amounted to approximately HK\$10.3 million which mainly referred to a result of (i) advance from a director with amount of approximately HK\$3.3 million, (ii) repayment to related companies with the amount of approximately HK\$11.9 million; and (iii) dividend paid to shareholder with amount of approximately HK\$1.9 million.

FINANCIAL INFORMATION

For the year ended 31 December 2016, our net cash generated from financing activities amounted to approximately HK\$0.6 million which was a net result of (i) the new bank borrowing of HK\$3.0 million raised; (ii) advance from a director with amount of approximately HK\$7.0 million; and (iii) repayment to related companies with the amount of approximately HK\$9.5 million.

For the year ended 31 December 2017, our net cash used in financing activities amounted to approximately HK\$5.7 million which was a net result of government grants received of approximately HK\$1.2 million and repayment to a director of approximately HK\$6.7 million during the year.

Net current assets

The following table sets out our current assets, current liabilities and net current assets as at 31 December 2015, 2016 and 2017 and 28 February 2018:-

	2015	As at 31 December 2016	2017	As at 28 February 2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets				
Inventories	2,107	2,193	12,579	11,517
Trade and bills receivables	11,775	14,273	47,781	42,403
Deposits, prepayments and other receivables	10,649	12,146	23,715	35,950
Amounts due from a related company	–	7,257	–	–
Pledged bank deposits	2,985	5,790	6,043	6,047
Bank balances and cash	<u>11,984</u>	<u>16,657</u>	<u>8,756</u>	<u>5,985</u>
Total current assets	<u>39,500</u>	<u>58,316</u>	<u>98,874</u>	<u>101,902</u>
Current liabilities				
Trade payables	3,121	4,781	9,868	9,319
Other payables and accruals	3,283	2,760	14,257	15,440
Amounts due to related companies	9,487	6	–	–
Amounts due to a director	8,571	16,000	9,411	10,255
Bank borrowing	–	3,000	3,000	3,000
Income tax payable	1,129	1,128	2,785	2,926
Bank overdrafts	<u>–</u>	<u>–</u>	<u>5,637</u>	<u>5,303</u>
Total current liabilities	<u>25,591</u>	<u>27,675</u>	<u>44,958</u>	<u>46,243</u>
Net current assets	<u><u>13,909</u></u>	<u><u>30,641</u></u>	<u><u>53,916</u></u>	<u><u>55,659</u></u>

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Our current assets consist of inventories, trade and bills receivables, deposits, prepayments and other receivables, amounts due from a related company, pledged bank deposits and bank balances and cash. Our current liabilities consist of trade and bills payables, other payables and accruals, amounts due to related companies, amounts due to a director, bank borrowing, income tax payable and bank overdrafts. Amounts due from a related company as at 31 December 2016 represents trade receivables balance with Zhuhai Zhaotian Trading. Amounts due to related companies represent balances with Zhuhai Zhaotian Trading and Wuxi Tianhe Textile as at 31 December 2015 and with Wuxi Tianhe Textile as at 31 December 2016. All the amounts due from a related company and amounts due to related companies had been settled as at 31 December 2017. Amounts due to a director represent non-trade related balances with Mr. Wong, which will be settled before the Listing.

Our net current assets increased by approximately HK\$16.7 million or approximately 120.1% from approximately HK\$13.9 million as at 31 December 2015 to approximately HK\$30.6 million as at 31 December 2016, primarily due to (i) the increase in amounts due from a related company of approximately HK\$7.3 million; (ii) the increase in trade and bills receivables of approximately HK\$2.5 million; and (iii) the increase in both the bank balances and cash and pledged bank deposits in total of approximately HK\$7.5 million, which was a result of the growth of our business and cash generated from our operations for the year ended 31 December 2016.

Our net current assets increased by approximately HK\$23.3 million or approximately 76.1% from approximately HK\$30.6 million as at 31 December 2016 to HK\$53.9 million as at 31 December 2017 primarily due to (i) the increase in trade and bills receivables of approximately HK\$33.5 million; (ii) the increase in deposits, prepayments and other receivables of approximately HK\$11.6 million; (iii) the increase in inventories of approximately HK\$10.4 million; and (iv) the decrease in amounts due to a director of approximately HK\$6.6 million net of (i) increase in other payables and accruals of approximately HK\$11.5 million; and (ii) decrease in bank balances and cash of approximately HK\$7.9 million.

Our net current assets further increased by approximately HK\$1.8 million or approximately 3.3% from approximately HK\$53.9 million as at 31 December 2017 to HK\$55.7 million as at 28 February 2018, primarily due to the increase in deposits, prepayments and other receivables of approximately HK\$12.2 million, net of (i) decrease in trade and bills receivables of approximately HK\$5.4 million and (ii) decrease in bank balances and cash of approximately HK\$2.8 million.

FINANCIAL INFORMATION

ANALYSIS OF VARIOUS ITEMS FROM THE COMBINED STATEMENTS OF FINANCIAL POSITION

Plant and equipment

Our plant and equipment mainly consisted of (i) motor vehicles, (ii) machinery and (iii) office equipment. Net of depreciation, the carrying amount of plant and equipment was approximately HK\$3.1 million, HK\$2.8 million and HK\$3.3 million as at 31 December 2015, 2016 and 2017, respectively. The change in carrying amount of plant and equipment was mainly a net result of additions of machinery and office equipment and depreciation expenses recorded during the Track Record Period.

Inventories

Our inventories comprise work in progress and finished goods. The value of our inventories accounted for 5.3%, 3.8% and 12.7%, respectively, of our total current assets as at 31 December 2015, 2016 and 2017.

The following table is a summary of our balance of inventories as at 31 December 2015, 2016 and 2017:-

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Work in progress	2,107	1,965	8,384
Finished goods	<u>–</u>	<u>228</u>	<u>4,195</u>
Total	<u><u>2,107</u></u>	<u><u>2,193</u></u>	<u><u>12,579</u></u>

Work in progress principally represented yarns and half-finished fabrics under processing by third party factories. Finished goods represented the functional knitted fabrics and apparel that are ready to sell to our customers.

The balance of total inventories maintained at a similar level as at 31 December 2015 and 2016.

The increase in inventories from approximately HK\$2.2 million as at 31 December 2016 to approximately HK\$12.6 million as at 31 December 2017 was mainly due to (i) increase in work in progress to cope with higher demand in cooling fabrics in 2018 and (ii) increase in finished goods that are expected to be delivered in the first quarter of 2018.

Our policy on obsolete or damaged inventories is to write off such inventories when our management considers the obsolete or damaged inventories to have no residual value.

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During the year ended 31 December 2016, we had written off the inventory of approximately HK\$0.7 million for being damaged. We had not made any provision or written off any inventory due to damage or obsolescence during the year ended 31 December 2015 and 2017 as we have not experienced any significant damage or loss in respect of our inventories throughout the said period.

As at the Latest Practicable Date, approximately HK\$12.1 million, representing approximately 96.0% of our inventories as at 31 December 2017 were subsequently consumed or sold.

The following table sets forth the average inventory turnover days during the Track Record Period:-

	Year ended 31 December		
	2015	2016	2017
Average inventory turnover days ^(Note)	<u>19 days</u>	<u>17 days</u>	<u>34 days</u>

Note: Average inventory turnover days is equal to the average of the beginning and ending inventory balance of the year divided by cost of sales of the year and multiplied by number of days in the year.

Our average inventory turnover days slightly decreased from 19 days to 17 days for the years ended 31 December 2015 and 2016 respectively. It is mainly due to the increase in cost of sales in 2016 due to business expansion while the inventory level remained stable as at 31 December 2015 and 2016.

The average inventory turnover days increased from 17 days for the year ended 31 December 2016 to 34 days for the year ended 2017 which is mainly due to increase in work in progress of approximately HK\$6.4 million to cope with higher demand in cooling fabrics in 2018 and increase in finished goods by approximately HK\$4.0 million expected to be delivered in the first quarter of 2018.

FINANCIAL INFORMATION

Trade and bills receivables

We allows credit period of 30 to 90 days to our customers. Set out below are the balance of our trade and bills receivables as at 31 December 2015, 2016 and 2017, together with the ageing analysis of our trade and bills receivables for the Track Record Period:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	11,775	10,863	45,474
Bill receivables	<u>–</u>	<u>3,410</u>	<u>2,307</u>
	<u><u>11,775</u></u>	<u><u>14,273</u></u>	<u><u>47,781</u></u>

Ageing of trade and bills receivables:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	8,068	10,910	18,697
31 to 60 days	2,390	3,063	16,546
61 to 90 days	749	–	11,066
91 to 180 days	568	–	1,052
More than 180 days	<u>–</u>	<u>300</u>	<u>420</u>
	<u><u>11,775</u></u>	<u><u>14,273</u></u>	<u><u>47,781</u></u>

The increase in trade and bills receivables from approximately HK\$11.8 million as at 31 December 2015 to approximately HK\$14.3 million as at 31 December 2016 was in line with our business expansion for the years ended 31 December 2015 and 2016.

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The increase in trade and bills receivables from approximately HK\$14.3 million as at 31 December 2016 to approximately HK\$47.8 million as at 31 December 2017 was mainly due to the increase in number of invoices issued to our customers upon delivery of our products in fourth quarter of 2017 but had not been settled as at 31 December 2017. Trade and bills receivables as at 31 December 2017 aged within 90 days amounted to approximately HK\$46.3 million, representing 96.9% of trade and bills receivables as at 31 December 2017.

	Year ended 31 December		
	2015	2016	2017
Average trade and bills receivables turnover days <small>(Note)</small>	<u>49 days</u>	<u>59 days</u>	<u>90 days</u>

Note: Average trade and bills receivables turnover days is equal to the average of the beginning and ending balance of trade and bills receivables for the year divided by revenue for the year and multiplied number of days for the year.

Our average trade and bills receivables turnover days was 49 days for the year ended 31 December 2015 and 59 days for the year ended 31 December 2016, of which those were in line with the general credit period allowed ranging from 30 to 90 days. The increase in the average trade and bills receivables turnover days was mainly due to the concentration of the increase in the sales of functional knitted fabrics recognised in the fourth quarter of 2016 which have not been settled prior to 31 December 2016.

Average trade and bills receivables turnover days increased from approximately 59 days for the year ended 31 December 2016 to approximately 90 days for the year ended 31 December 2017. The increase in average trade and bills receivables turnover days was as a result of significant increase in sales of functional knitted fabrics in fourth quarter in 2017 as compare to the same period in 2016 which had not been settled as at 31 December 2017. The sales of functional knitted fabrics in the fourth quarter of 2017 increased by approximately HK\$19.2 million, from approximately HK\$6.2 million in the fourth quarter of 2016 to approximately HK\$25.4 million in the fourth quarter of 2017, representing an increment of approximately 312.5%, as compared to the sales of functional knitted fabrics in the corresponding period in 2016.

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The ageing analysis of trade and bills receivables which are past due but not impaired is as follows:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Past due but not impaired:			
Within 30 days	1,212	2,960	13,605
31 to 60 days	2	–	11,671
61 to 90 days	<u>7</u>	<u>300</u>	<u>420</u>
	<u><u>1,221</u></u>	<u><u>3,260</u></u>	<u><u>25,696</u></u>

Included in our trade and bills receivables balances are debtors with aggregate carrying amount of approximately HK\$1.2 million, HK\$3.3 million and HK\$25.7 million as at 31 December 2015 and 2016 and 31 December 2017 respectively which were past due which we have not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable.

Our Group seeks to maintain strict control over our outstanding trade and bills receivables. Overdue balances are reviewed regularly by our Directors and in the event that there is an overdue balance, sales personnel and senior management will liaise with the relevant customers to seek prompt settlement. No allowance for doubtful debts was recognised for the years ended 31 December 2015, 2016 and 2017. Trade and bills receivables are individually impaired and recognised based on the credit history of its customers, such as financial difficulties or default in payments, and current market conditions. We had reviewed the credit quality of each receivable balance and generally the balances were due from reputable and sizeable customers which have no history of defaults. Our directors consider that there has not been significant change in credit quality or credit issues of our Group's major customers and there is no recent history of default, therefore the amounts of trade and bills receivables at each of the year end date are considered recoverable.

As at the Latest Practicable Date, approximately HK\$38.8 million, representing approximately 85.4% of our trade and bills receivables as at 31 December 2017 were settled subsequently. For the unsettled trade and bills receivables as at the Latest Practicable Date, our sales personnel have actively communicated with the relevant customers for prompt settlement.

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Deposits, prepayments and other receivables

The following table sets forth the breakdown of deposits, prepayments and other receivables as at 31 December 2015, 2016 and 2017:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental deposits	47	144	146
Prepayment for purchases of raw materials	873	2,435	–
Prepayment to third party factories	418	433	15,601
Prepaid professional fee for the Listing	–	1,371	4,215
Other receivables	8,505	7,611	3,753
Other prepayments	<u>806</u>	<u>152</u>	<u>–</u>
Total	<u><u>10,649</u></u>	<u><u>12,146</u></u>	<u><u>23,715</u></u>

The balances of deposit, prepayments and other receivables mainly consist of rental deposits, prepayment for purchases of raw materials, prepayment to third party factories, prepayment for listing expenses and other receivables. Prepayment for processing fees mainly comprise the prepayment for outsourcing the production processes to the third party factories as well as prepayment for raw materials. The increase in deposits, prepayments and other receivables from approximately HK\$10.7 million as at 31 December 2015 to approximately HK\$12.1 million as at 31 December 2016 was primarily due to the prepaid professional fees for the Listing of approximately HK\$1.4 million in 2016 while no such fee was prepaid in 2015.

The balance further increased to approximately HK\$23.7 million as at 31 December 2017 which was a net result of (i) increase in the prepaid professional fee for the Listing of approximately HK\$2.8 million, (ii) increase in prepayment to third party factories of approximately HK\$15.2 million; and (iii) decrease in other receivables of HK\$3.9 million.

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Prepayment to third party factories increased by approximately HK\$15.2 million as at 31 December 2017 compared to 31 December 2016. Such increase in prepayment to third party factories mainly represented prepayment made to the third party factories for procurement of synthetic fibres for their production of yarns supplying to us taking into account the expected increase in price of synthetic fibres in 2018 and the expected increase in demand in our products of the year. As at the Latest Practicable Date, all prepayment to third party factories as at 31 December 2017 has been settled. Other receivables mainly comprise other receivables from yarn spinning factories with a total amount of approximately HK\$8.5 million, HK\$7.6 million and HK\$3.8 million as at 31 December 2015, 2016 and 2017, respectively. The balances arose from the timing differences of synthetic fibres we provided in advance to the yarn spinning factories before the settlement with the factories upon the completion of spinning process. As at the Latest Practicable Date, all other receivables as at 31 December 2017 has been settled.

Amounts due from a related company

The balance represents trade receivable from Zhuhai Zhaotian Trading of nil, approximately HK\$7.3 million and nil as at 31 December 2015, 2016 and 2017.

Balance with Zhuhai Zhaotian Trading was arisen under normal business transactions and a credit period of 30 days is granted to Zhuhai Zhaotian Trading.

Trade payables

Set out below are the balances of our trade payables as at 31 December 2015, 2016 and 2017, together with the ageing analysis of our trade payables for the Track Record Period:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	3,121	4,781	9,868

Ageing of trade payables:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	1,729	3,950	3,926
31 to 60 days	1,175	500	4,262
61 to 90 days	4	11	776
91 to 180 days	115	94	459
More than 180 days	98	226	445
	3,121	4,781	9,868

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Our trade payables mainly represented payables to third party factories and raw materials suppliers. The increase in trade payables from approximately HK\$3.1 million as at 31 December 2015 to approximately HK\$4.8 million as at 31 December 2016 was attributed to the increase in purchase of raw materials before the year end of 2016 to cope with the purchase orders to be received in 2017. The balance further increased to approximately HK\$9.9 million as at 31 December 2017 which is a result of the increase in purchase of processing services from third party factories in the fourth quarter of 2017 driven by increase in sales in the fourth quarter of 2017.

	Year ended 31 December		
	2015	2016	2017
Average trade payables turnover days ^(Note)	<u>19 days</u>	<u>32 days</u>	<u>33 days</u>

Note: Average trade payables turnover days is equal to the average of the beginning and ending trade and bills payables balances for the year divided by cost of sales of year and multiplied by number of days for the year.

Our average trade payables turnover days is 19 days for the year ended 31 December 2015 and 32 days for the year ended 31 December 2016. They were in line with the general credit terms granted by our third party factories ranging from 30 to 60 days upon delivery of goods and by our raw material suppliers ranging from 30 to 90 days. The increase was mainly due to increase in purchase of raw materials just before the year end and not yet settle prior to 31 December 2016.

Our average trade payables turnover days remained stable for the years ended 31 December 2016 and 2017 of approximately 32 days and 33 days respectively.

As at the Latest Practicable Date, approximately 68.0% of our trade payables as at 31 December 2017 were settled subsequently.

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Other payables and accruals

The following table sets forth the breakdown of other payables and accruals as at 31 December 2015, 2016 and 2017:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Receipt in advance	554	598	7,023
Accrued salaries and welfare	580	770	977
Accrued professional fees for the Listing	–	266	429
Other accrued expenses	71	213	269
Other tax payables	2,044	913	5,326
Other payables	<u>34</u>	<u>–</u>	<u>233</u>
Total	<u>3,283</u>	<u>2,760</u>	<u>14,257</u>

The decrease in other payables and accruals from approximately HK\$3.3 million as at 31 December 2015 to approximately HK\$2.8 million as at 31 December 2016 was primarily due to the decrease in other tax payables.

The increase in other payables and accruals from approximately HK\$2.8 million as at 31 December 2016 to approximately HK\$14.3 million as at 31 December 2017 was primarily due to the increase in receipt in advance from customers of approximately HK\$6.4 million for their purchase orders in which the products are expected to be delivered in first quarter of 2018 and other tax payables of approximately HK\$4.4 million. As at the Latest Practicable Date, approximately HK\$6.9 million, representing approximately 98.2%, of the receipt in advance from customers had been recognised as sales after the Track Record Period and the relevant products had been delivered to our customers. As confirmed by our Directors, product samples of the remaining purchase orders of receipt in advance from customers have been sent to customers for their confirmation for mass production and we expect to deliver those products in May 2018.

Other tax payables included mainly various kinds of government levies or taxes such as value-added tax, urban construction tax (城市建設維護稅) and education supplementary tax (教育附加費). The decrease in other tax payables from approximately HK\$2.0 million as at 31 December 2015 to approximately HK\$0.9 million as at 31 December 2016 was primarily due to most of such taxes had been settled before the year ended 31 December 2016. The balance then increased to approximately HK\$5.3 million as at 31 December 2017 which was a result of increase in value-added tax for products we delivered to our customers in the fourth quarter of 2017 but had not been settled as at 31 December 2017.

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Amounts due to related companies

The balances represent the trade payable to Wuxi Tianhe Textile and Zhuhai Zhaotian Trading. Wuxi Tianhe Textile was a subsidiary of Zhuhai Zhaotian Trading and was deregistered in June 2017. The balances were approximately HK\$9.5 million, HK\$6,000 and nil as at 31 December 2015, 2016 and 2017, respectively.

All the balances with Wuxi Tianhe Textile and Zhuhai Zhaotian Trading was arisen under normal business transactions and they are settled within the credit time frame.

Amounts due to a director

The balances represented advances from Mr. Wong to satisfy working capital needs of Smart Team and its subsidiaries, which were unsecured, non-interest bearing and repayable on demand. It amounted to HK\$8.6 million, HK\$16.0 million and HK\$9.4 million as at 31 December 2015, 2016 and 2017, respectively.

Outstanding amounts due to a director will be settled either by way of repayment in cash or, as the case may be, by an irrevocable and unconditional waiver by Mr. Wong prior to the Listing.

SELECTED KEY FINANCIAL RATIOS

	As at or for the year ended		
	31 December		
	2015	2016	2017
Current ratio ¹	1.5 times	2.1 times	2.2 times
Quick ratio ²	1.5 times	2.0 times	1.9 times
Gearing ratio ³	N/A	9.0%	15.3%
Debt to equity ratio ⁴	N/A	N/A	N/A
Interest coverage ratio ⁵	N/A	239.5 times	120.9 times
Return on total assets ⁶	28.5%	30.3%	19.7%
Return on equity ⁷	72.0%	55.6%	35.6%
Gross profit margin ⁸	36.1%	43.9%	35.8%
Net profit margin ⁹	18.9%	23.1%	16.1%

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Notes:

1. Current ratio is calculated based on total current assets divided by total current liabilities as at the respective year end.
2. Quick ratio is calculated based on total current assets less inventories and divided by total current liabilities as at the respective year end.
3. Gearing ratio is calculated based on total debt divided by total equity as at the respective year end and multiplied by 100%. Debts are defined to include payables incurred not in the ordinary course of business.
4. Debt to equity ratio is calculated by net debt (all borrowing net of cash and cash equivalents) divided by total equity as at the respective year end and multiplied by 100%.
5. Interest coverage is calculated by profit before interest and tax divided by interest for the respective year.
6. Return on total assets is calculated by profit for the year divided by total assets as at the respective year end and multiplied by 100%.
7. Return on equity is calculated by profit for the year divided by total equity as at the respective year end and multiplied by 100%.
8. Gross profit margin is calculated by gross profit divided by revenue for the respective year and multiplied by 100%.
9. Net profit margin is calculated by profit for the year divided by revenue for the respective year and multiplied by 100%.

Current ratio

The increase of our current ratio from 1.5 times as at 31 December 2015 to 2.1 times as at 31 December 2016. Such improvement was mainly due to (i) the increase in trade and bills receivables of approximately 21.2% and (ii) increase in bank balances and cash of approximately 39.0% which was mainly due to net cash generated from our operations for the year ended 31 December 2016.

Our current ratio remained stable as at 31 December 2016 and 2017 of 2.1 times and 2.2 times respectively.

Quick ratio

Our quick ratio increased from 1.5 times as at 31 December 2015 to 2.0 times as at 31 December 2016 and slightly decreased to 1.9 times as at 31 December 2017.

Our quick ratio demonstrated a similar trend as our current ratio and the reasons for the fluctuation are also similar to that for our current ratio.

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Gearing ratio

Our gearing ratio increased from nil as at 31 December 2015 to 9.0% as at 31 December 2016. The increase was mainly due to the new bank borrowing of HK\$3.0 million raised as at 31 December 2016. There was no bank borrowing as at 31 December 2015.

Our gearing ratio increased from 9.0% as at 31 December 2016 to 15.3% as at 31 December 2017. The decrease was mainly due to the increase in bank overdrafts of approximately HK\$5.6 million.

Debt to equity ratio

Our debt to equity ratio is nil as at 31 December 2015, 2016 and 2017 as our Group did not incur any borrowing as at 31 December 2015 and the amount of cash and cash equivalents less bank overdrafts exceed the amount of bank borrowing as at 31 December 2016 and 2017.

Interest coverage

The interest coverage ratio increased from nil for the year ended 31 December 2015 to 239.5 times for the year ended 31 December 2016. Such fluctuation was mainly due to the new bank borrowing of HK\$3.0 million raised as at 31 December 2016. There was no bank borrowing as at 31 December 2015.

The interest coverage ratio decreased from 239.5 times for the year ended 31 December 2016 to 120.6 times for the year ended 31 December 2017 which was mainly due to increase in finance cost resulted from increase in bank overdraft of approximately HK\$5.6 million.

Return on total assets

Our return on total assets increased from 28.5% for the year ended 31 December 2015 to 30.3% for the year ended 31 December 2016 due to the increase in profit for the year was greater than the increase in the trade and bill receivables, deposit, prepayment and other receivables and cash and cash equivalents.

Our return on total assets decreased from 30.3% for the year ended 31 December 2016 to 19.7% for the year ended 31 December 2017 was mainly due to increase in (i) trade and bills receivables of HK\$33.5 million, (ii) deposits, prepayment and other receivables of HK\$11.6 million and (iii) inventories of HK\$10.4 million while profit for the year increased by HK\$1.6 million only, subsequent to the recognition of listing expenses of approximately HK\$6.7 million.

FINANCIAL INFORMATION

Return on equity

Our return on equity decreased from 72.0% for the year ended 31 December 2015 to 55.6% for the year ended 31 December 2016 due to increase in equity for the year ended 31 December 2016 was greater than the increase in profit for the year ended 31 December 2016. The increase in equity was mainly due to (i) the recognition of profit of approximately HK\$18.9 million for the year ended 31 December 2016 and (ii) the transfer of HK\$1.6 million from retained earnings to statutory reserve during the year in accordance to the PRC Company Law.

Our return on equity decreased from 55.6% for the year ended 31 December 2016 to 35.6% for the year ended 31 December 2017 due to increase in equity being greater than increase in profit. The increase in equity was mainly due to the recognition of profit of HK\$20.3 million in 2017.

Gross profit and net profit margin

Gross profit margin and net profit margin for the years ended 31 December 2015, 2016 and 2017 are described in the paragraph headed “Gross profit and gross profit margin” and “Profit for the year” in this section respectively.

INDEBTEDNESS

Bank borrowing and bank overdrafts

Our banking borrowing and bank overdrafts as at 31 December 2015, 2016 and 2017 and 28 February 2018 were as follows:

	As at 31 December			As at
	2015	2016	2017	28 February
	HK\$'000	HK\$'000	HK\$'000	2018
				HK\$'000
				(unaudited)
Secured bank overdrafts	–	–	5,637	5,303
Secured bank borrowing	–	3,000	3,000	3,000
	–	3,000	8,637	8,303

FINANCIAL INFORMATION

The amount of banking facilities and the utilisation at 31 December 2015, 2016 and 2017 and 28 February 2018 are set out as follow:

	As at 31 December			As at
	2015	2016	2017	28 February
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	2018 <i>HK\$'000</i> (unaudited)
Facilities amount	<u>10,000</u>	<u>21,000</u>	<u>21,000</u>	<u>21,000</u>
Utilisation				
– Secured bank overdrafts	–	–	5,637	5,303
– Secured bank borrowing	<u>–</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>

As at 31 December 2017, the bank overdrafts carried at fixed interest rates range from 3.50% to 5.75% per annum.

As at 31 December 2015, 2016 and 2017, the interest-bearing borrowings carried interest at variable market interest rates, which are based on the Hong Kong Inter-bank offered rate plus 2.2% per annum. Interest rates of bank overdrafts and interest-bearing borrowing are as follows:

	As at 31 December		
	2015	2016	2017
Fixed-rate bank overdrafts	N/A	N/A	3.50% to 5.75%
Variable-rate borrowing	<u>N/A</u>	<u>3.36% to 3.58%</u>	3.11% to <u>3.64%</u>

As at 28 February 2018, we had cash and cash equivalents (net of bank overdrafts) and pledged bank deposits amounting to approximately HK\$6.7 million. As at 28 February 2018, we had unutilised banking facilities of approximately HK\$12.7 million, which are all short-term facilities.

Our Directors confirmed that there is no material covenants relating to our banking facilities and there have been no material defaults in payments the Track Record Period and up to the Latest Practicable Date. As at 31 December 2015, 2016 and 2017, all banking facilities were secured by personal guarantees provided by Mr. Wong and Mr. Xi, pledged bank deposits and a guarantee from the Hong Kong Mortgage Corporation Limited (“HKMC”) of the Hong Kong Special Administrative Region under the HKMC SME Financing Guarantee Scheme.

FINANCIAL INFORMATION

All of the personal guarantees provided by Mr. Wong and Mr. Xi in favour of our Group for the bank borrowing will be released upon the Listing and replaced by corporate guarantee to be provided by our Group. The guarantee from the HKMC will also be released upon Listing as our Group will no longer be eligible to participate in the SME Financing Guarantee Scheme after the Listing.

WORKING CAPITAL SUFFICIENCY

Our Directors confirm that, taking into account the amount of net proceeds from the Share Offer, our internal resources and the financial resources presently available to us, we have sufficient working capital for our present requirements for at least the next 12 months commencing on the date of this prospectus.

CAPITAL EXPENDITURE AND COMMITMENTS

For the years ended 31 December 2015, 2016 and 2017, we incurred capital expenditure in respect of additions of plant and equipment of approximately HK\$2.1 million, HK\$0.5 million and HK\$1.0 million respectively. Our capital expenditure was funded by internal resources during the Track Record Period. The following table sets forth our Group's capital expenditure during the Track Record Period:–

	As at 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Machinery	373	12	696
Office equipment	149	537	348
Motor vehicles	<u>1,613</u>	<u>–</u>	<u>–</u>
Total	<u><u>2,135</u></u>	<u><u>549</u></u>	<u><u>1,044</u></u>

We had no material capital commitments as at 31 December 2015, 2016 and 2017.

FINANCIAL INFORMATION

CONTRACTUAL COMMITMENTS

Operating leases commitments

The Group leases its offices under operating lease arrangements. Leases are negotiated for lease terms of two to three years. At the end of the Track Record Period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:–

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 1 year	532	853	1,142
In the second to fifth year (inclusive)	<u>147</u>	<u>321</u>	<u>1,261</u>
Total	<u><u>679</u></u>	<u><u>1,174</u></u>	<u><u>2,403</u></u>

RELATED PARTY BALANCES AND TRANSACTIONS

During the Track Record Period, we had certain related party transactions. These transactions were conducted in accordance with terms as at agreed between us and the respective related parties. Our Directors confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms. These related party transactions did not distort our results of operations for the Track Record Period and has been discontinued.

For more information on our related party transaction, please see note 31 to our combined financial statements include in the section headed “Accountants’ Report” in Appendix I to this prospectus.

CONTINGENT LIABILITIES

Save as disclosed in this section, as at the Latest Practicable Date, we did not have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

FINANCIAL INFORMATION

CAPITAL MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital management

Our Group's primary objectives when managing capital are to safeguard our Group's ability to continue as a going concern, so that we can continue to provide returns for Shareholders and benefits for other stakeholders, by pricing services commensurately with the level of risk and by securing access to finance at a reasonable cost. Our Group actively and regularly reviews and manages our capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions. Our Group monitors capital with reference to our debt position. Our Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service our debt obligations. As at 31 December 2015, 2016 and 2017, the ratio of our Group's total liabilities over our total assets was approximately 60.5%, 45.4% and 44.0% respectively.

Financial risk management

Our Group is exposed to currency risk, interest rate risk, credit risk and liquidity risk in the normal course of business. The policies on how to mitigate these risks are set out below. We manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Our Group's operational activities are mainly denominated in RMB. Our Group is exposed to foreign currency risk primarily arising from purchase of goods by foreign currencies and bank deposits denominated in foreign currencies. We currently do not have a foreign currency hedging policy but we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

Our Group is exposed to fair value interest rate risk in relation to fixed-rate bank overdraft.

Our Group also exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances, bank borrowing and bank overdrafts. We currently do not have any interest rate hedging policy. It is our policy to keep pledged bank deposits, bank balances and bank borrowing at floating rate as to minimise the fair value interest rate risk.

Our Group's exposure to interest rate risk in relation to variable-rate bank balances is not significant due to short-term maturities.

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Credit risk

As at the end of each reporting period, our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, which comprise pledge bank deposits, bank balances and cash, amounts due from a related company, trade, bills and other receivables as stated in the combined statements of financial position.

In order to minimise the credit risk, we have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, our Group monitor and maintain a level of bank balances and cash deemed adequate by our management to finance our operations and mitigate the effects of fluctuations in cash flows, our management monitor the utilisation of bank borrowing and ensures compliance with loan covenants.

LISTING EXPENSES

Listing expenses represent professional fees, underwriting commission, SFC transaction levy and the Stock Exchange trading fee included in connection with the Share Offer and the Listing. Assuming the Offer Price of HK\$0.55 per Offer Share, the total estimated listing expenses in connection with the Share Offer are approximately HK\$29.4 million. During the Track Record Period, listing expenses of approximately HK\$8.0 million was recognised in the combined statements of profit or loss and other comprehensive income. We expect approximately HK\$11.1 million to be recognised as expenses in our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2018 and approximately HK\$10.3 million to be capitalised and charged against equity upon the Share Offer under the relevant accounting standards.

FINANCIAL INFORMATION

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 21 February 2017. As at 31 December 2017, our Company did not have reserve available for distribution.

DIVIDENDS

Our Group does not have any future dividend policy. Declaration and payment of any dividends would require the recommendation of the Board and will be at its discretion. Dividends may be paid out by way of cash or by other means that we consider appropriate. In addition, any final dividend for a financial year will be subject to Shareholders' approval. Our Directors may recommend a payment of dividend in the future after taking into account our operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors as it may deem relevant at such time. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Companies Law. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

A decision to declare or to pay any dividend in the future, and the amount of any dividends depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us, and other factors the Board may deem relevant. There will be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution recorded in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Board in the future.

During the Track Record Period, approximately HK\$1.9 million interim dividend has been declared and fully paid by Smart Team on 6 August 2015.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted combined net tangible assets of our Group prepared in accordance with Rule 7.31 of the GEM Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the combined net tangible assets of our Group attributable to owners of our Company as if the Share Offer had taken place on 31 December 2017. This unaudited pro forma adjusted combined net tangible assets of our 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 our Group had the Share Offer been completed on 31 December 2017:

	Audited combined net tangible assets of the Group attributable to the owners of our Company as at 31 December 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted net tangible assets of the Group attributable to owners of our Company immediately after completion of the Share Offer <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share as at 31 December 2017 <i>HK\$</i> <i>(Note 3)</i>
Based on a Offer Price of HK\$0.50 per Offer Share	56,941	39,163	96,104	0.20
Based on a Offer Price of HK\$0.60 per Offer Share	56,941	50,143	107,804	0.22

Notes:

- (1) The audited combined net tangible assets of our Group attributable to owners of our Company as at 31 December 2017 is extracted from the Accountants' Report on Historical Financial Information as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer of 120,000,000 Offer Shares are based on the respective Offer Prices of HK\$0.50 per Offer Share and HK\$0.60 per Offer Share (being the low end and the high end of the indicative price range of the Offer Price), after deduction of the underwriting fees and other related expenses incurred or expected to be incurred and borne by our Company in relation to the Share Offer and exclude approximately HK\$8,004,000 of listing expenses which have been charged to combined statements of profit or loss up to 31 December 2017 by our Group.
- (3) The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share is calculated based on 480,000,000 Shares in issue immediately following the completion of the Share Offer.
- (4) No adjustments have been made to the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company to reflect any trading results or other transactions of our Group entered into subsequent to 31 December 2017.

FINANCIAL INFORMATION

DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, 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 in Chapter 17 of the GEM Listing Rules.

RELATED PARTY TRANSACTIONS

During the Track Record Period, our Group entered into certain related party transactions, details of which are set out in the section headed “Notes to the historical financial information – 31. Related party transactions” in Appendix I to this prospectus. Our Directors confirm that these related party transactions were conducted on normal commercial terms and they would not distort our Track Record Period results or make our historical results not reflective of our future performance.

SUBSEQUENT EVENTS AND NO MATERIAL ADVERSE CHANGES

The companies now comprising our Group underwent and completed the Reorganisation on 28 February 2018 in preparation for the Listing. Further details of the Reorganisation are set out in the section headed “History, Reorganisation and Corporate Structure” in this prospectus.

We expect our financial results for the year ending 31 December 2018 will be adversely affected by the professional fee in connection with the Listing of approximately HK\$11.1 million (calculated on the assumption of a Offer Price of HK\$0.55 per Offer Share) which will be recognised as expenses in our combined statements of profit or loss and other comprehensive income for the year ending 31 December 2018.

There had not been, as far as we are aware, any material change in the general economic and market conditions in the industry in which we operate that have had a material and adverse impact on our business operations and financial condition since 31 December 2017 and up to the date of this prospectus.

Save as disclosed above, our Directors confirm that, up to the date of this prospectus, there had been no material adverse change in the financial performance or prospects of our Group since 31 December 2017, being the end of the period reported on in the Accountants’ Report and there had been no event since 31 December 2017 and up to the date of this prospectus which could materially affect the information shown in the Accountants’ Report set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

For detailed information of our business strategies and future plans, please see the section headed “Business – business strategies” of this prospectus.

We estimate that the aggregate net proceeds of the Share Offer (after deducting underwriting fees and estimated listing expenses payable by us in connection with the Share Offer) based on the Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range, will be approximately HK\$36.6 million assuming that no Offer Size Adjustment Option is exercised. We currently intend to apply such net proceeds in the following manner:

- (a) approximately HK\$8.2 million, representing about 22.4% of the net proceeds from the Share Offer, will be used to increase our market coverage in the PRC by intensifying our sales efforts through:
 - (i) approximately HK\$4.8 million, representing approximately 13.1% of the net proceeds from the Share Offer, will be used for expansion of our current operations in Beijing and Shanghai by relocation of these offices to bigger premises with conference room(s) and a fabric showroom and hiring and retaining an additional of five staff comprising sales and marketing executives, accounting and administrative and other staff at each of such offices; and
 - (ii) approximately HK\$3.4 million, representing approximately 9.3% of the net proceeds from the Share Offer, will be used for engaging in marketing activities through participation in trade shows, industry exhibitions and networking events in the PRC, placing advertisement and hiring and retaining three sales and marketing executives;
- (b) approximately HK\$22.1 million, representing about 60.4% of the net proceeds from the Share Offer, will be used to strengthen our innovation capabilities and increase research and development as well as product testing resources through:
 - (i) approximately HK\$13.9 million, representing about 38.0% of the net proceeds from the Share Offer, will be used for establishment of a new research and development centre, equipped with in-house facilities for knitting, dyeing and finishing, and recruitment and retention of 10 additional research and development technicians, so as to support our strategy to improve and widen our product offerings;
 - (ii) approximately HK\$8.2 million, representing about 22.4% of the net proceeds from the Share Offer, will be used to upgrade our product testing facilities and expand our product testing centre, recruitment and retention of 10 additional product testing personnel and collaboration with research institutions and university for on-going research and training;

FUTURE PLANS AND USE OF PROCEEDS

- (c) approximately HK\$3.5 million, representing about 9.6% of the net proceeds from the Share Offer, will be used to enhance our information technology infrastructure and develop and maintain an ERP System; and
- (d) approximately HK\$2.8 million, representing about 7.6% of the net proceeds from the Share Offer, will be used for working capital and other general corporate purposes.

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 31 December 2019. Investors should note that our implementation plans are formulated on the bases and assumptions referred to in the paragraphs under “Bases and assumptions” in this section 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” in this prospectus. Therefore, there is no assurance that our Group’s business plans will materialise in accordance with the estimated time frame and that the Group’s future plans will be accomplished at all.

From the Latest Practicable Date to 30 June 2018

Business strategies	Implementation activities	Source of funding
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	<ul style="list-style-type: none">– Place advertisement in the industry magazines– Recruit three sales and marketing executives	Net proceeds of the Share Offer of approximately HK\$0.1 million

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2018

Business strategies	Implementation activities	Source of funding
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	<ul style="list-style-type: none"> – Participate in trade shows, industry exhibitions and networking events in the PRC – Place advertisement in the industry magazines – Retain three sales and marketing executives 	Net proceeds of the Share Offer of approximately HK\$0.5 million
(b)(i) Enhance our research and development resources	<ul style="list-style-type: none"> – Rent and decorate a new research and development centre and purchase office equipment – Purchase seater machine and dyeing machine – Recruit 10 research and development technicians 	Net proceeds of the Share Offer of approximately HK\$9.9 million
(c) Enhance our information technology infrastructure	<ul style="list-style-type: none"> – Establish a new ERP System 	Net proceeds of the Share Offer of approximately HK\$2.7 million

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 30 June 2019

Business strategies	Implementation activities	Source of funding
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	<ul style="list-style-type: none"> – Participate in trade shows, industry exhibitions and networking events in the PRC – Place advertisement in the industry magazines – Retain three sales and marketing executives 	Net proceeds of the Share Offer of approximately HK\$0.7 million
(b)(i) Enhance our research and development resources	<ul style="list-style-type: none"> – Rental expenses for the new research and development centre – Retain 10 research and development technicians 	Net proceeds of the Share Offer of approximately HK\$1.0 million
(b)(ii) Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	<ul style="list-style-type: none"> – Rent and decorate a new testing centre in Dongguan as well as purchase office equipment – Purchase testing machineries such as arc light fastness tester, strength tester – Recruit 10 product testing personnel – Cooperate with research institutions and university for research and training 	Net proceeds of the Share Offer of approximately HK\$4.6 million
(c) Enhance our information technology infrastructure	<ul style="list-style-type: none"> – Maintain the ERP System 	Net proceeds of the Share Offer of approximately HK\$0.2 million

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2019

Business strategies	Implementation activities	Source of funding
(a)(i) Expand our current operations in Beijing and Shanghai	<ul style="list-style-type: none"> – Rent and decorate new sales offices in Beijing and Shanghai as well as purchase office equipment and motor vehicle for each sales office – Recruit 10 staff including sales and marketing executives, accounting and administrative and other staff for the new sales offices 	Net proceeds of the Share Offer of approximately HK\$2.0 million
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	<ul style="list-style-type: none"> – Participate in trade shows, industry exhibitions and networking events in the PRC – Place advertisement in the industry magazines – Retain three sales and marketing executives 	Net proceeds of the Share Offer of approximately HK\$0.7 million
(b)(i) Enhance our research and development resources	<ul style="list-style-type: none"> – Rental expenses for the new research and development centre – Retain 10 research and development technicians 	Net proceeds of the Share Offer of approximately HK\$1.0 million

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation activities	Source of funding
(b)(ii) Upgrade product testing facilities, expand testing centre and cooperation with research institutions and university	<ul style="list-style-type: none"> – Rental expenses for the expanded testing centre – Retain 10 product testing personnel – Cooperate with research institutions and university for research and training 	Net proceeds of the Share Offer of approximately HK\$1.2 million
(c) Enhance our information technology infrastructure	<ul style="list-style-type: none"> – Maintain the ERP System 	Net proceeds of the Share Offer of approximately HK\$0.2 million

For the six months ending 30 June 2020

Business strategies	Implementation activities	Source of funding
(a)(i) Expand of our current operations in Beijing and Shanghai	<ul style="list-style-type: none"> – Rental expenses for sales offices in Beijing and Shanghai – Retain 10 staff including sales and marketing executives, accounting and administrative and other staff for the new sales offices 	Net proceeds of the Share Offer of approximately HK\$1.4 million

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation activities	Source of funding
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	<ul style="list-style-type: none"> – Participate in trade shows, industry exhibitions and networking events in the PRC – Place advertisement in the industry magazines – Retain three sale and marketing executives 	Net proceeds of the Share Offer of approximately HK\$0.7 million
(b)(i) Enhance our research and development resources	<ul style="list-style-type: none"> – Rental expenses for the new research and development centre – Retain 10 research and development technicians 	Net proceeds of the Share Offer of approximately HK\$1.0 million
(b)(ii) Upgrade product testing facilities, expand testing centre and cooperation with research institutions and university	<ul style="list-style-type: none"> – Rental expenses for the expanded testing centre – Retain 10 product testing personnel – Cooperate with research institutions and university for research and training 	Net proceeds of the Share Offer of approximately HK\$1.2 million
(c) Enhance our information technology infrastructure	<ul style="list-style-type: none"> – Maintain the ERP System 	Net proceeds of the Share Offer of approximately HK\$0.2 million

FUTURE PLANS AND USE OF PROCEEDS

For the six months ending 31 December 2020

Business strategies	Implementation activities	Source of funding
(a)(i) Expand our current operations in Beijing and Shanghai	– Rental expenses for sales offices in Beijing and Shanghai	Net proceeds of the Share Offer of approximately HK\$1.4 million
	– Retain 10 staff including sales and marketing executives, accounting and administrative and other staff for the new sales offices	
(a)(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	– Participate in trade shows, industry exhibitions and networking events in the PRC	Net proceeds of the Share Offer of approximately HK\$0.7 million
	– Place advertisement in the industry magazines	
	– Retain three sale and marketing executives	
(b)(i) Enhance our research and development resources	– Rental expenses for the new research and development centre	Net proceeds of the Share Offer of approximately HK\$1.0 million
	– Retain 10 research and development technicians	
(b)(ii) Upgrade product testing facilities, expand testing centre and cooperation with research institutions and university	– Rental expenses for the expanded testing centre	Net proceeds of the Share Offer of approximately HK\$1.2 million
	– Retain 10 product testing personnel	
	– Cooperate with research institutions and university for research and training	

FUTURE PLANS AND USE OF PROCEEDS

Business strategies	Implementation activities	Source of funding
(c) Enhance our information technology infrastructure	– Maintain the ERP System	Net proceeds of the Share Offer of approximately HK\$0.2 million

In summary, the implementation plans of our Group's business objectives and strategies from the Latest Practicable Date to 31 December 2020 will be funded by the net proceeds from the Share Offer as follows:

	The Latest Practicable Date to 30 June 2018	From 1 July 2018 to December 2018	From 1 January 2019 to 30 June 2019	From 1 July 2019 to December 2019	From 1 January 2020 to 30 June 2020	From 1 July 2020 to December 2020	Total
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
(a) Increase our market coverage in the PRC by intensifying our sales efforts:							
(i) Expand our current operations in Beijing and Shanghai	–	–	–	2.0	1.4	1.4	4.8
(ii) Engage in marketing activities through participation in trade shows, industry exhibitions and networking events	0.1	0.5	0.7	0.7	0.7	0.7	3.4
(b) Strengthen our innovation capabilities and increase research and development as well as product testing resources:							
(i) Enhance our research and development resources	–	9.9	1.0	1.0	1.0	1.0	13.9
(ii) Upgrade product testing facilities, expand testing centre and cooperate with research institutions and university	–	–	4.6	1.2	1.2	1.2	8.2
(c) Enhance our information technology infrastructure	–	2.7	0.2	0.2	0.2	0.2	3.5
(d) General working capital	0.3	0.5	0.5	0.5	0.5	0.5	2.8
	<u>0.4</u>	<u>13.6</u>	<u>7.0</u>	<u>5.6</u>	<u>5.0</u>	<u>5.0</u>	<u>36.6</u>

Bases and Assumptions

Potential investors should note that the attainability of our Group's business objectives and strategies 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 our existing strategic and business partners;
- there will be no significant changes in our Group's business relationship with our 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" in this prospectus.

According to current estimates, our Group expects that the net proceeds from the Share Offer of approximately HK\$36.6 million (based on the Offer Price of HK\$0.55, being the mid point of the indicative Offer Price Range, and after deducting related expense), the cash in bank and on hand as at the Latest Practicable Date together with the projected cash flow from operations will be sufficient to finance the implementation of our Group's future plans up to 31 December 2020. If the Offer Price is less than HK\$0.55 per Share, our Group plans to fund the expansion plans through internal resources such as cash generated from operations or other external sources such as bank loans and other borrowings, as appropriate. Our Group would consider the costs and benefits of each option before deciding the way of funding for our expansion plans. If the Offer Price is above HK\$0.55 per Share and/or the Offer Size Adjustment Option is exercised, to the extent the additional funding is not immediately required for the expansion plans or we are unable to effect any part of our future plans as intended, we may use such funds as working capital.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the net proceeds, assuming that the Offer Size Adjustment Option is not exercised, will increase to approximately HK\$42.1 million or decrease to approximately HK\$31.1 million, respectively; and in such event, we intend to increase or decrease, respectively, the net proceeds to be used for the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds are not sufficient to fund the purposes as set forth above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowings, as appropriate. Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the net proceeds of the Public Offer are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we may place such net proceeds as short term interest-bearing deposits in licensed banks in Hong Kong and use such amount as general working capital.

REASONS FOR LISTING

The Directors believe that the Listing enables our Group to enjoy various benefits as summarised below which not only enable our Group to achieve our business objectives, but also facilitate our future development:

- (i) **Potential market growth and implementation of strategies:** The net proceeds from the Listing provide our Group with financial resources to implement our business plans which in turn drive the growth of our business. According to the CIC Report, demand for functional knitted fabrics from both local markets and foreign countries increase rapidly and the sales value of intimate wear functional knitted fabrics in China is expected to reach RMB15,041.3 million by 2022, representing a CAGR of 9.3% between 2018 and 2022. The Directors believe that, through intensifying sales efforts by expanding our current operations in Beijing and Shanghai and engaging in various marketing activities as well as widening our product offerings by establishing new research and development centre and expanding the research and development team, our Group will benefit from capturing such market growth and more business opportunities;
- (ii) **Enhance the Group's competitiveness in the functional knitted fabric industry:** According to the CIC Report, China's functional knitted fabric market is fragmented with over 20,000 providers in 2017. In addition, future trend for the market will be laid on more investments in research and development as well as focusing on customer-oriental designs. Regarding the Group's use of proceeds, (i) about 35% of the net proceeds will be used to strengthen the Group's innovation and research and development capabilities and to widen product offerings; and (ii) about 20% of net proceeds will be used to increase product testing resources, which in turn enhances our competitiveness among new entrants and competitors;

FUTURE PLANS AND USE OF PROCEEDS

- (iii) **Strengthen financial position for capturing potential business opportunities:** our Group normally requires over two months to complete the production process and the capacity to capture more business opportunities may be limited to the available working capital and cash flow. In addition, during the Track Record Period, our average trade and bills receivables turnover days ranged from 49 days to 90 days and average trade payables turnover days ranged from 19 days to 33 days. It is considered that liquidity and cash flow are important to us since there are often time lags between making payments to the suppliers and receiving payments from the customers;
- (iv) **Access to the capital market:** As at 31 December 2017, the total current liabilities amounted to approximately HK\$45.0 million, our Group's cash balance of approximately HK\$8.8 million together with unutilised banking facilities of approximately HK\$12.4 million. Nevertheless, the Directors considered that debt financing is not desirable having considered the fund is repayable and the interest expense incurred would impair our financial position. In comparison, the Listing represents a good opportunity for our Group to tap into the capital market which provides a more cost effective fund-raising platform to assist our actual and practical needs for our future business development plan and further strengthen our competitiveness; and
- (v) **Other commercial benefits:** Our Group will benefit from the Listing by (i) the enhanced corporate image, profile and credibility which in turn not only expands our clientele, but also increases our bargaining power in negotiating terms with customers and suppliers; (ii) the enhanced internal control and corporate governance practices resulting in increase in customers' and suppliers' confidence in our Group; (iii) the ability to retain management and technical personnel and to hire suitable talents by offering more competitive salary packages; and (iv) maintaining banking facilities without reliance on personal guarantees from our Directors.

UNDERWRITING

UNDERWRITERS

Public Offer Underwriters Pacific Foundation Securities Limited
Quasar Securities Co., Limited
Sunfund Securities Limited

Placing Underwriters Pacific Foundation Securities Limited
Quasar Securities Co., Limited
Astrum Capital Management Limited
Frontpage Capital Limited
Taijin Securities and Futures Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company is offering the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Public Offer Underwriting Agreement is conditional upon and subject to, among others, the Placing Underwriting Agreement becoming unconditional and not having been terminated in accordance with its terms.

Subject to, among other conditions, the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed to subscribe or procure subscribers to subscribe for the Public Offer Shares which are not taken up under the Public Offer.

Grounds for Termination

The Joint Bookrunners (for themselves and on behalf of all the Public Offer Underwriters) shall have the absolute right upon giving a written notice to the Company to terminate the Public Offer Underwriting Agreement if any of the following events occur prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be on Wednesday, 16 May 2018):

- (A) if it has come to the notice of the Joint Bookrunners:
 - (i) that any statement contained in this prospectus, the Application Forms, the formal notice (collectively, the “**Offer Documents**”) and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendments thereto) (collectively, the “**Relevant Documents**”) was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the joint and absolute opinion of the Joint Bookrunners (for themselves and on behalf of the other Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

UNDERWRITING

- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, executive Directors and Controlling Shareholders pursuant to the indemnity clause under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders' equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group; or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties and undertakings given by our Company, executive Directors and Controlling Shareholders under the Public Offer Underwriting Agreement or the Placing Underwriting Agreement; or
- (vii) the approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Offer Size Adjustment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
- (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any member of our Group or any member of our Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or

UNDERWRITING

- (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of our Directors and senior management members of our Group as set out in the section headed “Directors, Senior Management and Employees” of this prospectus; or
 - (xii) a portion of the orders in the bookbuilding process, which is considered by the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in their absolute opinion to be material, at the time the Placing Underwriting Agreement is entered into, or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Bookrunners, in their joint and absolute discretion, conclude that it is therefore inadvisable or inexpedient or impracticable to proceed with the Share Offer; or
 - (xiii) any loss or damage has been sustained by any member of our Group (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Joint Bookrunners (for themselves and on behalf of the other Underwriters) in their joint and absolute opinion to be material; or
- (B) there shall develop, occur, exist or come into effect:
- (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

UNDERWRITING

- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new laws, or any change or development involving a prospective change in existing laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, the Cayman Islands, the European Union (or any member thereof) or any other jurisdictions relevant to any member of our Group or the Share Offer (the “**Specific Jurisdictions**”); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in our Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any member of our Group or its substantial shareholders or any of our Company, executive Directors and Controlling Shareholders; or

UNDERWRITING

- (x) any of our Directors and senior management members of our Company as set out in the section headed “Directors, Senior Management and Employees” of this prospectus being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) our chairman or chief executive officer of our Company vacating his or her office; or
- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any member of our Group or any Director of the GEM Listing Rules or any other laws applicable to the Share Offer; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Offer Size Adjustment Option pursuant to the terms of the Share Offer; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the GEM Listing Rules or any other laws applicable to the Share Offer; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the GEM Listing Rules or any requirement or request of the Stock Exchange and/or SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any member of our Group or in respect of which any member of our Group is liable prior to its stated maturity,

which in each case individually or in aggregate in the joint and absolute opinion of Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) has or is or will or may or could be expected to have an adverse effect on the assets, liabilities, business, general affairs, management, shareholders’ equity, profits, losses, results of operation, financial, trading or other condition or prospects or risks of our Company or the Group or any member of our Group or on any present or prospective shareholder of our Company in his, her or its capacity as such; or

UNDERWRITING

- (b) has or will or may have or could be expected to have an adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Public Offer Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

UNDERTAKINGS

Undertakings pursuant to the Public Offer Underwriting Agreement

Undertakings by our Controlling Shareholders

Mr. Wong, our executive Director, and Cosmic Bliss, both being our Controlling Shareholders, have jointly and severally represented, warranted and undertaken to each of the Stock Exchange, the Sole Sponsor, the Joint Bookrunners, Public Offer Underwriters and our Company that, except as permitted under the GEM Listing Rules and pursuant to the Public Offer and the Capitalisation Issue, he/it shall not without the prior written consent the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (a) at any time period commencing on the date by reference to which disclosure of the shareholding of our Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date (the “**First 12-Month Period**”), offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase for, lend or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrances in respect of), either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him/her or it or any voting right or any other right attaching thereto (including, but not limited to any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) whether currently held or enter into any swap or other arrangement that transfers, in whole or

UNDERWRITING

in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree or contract to do any of the foregoing or announce any intention to do so, provided that the restriction shall not apply to any pledge or charge of Shares by our Controlling Shareholders in favour of an authorised institution as defined in the Banking Ordinances (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in accordance with the GEM Listing Rules;

- (b) at any time during the during the period of 12 months commencing on the date on which the First 12-Month Period expires (the “**Second 12-Month Period**”) enter into any of the transactions described in (a) above if, immediately following such transaction, he/it would cease to be the controlling shareholder (as defined in the GEM Listing Rules) of our Company, provided that the restriction shall not apply to any pledge or charge of Shares by our Controlling Shareholders 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 in accordance with the GEM Listing Rules; and
- (c) in the event of a disposal by him/it of any share capital or any interest therein or any voting right or any other right attaching thereto during the period referred to in (ii) above, he/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares or other securities of our Company.

Mr. Wong, our executive Director, and Cosmic Bliss, both being our Controlling Shareholders, have also undertaken to each of the Company, the Stock Exchange, the Sole Sponsor and the Joint Bookrunners for themselves and on behalf of the Public Offer Underwriters that, within the 24 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any securities or interests in the securities of the Company beneficially owned by him/it directly or indirectly, immediately inform the Company, the Sole Sponsor and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company, the Sole Sponsor, and the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) in writing of such indications and the number of securities and nature of interests affected.

UNDERWRITING

The Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by the Controlling Shareholders and disclose such matters by way of an announcement to be published in accordance with the GEM Listing Rules as soon as possible.

Undertakings by our Company

Our Company has also undertaken to the Sole Sponsor, the Joint Bookrunners and Public Offer Underwriters under the Public Offer Underwriting Agreement that, and each of our Company, our Controlling Shareholders and our executive Directors have undertaken to procure, that:

- (1) except pursuant to the Share Offer and the exercise of the Offer Size Adjustment Option during the First 12-Month Period, our Company will not, without the prior written consent of the Sole Sponsor and the Joint Bookrunners and unless in compliance with the requirements of the GEM Listing Rules:
 - (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of, or agree to transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company, as applicable; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any shares or other securities of our Company, as applicable, or any interest in any of the foregoing (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 or other securities of our Company, as applicable); or
 - (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or
 - (d) offer to or agree to or announce any intention to effect any transaction described in (a), (b) or (c) above,

UNDERWRITING

in each case, whether any of the transactions described in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First-12-Month Period);

- (2) our Company will not, and will procure each other member of our Group not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that our Controlling Shareholder would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company during the Second 12-Month Period; and
- (3) in the event that, during Second 12-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

Undertakings pursuant to 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 has undertaken to our Company and to the Stock Exchange that, save as provided in Rule 13.18 of the GEM Listing Rules and pursuant to the Share Offer and the Offer Size Adjustment Option as described and contained in this prospectus, it/he shall not and shall procure that the relevant registered holder(s), its/his associates, companies controlled by it/him or its/his nominees or trustees holding the Shares in trust for it/him (as the case may be) shall not:

- (a) at any time during the First 12-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 in respect of which it/he is shown by this prospectus to be the beneficial owner; or
- (b) at any time during the Second 12-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 referred to in subparagraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (as defined under the GEM Listing Rules).

UNDERWRITING

Each of our Controlling Shareholders has also undertaken to and covenanted with the Company and the Stock Exchange that:

- (a) in the event that it/he pledges or charges any of its/his direct or indirect interest in the Shares or other securities of the Company under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders in the Company is made in this prospectus and ending on the 24 months after the Listing Date, he/it must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and
- (b) having pledged or charged any interest in the Shares or other securities of the Company under sub-paragraph (a) above, it/he must inform the Company immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares or other securities of the Company affected.

Our Company will also inform the Stock Exchange as soon as our Company has been informed of the above matters (if any) by any of our Controlling Shareholders and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Undertakings by our Company

Our Company has undertaken to the Stock Exchange that, except pursuant to the Share Offer, the Capitalisation Issue and the Offer Size Adjustment Option as described and contained in this prospectus, it will not issue any further Shares or securities convertible into equity securities (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the Listing Date) except for any of the circumstances provided under Rules 17.29(1) to (5) of the GEM Listing Rules.

Placing

Placing Underwriting Agreement

In connection with the Placing, the Controlling Shareholders, executive Directors and the Company expect to enter into the Placing Underwriting Agreement with the Sole Sponsor, the Joint Bookrunners and the Placing Underwriters, on the terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below.

UNDERWRITING

Under the Placing Underwriting Agreement, subject to the conditions set forth therein, the Placing Underwriters are expected to severally, but not jointly, agree to procure subscribers to subscribe for, or failing which they shall subscribe for the Placing Shares initially being offered pursuant to the Placing. It is expected that the Placing Underwriting Agreement may be terminated on similar grounds as the Public Offer Underwriting Agreement. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. The Placing Underwriting Agreement is conditional on and subject to the Public Offer Underwriting Agreement having been executed, becoming unconditional and not having been terminated.

It is expected that pursuant to the Placing Underwriting Agreement, (i) the Company and (ii) Mr. Wong, our executive Director, and Cosmic Bliss, both being our Controlling Shareholders, will make similar undertakings as those given pursuant to the Public Offer Underwriting Agreement as described in the paragraph headed “Undertakings – Undertakings pursuant to the Public Offer Underwriting Agreement” in this section.

OFFER SIZE ADJUSTMENT OPTION

In connection with the Share Offer, our Company is expected to grant the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Joint Bookrunners on behalf of the Placing Underwriters, to cover over allocations under the Placing (if any).

Pursuant to the Offer Size Adjustment Option, our Company may be required to allot and issue, at the final Offer Price, up to an aggregate of 18,000,000 additional new Shares, representing 15% of the Offer Shares initially available under the Share Offer. The Offer Size Adjustment Option can only be exercised by the Joint Bookrunners at any time before 5:00 p.m. on the business day immediately preceding the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares; otherwise it will lapse. The Shares to be issued pursuant to the exercise of the Offer Size Adjustment Option will not be used for price stabilisation purpose and are not subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong).

If the Offer Size Adjustment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of the enlarged issued share capital of our Company in issue following completion of the Capitalisation Issue, the Share Offer and the exercise of the Offer Size Adjustment Option but without taking into account any Shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme. The additional net proceeds that we would receive if the Offer Size Adjustment Option is exercised in full (assuming the Offer Price of HK\$0.55 per Share (being the mid-point of the indicative Offer Price range)) are estimated to be approximately HK\$9.9 million, which would be applied to the respective uses as disclosed in the section headed “Future Plans and Use of Proceeds” on a pro-rata basis. Whether or not the Offer Size Adjustment Option has been exercised will be disclosed in the announcement of the results of allocations.

UNDERWRITING

Fees, Commission and Expenses

Under the terms and conditions of the Public Offer Underwriting Agreement, the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) will receive a underwriting commission of 7.0% on the aggregate Offer Price of all the Public Offer Shares, out of which will, as the case may be, be applied to any sub-underwriting commissions and selling concession. The respective entitlements of the Public Offer Underwriters to the underwriting commission will be paid as separately agreed between the Joint Bookrunners and the Public Offer Underwriters. The Sole Sponsor will receive a documentation and advisory fee under the Share Offer. Assuming the Offer Size Adjustment Option is not exercised at all and based on an Offer Price of HK\$0.55 per Offer Share (being the mid-point of the indicative Offer Price range), the total listing expenses are estimated to be approximately HK\$29.4 million, which will be borne by the Company.

UNDERWRITERS' INTEREST IN OUR COMPANY

Save for its interests and obligations under the Underwriting Agreements and save as disclosed in this prospectus, none of the Underwriters or any of its associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of the Group.

SOLE SPONSOR'S AND UNDERWRITERS' INTEREST IN OUR COMPANY

The Sole Sponsor will receive a sponsorship fee and 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 "Fees, commission and expenses" above.

We have appointed Sunfund 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 we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the full financial year commencing after the Listing Date.

Save for the underwriting commission as disclosed in the paragraph headed "Fees, commission and expenses" above and the sponsorship fee and the documentation and advisory fee as disclosed in this paragraph above, none of the Sole Sponsor 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 members of our Group or has any interest in the Share Offer.

The Sole Sponsor satisfies the independence criteria applicable to sponsor set out in Rule 6A.07 of the GEM Listing Rules.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

THE SHARE OFFER

This prospectus is published in connection with the Public Offer as part of the Share Offer. The Share Offer consists of:

- the Public Offer of 12,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option as mentioned below) as described under the paragraph headed “The Public Offer” in this section; and
- the Placing of 108,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option as mentioned below) as described under the paragraph headed “The Placing” in this section.

Investors may apply for the Offer Shares under the Public Offer or indicate an interest, if qualified to do so, for the Offer Shares under the Placing, but may not do both. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong.

The Placing will involve selective marketing of the Offer Shares to institutional, professional and other investors. The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire.

The number of Offer Shares to be offered under the Public Offer and the Placing respectively may be subject to reallocation as described in the paragraph headed “Pricing and Allocation” in this section.

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$0.60 per Offer Share and not less than HK\$0.50 per Offer Share, unless otherwise announced. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Price payable on application

Applicants under the Public Offer must pay, on application, the maximum indicative Offer Price of HK\$0.60 per Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK\$3,030.23 for one board lot of 5,000 Shares. Each Application Form includes a table showing the exact amounts payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$0.60 per Public Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest.

Determining the Offer Price

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the Placing. Prospective investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about Friday, 4 May 2018.

The Offer Price is expected to be fixed by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and the Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Monday, 7 May 2018.

Reduction in indicative Offer Price range

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, based on the bookbuilding process and with the prior consent of the Company, reduce the indicative Offer Price range below that disclosed in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event no later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published on the website of the Stock Exchange and the Company a notice of reduction of the Offer Price range. Such notice shall also include confirmation or revision, as appropriate, of the working capital statement, offer statistics and any financial or other information in this prospectus which may change as a result of any such reduction.

Before submitting applications for Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

The Shares to be offered in the Public Offer and the Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters).

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. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Allocation of the Placing Shares pursuant to the Placing will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional and other investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Tuesday, 15 May 2018 on the Stock Exchange's website and on the Company's website.

Results of allocations in the Public Offer, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Public Offer Shares successfully applied for under **WHITE** and **YELLOW** application forms will be made available through a variety of channels as described in the sub-section headed "How to Apply for Public Offer Shares – 11. Publication of results" in this prospectus.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Offer Shares pursuant to the Public Offer will be conditional upon, among other things:

- the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus;
- the Offer Price having been duly agreed on or around the Price Determination Date;

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- the execution and delivery of the Placing Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriters under each of the Placing Underwriting Agreement and the Public Offer Underwriting Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not beyond the 30th day after the date of this prospectus.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will cause to be published by us on the Stock Exchange's website and on the Company's website on the next day following such lapse.

Share certificates for the Offer Shares are expected to be issued on Tuesday, 15 May 2018 but will only become valid certificates of title at 8:00 a.m. on Wednesday, 16 May 2018, provided that (i) the Share Offer has become unconditional in all respects and (ii) the right of termination as described in the sub-section headed "Underwriting – Underwriting Arrangements and Expenses – Grounds for Termination" in this prospectus has not been exercised.

THE PUBLIC OFFER

Number of Shares initially offered

The Company is initially offering 12,000,000 Public Offer Shares at the Offer Price, representing 10% of the 120,000,000 Shares initially available under the Share Offer, for subscription by the public in Hong Kong, subject to reallocation and the Offer Size Adjustment Option as mentioned below. The Public Offer is open to members of the public in Hong Kong as well as to institutional, professional and other investors. Completion of the Public Offer is subject to the conditions as set out in the paragraph headed "Conditions of the Public Offer" in this section.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Allocation

The Public Offer is open for subscription to all members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. When there are over-subscriptions, 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. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (i) if the Public Offer Shares are undersubscribed, the Joint Bookrunners will have the discretion to reallocate all or any of the unsubscribed Public Offer Shares from the Public Offer to the Placing;
- (ii) if the number of Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times of the initial number of the Public Offer Shares, then up to 24,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will increase to 36,000,000 Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
- (iii) if the number of Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times of the initial number of the Public Offer Shares, then up to 36,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will increase to 48,000,000 Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
- (iv) if the number of Shares validly applied for under the Public Offer represents 100 times or more than the initial number of the Public Offer Shares, then up to 48,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will increase to 60,000,000 Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

- (v) in the event that the Placing Shares are undersubscribed under the Placing, if the Public Offer Shares are undersubscribed, the Share Offer shall not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
- (vi) pursuant to Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, in the event that the Placing Shares are undersubscribed under the Placing, if the Public Offer Shares are fully subscribed or oversubscribed irrespective of the number of times of the initial number of the Public Offer Shares, then up to 12,000,000 Offer Shares may be reallocated to the Public Offer from the Placing, so that the total number of Offer Shares available for subscription under the Public Offer will increase up to 24,000,000 Shares, representing 20% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

In the event of reallocation of Offer Shares between the Placing and the Public Offer in the circumstances where the Placing Shares are undersubscribed and the Public Offer Shares are fully subscribed or oversubscribed under paragraph (vi) above, the Offer Price shall be fixed at HK\$0.50 per Offer Share (being the low-end of the indicative Offer Price range) according to HKEX Guidance Letter HKEX-GL91-18 issued by the Stock Exchange.

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced. If reallocation of Shares from the Placing to the Public Offer is done other than pursuant to the clawback mechanism under Practice Note 6 to the GEM Listing Rules (including the circumstances specified under paragraph (ii), (iii) or (iv) above), the Offer Shares to be offered in the Public Offer and the Placing may be reallocated as between these offerings at the discretion of the Joint Bookrunners (for themselves and on behalf of the Underwriters), subject to the maximum total number of Offer Shares that may be allocated to the Public Offer, being 24,000,000 Shares, representing twice the number of Offer Shares initially allocated to the Public Offer, in accordance with Guidance Letter HKEX-GL-91-18.

Details of any reallocation of Offer Shares between the Public Offer and the Placing will be disclosed in the results announcement of the Share Offer, which is expected to be published on Tuesday, 15 May 2018.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

Applications

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by such applicant that the applicant and any person(s) for whose benefit the applicant is making the application have not indicated an interest for or taken up and will not indicate an interest for or take up any Placing Shares in the Placing, and such applicant's application will be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially comprised in the Public Offer are liable to be rejected.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

THE PLACING

Number of Offer Shares initially offered

Subject to the reallocation as described above, the number of Offer Shares to be initially offered under the Placing will be 108,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Share Offer. The Placing is subject to the Public Offer being unconditional.

Allocation

Pursuant to the Placing, the Placing Underwriters will conditionally place the Placing Shares with institutional, professional and other investors expected to have a sizeable demand for the Placing Shares in Hong Kong. Allocation of Placing Shares pursuant to the Placing will be effected in accordance with the "bookbuilding" process described in paragraph headed "Pricing and allocation" in this section and based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares after Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of the Company and the Shareholders as a whole.

The total number of the Placing Shares to be allotted and issued may change as a result of the reallocation mentioned under the paragraph headed "The Public Offer – Reallocation" in this section.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreements, we have granted to the Underwriters the Offer Size Adjustment Option, which is exercisable by the Joint Bookrunners (for themselves and on behalf of the Underwriters) in its joint and absolute discretion (i) on or before the business day immediately before the date of the allotment results announcement; and (ii) within 30 days from the date of this prospectus, whichever is earlier, in writing, to require our Company to allot and issue up to 18,000,000 additional Shares at the Offer Price, representing 15% of the total number of Shares initially available for subscription under the Share Offer. Any such additional Shares may be issued to cover any excess demand in the Share Offer at the absolute discretion of the Joint Bookrunners.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Joint Bookrunners (for themselves and on behalf of the Underwriters) to meet any excess demand in the Share Offer. The Offer Size Adjustment Option will not be associated with any price stabilisation activity of the Shares in the secondary market after the listing of the Shares on GEM and will not be subject to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Share Offer which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

We will disclose in our allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.smart-team.cn.

In the event that the Offer Size Adjustment Option is exercised in full, 18,000,000 additional Shares will be issued resulting in a total number of 498,000,000 Shares in issue representing approximately 3.61% of our Company's total number of Shares in issue as enlarged immediately following completion of the Share Offer, the Capitalisation Issue and the exercise of the Offer Size Adjustment Option.

If the Offer Size Adjustment Option is exercised in full, the additional net proceeds received from the placing of the additional Shares allotted and issued will be allocated in accordance with the allocations as disclosed in the section headed "Future Plans and Use of Proceeds" in this prospectus, on a pro-rata basis.

STRUCTURE AND CONDITIONS OF THE SHARE OFFER

SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

DEALING ARRANGEMENTS

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 16 May 2018, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Wednesday, 16 May 2018. The Shares will be traded in board lots of 5,000 Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. How to apply

To apply for Public Offer Shares, you may:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- (c) 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 and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. Who can apply

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a U.S. Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Bookrunners may accept or reject it at their discretion and on any conditions they think fit, including the provision of evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of the **HK eIPO White Form** service for the Public Offer Shares.

HOW TO APPLY FOR 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 the Company or any of its subsidiaries;
- a director or chief executive officer of the Company or any of its subsidiaries;
- a connected person (as defined in the GEM Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Public Offer;
- an associate (as defined in the GEM Listing Rules) of any of the above; or
- have been allocated or have applied for any Placing Shares or otherwise participated in the Placing.

3. Apply 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.

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 to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 April 2018 until 12:00 noon on Friday, 4 May 2018 from:

- (i) the following addresses of the Public Offer Underwriters:

Pacific Foundation Securities Limited

11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong

Quasar Securities Co., Limited

Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan, Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES

Sunfund Securities Limited

Unit 702-3, 7/F
100 Queen's Road Central
Hong Kong

- (ii) the following branches of the receiving bank, Industrial and Commercial Bank of China (Asia) Limited:

District	Branch Name	Address
Hong Kong Island	Central branch	1/F., 9 Queen's Road Central, Hong Kong
	Admiralty branch	Shop 1013-1014, 1/F, United Centre, 95 Queensway, Admiralty, Hong Kong
Kowloon	Tsim Sha Tsui branch	Shop 1&2, G/F, No. 35-37 Hankow Road, Tsim Sha Tsui, Kowloon
	Mong Kok branch	G/F, Belgian Bank Building, 721-725 Nathan Road, Mong Kok, Kowloon
New Territories	Tsuen Wan Castle Peak Road Branch	G/F, 423-427 Castle Peak Road, Tsuen Wan, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 30 April 2018 until 12:00 noon on Friday, 4 May 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR PUBLIC OFFER SHARES

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited – ST International 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:

Monday, 30 April 2018 – 9:00 a.m. to 5:00 p.m.

Wednesday, 2 May 2018 – 9:00 a.m. to 5:00 p.m.

Thursday, 3 May 2018 – 9:00 a.m. to 5:00 p.m.

Friday, 4 May 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 Friday, 4 May 2018, the last application day or such later time described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

4. Terms and conditions of an application

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, 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 the Company and/or the Joint Bookrunners (or their agents or nominees), as agents of the 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 (Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set forth 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (v) confirm that you are aware of the restrictions on the Public Offer in this prospectus;
- (vi) agree that none of the Company, the Sole Sponsor, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Public 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 the Company, the Hong Kong Branch Share Registrar, the 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 the Company, the Sole Sponsor, and the Joint Bookrunners, the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Forms;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible and have chosen 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 the Company 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 for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for YELLOW Application Form

You may refer to the **YELLOW** Application Form for further information.

HOW TO APPLY FOR PUBLIC OFFER SHARES

5. Applying through HK eIPO White Form Service

General

Individuals who meet the criteria in the paragraph headed “2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at **www.hkeipo.hk**.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the HK eIPO White Form service.

Time for submitting applications under the HK eIPO White Form

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at **www.hkeipo.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 30 April 2018 until 11:30 a.m. on Friday, 4 May 2018 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 4 May 2018 or such later time under the paragraph 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 instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR 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 monies 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 at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service 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 Lead Managers and the Hong Kong Branch Share Registrar.

HOW TO APPLY FOR 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, 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 year 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, the Sponsor, the Joint Bookrunners, the Joint Lead Managers and their respective agents and nominees 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a 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 a 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;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 **electronic application instructions** 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 our 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; 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:

- (a) 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;
- (b) instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the final Offer Price is less than the Offer Price per Public Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (c) 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.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Monday, 30 April 2018 – 9:00 a.m. to 5:00 p.m.⁽¹⁾

Wednesday, 2 May 2018 – 8:00 a.m. to 5:00 p.m.⁽¹⁾

Thursday, 3 May 2018 – 8:00 a.m. to 5:00 p.m.⁽¹⁾

Friday, 4 May 2018 – 8:00⁽¹⁾ to 12:00 noon

Note (1):

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 30 April 2018 until 12:00 noon on Friday, 4 May 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 Friday, 4 May 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 PUBLIC OFFER SHARES

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. Warning for electronic applications

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or persons applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

HOW TO APPLY FOR PUBLIC OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 4 May 2018.

8. How many applications can you make

Multiple applications for 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 the **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of 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).

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Public Offer Shares under the terms set forth in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 5,000 Public Offer Shares. Each application in respect of more than 5,000 Public Offer Shares must be in one of the numbers set forth in the table in the Application Form.

If your application is successful, brokerage will be paid to the participants of the Stock Exchange, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

Further information on the Offer Price is set forth in the sub-section headed “Structure and conditions of the Share Offer – Pricing and allocation” in this prospectus.

10. Effect of bad weather on the opening of the application lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 4 May 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 Friday, 4 May 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” in this prospectus, an announcement will be made in such event.

HOW TO APPLY FOR PUBLIC OFFER SHARES

11. Publication of results

We expect to announce the final Offer Price, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Tuesday, 15 May 2018 on the Company's website **www.smart-team.cn** and the Stock Exchange's website **www.hkexnews.hk**.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website **www.smart-team.cn** and the Stock Exchange's website **www.hkexnews.hk** by no later than 8:00 a.m. on Tuesday, 15 May 2018;
- from the designated results of allocations website **www.tricor.com.hk/ipo/result** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 15 May 2018 to 12:00 midnight on Monday, 21 May 2018;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 15 May 2018 to Friday, 18 May 2018 on a business day;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 15 May 2018 and Thursday, 17 May 2018 at designated branches of the receiving bank on a business day.

If the 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 Public Offer are satisfied and the Public Offer is not otherwise terminated. Conditions of the Public Offer are set forth in the section headed "Structure and conditions of the Share Offer" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR PUBLIC OFFER SHARES

12. Circumstances in which you will not be allotted Public Offer Shares

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the 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 the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Bookrunners the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Bookrunners believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially available for subscription under the Public Offer.

HOW TO APPLY FOR PUBLIC OFFER SHARES

13. Refund of application monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.60 (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the sub-section headed “Structure and conditions of the Share Offer – Conditions of the Public Offer” of this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Tuesday, 15 May 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 the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/ passport number may invalidate or delay encashment of your refund cheque(s).

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 before Tuesday, 15 May 2018. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 16 May 2018 provided that the Public Offer has become unconditional and the right of termination described in the section headed "Underwriting" in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal Collection

(i) *If you apply using a **WHITE** 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) (where applicable) and/or share certificate(s) (where applicable) 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 Tuesday, 15 May 2018 or such other date as notified by us as the date of collection/despatch of share certificates and/or refund cheques.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque and/or Share certificate 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) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address on the relevant Application Form on or before Tuesday, 15 May 2018, by ordinary post and at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) *If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) (where applicable) will be sent to the address on the relevant Application Form on or before Tuesday, 15 May 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 will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participants stock account as stated in your Application Form on Tuesday, 15 May 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- *If you are applying as a CCASS investor participant*

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the paragraph "11. Publication of Results" in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 15 May 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through HK eIPO white Form service:*

- If you apply for 1,000,000 offer Shares or more through the **HK eIPO White Form** service and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person 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 Tuesday, 15 May 2018, or any other place or date notified by our Company in the newspapers as the place or date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- 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 and at your own risk.
- If you apply for less than 1,000,000 Offer Share through the **HK eIPO White Form** service, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Tuesday, 15 May 2018 by ordinary post and at your own risk.
- If you apply and pay the application monies from a single bank account, any refund monies will be dispatched 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 dispatched to the address specified in your application instructions in the form of refund cheque(s) by ordinary post and at your own risk.

(iv) *If you apply via **electronic application instructions** to HKSCC*

Allocation of the Public Offer Shares

- For the purposes of allocating the 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 Tuesday, 15 May 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 Shares in the manner specified in the paragraph headed "11. Publication of Results" in this section on Tuesday, 15 May 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 15 May 2018 or such other date as determined by HKSCC or HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 15 May 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 initially paid on application (including brokerage, SFC transaction levy and 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 Tuesday, 15 May 2018.

15. Admission of the Shares into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses.

Settlement of transactions between participants of the Stock Exchange (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 the Shares to be admitted into CCASS.

The following is the text of a report prepared for the purpose of incorporation in this prospectus, required from the Company's reporting accountant, SHINEWING (HK) CPA Limited.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF ST INTERNATIONAL HOLDINGS COMPANY LIMITED

INTRODUCTION

We report on the historical financial information of ST International Holdings Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-62, which comprises the statement of financial position as at 31 December 2017, the combined statements of financial position as at 31 December 2015, 2016 and 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 for each of the years then ended (the "Track Record Period") and a summary of significant policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information are set out on pages I-4 to I-62 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 30 April 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

DIRECTORS' RESPONSIBILITIES FOR 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 preparation and presentation set out in note 2 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 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’ Report on Historical Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “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 preparation and presentation set out in note 2 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 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 purpose of the accountants’ report, a true and fair view of the Company’s financial position as at 31 December 2017, the Group’s financial position as at 31 December 2015, 2016 and 2017 and of the Group’s financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 2 to the Historical Financial Information.

**REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF
SECURITIES ON 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 pages I-4 have been made.

DIVIDENDS

We refer to note 16 to the Historical Financial Information which states that no dividends have been declared and paid by the Company in respect of the Track Record Period.

NO HISTORICAL FINANCIAL INFORMATION FOR THE COMPANY

No statutory financial statements have been prepared for the Company since its date of incorporation.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

30 April 2018

A. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report:

The Historical Financial Information in this report was prepared based on (i) the consolidated financial statements of Smart Team Textiles Technology Limited ("Smart Team") and its subsidiaries for the Track Record Period and (ii) management accounts of ST International Holdings Company Limited and World Vantage Investments Limited ("World Vantage") from their dates of incorporations to 31 December 2017, which both were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

A. HISTORICAL FINANCIAL INFORMATION

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME

	Notes	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Revenue	8	64,104	80,250	125,275
Cost of sales		<u>(40,934)</u>	<u>(45,034)</u>	<u>(80,379)</u>
Gross profit		23,170	35,216	44,896
Other income	10	1,846	502	1,734
Selling and distribution expenses		(2,502)	(3,380)	(2,931)
Administrative and other expenses		(8,482)	(9,828)	(17,714)
Finance costs	11	<u>-</u>	<u>(94)</u>	<u>(215)</u>
Profit before tax		14,032	22,416	25,770
Income tax expenses	12	<u>(1,912)</u>	<u>(3,872)</u>	<u>(5,595)</u>
Profit for the year	13	<u>12,120</u>	<u>18,544</u>	<u>20,175</u>
Profit (loss) for the year attributable to:				
Owners of the Company		12,051	18,895	20,252
Non-controlling interests		<u>69</u>	<u>(351)</u>	<u>(77)</u>
		<u>12,120</u>	<u>18,544</u>	<u>20,175</u>
Other comprehensive (expense) income for the year				
<i>Items that may be reclassified subsequently to profit or loss</i>				
Exchange differences arising on translation of foreign operations		<u>(584)</u>	<u>(1,768)</u>	<u>3,075</u>
Total comprehensive income for the year		<u>11,536</u>	<u>16,776</u>	<u>23,250</u>
Total comprehensive income (expense) for the year attributable to:				
Owners of the Company		11,495	17,122	23,345
Non-controlling interests		<u>41</u>	<u>(346)</u>	<u>(95)</u>
		<u>11,536</u>	<u>16,776</u>	<u>23,250</u>
Earnings per share				
- basic and diluted	17	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

COMBINED STATEMENTS OF FINANCIAL POSITION

	Notes	The Group			The Company
		2015 HK\$'000	As at 31 December 2016 2017 HK\$'000		2017 HK\$'000
Non-current assets					
Plant and equipment	18	3,097	2,840	3,272	–
Deferred tax asset	26	–	–	508	–
		<u>3,097</u>	<u>2,840</u>	<u>3,780</u>	<u>–</u>
Current assets					
Inventories	19	2,107	2,193	12,579	–
Trade and bills receivables	20	11,775	14,273	47,781	–
Deposits, prepayments and other receivables	20	10,649	12,146	23,715	–
Amounts due from a related company	23	–	7,257	–	–
Pledged bank deposits	21	2,985	5,790	6,043	–
Bank balances and cash	21	11,984	16,657	8,756	–
		<u>39,500</u>	<u>58,316</u>	<u>98,874</u>	<u>–</u>
Current liabilities					
Trade payables	22	3,121	4,781	9,868	–
Other payables and accruals	22	3,283	2,760	14,257	–
Amounts due to related companies	23	9,487	6	–	–
Amounts due to a director	24	8,571	16,000	9,411	–
Bank borrowing	25	–	3,000	3,000	–
Income tax payable		1,129	1,128	2,785	–
Bank overdrafts	25	–	–	5,637	–
		<u>25,591</u>	<u>27,675</u>	<u>44,958</u>	<u>–</u>
Net current assets		<u>13,909</u>	<u>30,641</u>	<u>53,916</u>	<u>–</u>
Total assets less current liabilities		<u>17,006</u>	<u>33,481</u>	<u>57,696</u>	<u>–</u>
Non-current liability					
Deferred tax liability	26	171	105	1,070	–
NET ASSETS		<u>16,835</u>	<u>33,376</u>	<u>56,626</u>	<u>–</u>
Capital and reserves					
Share capital	27	–	–	–	–
Reserves		16,139	33,596	56,941	–
Equity attributable to owners of the Company		16,139	33,596	56,941	–
Non-controlling interests		696	(220)	(315)	–
TOTAL EQUITY		<u>16,835</u>	<u>33,376</u>	<u>56,626</u>	<u>–</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company					Total HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Capital reserve HK\$'000 (Note ii)	Statutory reserve HK\$'000 (Note i)	Retained earnings HK\$'000	Exchange reserve HK\$'000			
At 1 January 2015	–	–	–	6,776	(225)	6,551	468	7,019
Profit for the year	–	–	–	12,051	–	12,051	69	12,120
Exchange differences arising on translation	–	–	–	–	(556)	(556)	(28)	(584)
Total comprehensive income (expense) for the year	–	–	–	12,051	(556)	11,495	41	11,536
Capital contribution by non-controlling interest upon establishment of a subsidiary	–	–	–	–	–	–	187	187
Dividends recognised as distribution (note 16)	–	–	–	(1,907)	–	(1,907)	–	(1,907)
Transfer to statutory reserve	–	–	256	(256)	–	–	–	–
At 31 December 2015 and 1 January 2016	–	–	256	16,664	(781)	16,139	696	16,835
Profit (loss) for the year	–	–	–	18,895	–	18,895	(351)	18,544
Exchange differences arising on translation	–	–	–	–	(1,773)	(1,773)	5	(1,768)
Total comprehensive income (expense) for the year	–	–	–	18,895	(1,773)	17,122	(346)	16,776
Change in ownership of a subsidiary without change in control (note 29)	–	335	–	–	–	335	(570)	(235)
Transfer to statutory reserve	–	–	1,551	(1,551)	–	–	–	–
At 31 December 2016 and 1 January 2017	–	335	1,807	34,008	(2,554)	33,596	(220)	33,376
Profit (loss) for the year	–	–	–	20,252	–	20,252	(77)	20,175
Exchange differences arising on translation	–	–	–	–	3,093	3,093	(18)	3,075
Total comprehensive income (expense) for the year	–	–	–	20,252	3,093	23,345	(95)	23,250
Transfer to statutory reserve	–	–	3,134	(3,134)	–	–	–	–
At 31 December 2017	–	335	4,941	51,126	539	56,941	(315)	56,626

Note i: According to The People's Republic of China (the "PRC") Company Law, companies in the PRC are required to transfer 10% of their respective after-tax profits, calculated in accordance with the relevant accounting principles and financial regulations applicable to entities established in the PRC, to the statutory reserve until the reserve balance reaches 50% of the registered capital. The statutory reserve can be utilised, upon approval of the relevant authorities, to offset accumulated losses or to increase registered capital of these companies, provided that such fund is maintained at a minimum of 25% of the registered capital. The statutory reserve is not distributable as cash dividends and must be made before distribution of dividend to equity owners.

Note ii: Capital reserve represents the difference between the consideration paid for acquisition of non-controlling interest of Dongguan Smart Union Textiles Technology Co., Ltd. (東莞聯兆紡織科技有限公司)("Smart Union") and the carrying amount of the non-controlling interest.

COMBINED STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
OPERATING ACTIVITIES			
Profit before tax	14,032	22,416	25,770
Adjustments for:			
Depreciation of plant and equipment	680	642	749
Gain on disposal of plant and equipment	(29)	–	–
Loss on written off of plant and equipment	–	–	23
Bank interest income	(86)	(39)	(88)
Finance costs	–	94	215
Government grants	(23)	(202)	(1,180)
Inventory written off	–	725	–
	<u> </u>	<u> </u>	<u> </u>
Operating cash flows before movements in working capital	14,574	23,636	25,489
Decrease (increase) in inventories	120	(897)	(9,888)
Increase in trade and bills receivables	(6,172)	(3,101)	(24,203)
Decrease (increase) in deposits, prepayments and other receivables	125	(1,552)	(10,909)
Decrease in amounts due from a related company	–	(7,257)	–
Increase in trade payables	2,245	1,994	4,644
Increase (decrease) in other payables and accruals	<u>2,297</u>	<u>(451)</u>	<u>10,955</u>
Cash generated from (used in) operations	13,189	12,372	(3,912)
Hong Kong income tax paid	–	(1,391)	(1,677)
PRC income tax paid	<u>(244)</u>	<u>(2,480)</u>	<u>(1,960)</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>12,945</u>	<u>8,501</u>	<u>(7,549)</u>

	Note	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
INVESTING ACTIVITIES				
Increase in pledged bank deposits		–	(2,806)	(57)
Proceeds from disposal of plant and equipment		270	–	–
Interest received		86	39	88
Acquisition of plant and equipment		(2,135)	(549)	(1,044)
NET CASH USED IN INVESTING ACTIVITIES		<u>(1,779)</u>	<u>(3,316)</u>	<u>(1,013)</u>
FINANCING ACTIVITIES				
Government grants		23	202	1,180
Capital contribution by non-controlling interest		187	–	–
Repayment to related companies		(11,929)	(9,528)	(6)
Advance from (repayment to) a director		3,349	6,992	(6,670)
New bank borrowing raised		–	3,000	–
Dividend paid	16	(1,907)	–	–
Interest paid		–	(94)	(215)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(10,277)</u>	<u>572</u>	<u>(5,711)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		889	5,757	(14,273)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		11,500	11,984	16,657
Effect of foreign exchange rate changes		(405)	(1,084)	735
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u>11,984</u>	<u>16,657</u>	<u>3,119</u>
Represented by:				
Bank balances and cash		11,984	16,657	8,756
Bank overdrafts		–	–	(5,637)
		<u>11,984</u>	<u>16,657</u>	<u>3,119</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. Corporate information**

The Company was incorporated in the Cayman Islands under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands as an exempted company with limited liability on 21 February 2017. The addresses of the registered office and the principal place of business of the Company are stated in the “Corporate Information” section of the Prospectus.

The Company is an investment holding company while its principal subsidiaries are mainly engaged in sales of functional knitted fabrics and apparel. Particulars of the companies comprising the Group have been set out in note 33.

The Historical Financial Information are presented in Hong Kong dollars (“HK\$”), which is the same as the functional currency of the Company and its Hong Kong subsidiary. Renminbi (“RMB”) is the functional currency of the PRC subsidiaries of the Company.

2. Group reorganisation and basis of preparation of historical financial information

The Historical Financial Information has been prepared based on the accounting policies set out in note 4 which conform with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA.

Pursuant to the Reorganisation as described in the section headed “History, Reorganisation and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 28 February 2018.

The companies now comprising the Group have been under the common control and beneficially owned by Mr. Wong Kai Hung, Kelvin (the “Controlling Shareholder”) (“Mr. Wong”) throughout the Track Record Period or since their respective dates of incorporation up to 31 December 2017. As such, the Reorganisation is effectively interspersing a shell company over the subsidiaries, in which the companies held by Smart Team Textiles Technology Limited (“Smart Team”) are the operating entities of the Group, and there was a continuation of risks and benefits to the Controlling Shareholder. Accordingly, the Reorganisation has been accounted for as if the Company had always been the holding company of the companies comprising the Group throughout the Track Record Period.

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 years ended 31 December 2015, 2016 and 2017 including the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation up to 31 December 2017, whichever is a shorter period. The combined statements of financial position of the Group as at 31 December 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as at those dates.

3. Application of new and revised HKFRS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has adopted all HKFRSs, which include HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations issued by the HKICPA which are effective for the Group’s financial years beginning on 1 January 2017 throughout the Track Record Period.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9 (2014)	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ³
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 Cycle ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Payment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹

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 1 January 2021.

⁴ Effective date not yet been determined.

The directors of the Company anticipate that, except as described below, the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

HKFRS 9 (2014) Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 and includes the requirements for the classification and measurement of financial liabilities and for derecognition. In 2013, HKFRS 9 was further amended to bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements. A finalised version of HKFRS 9 was issued in 2014 to incorporate all the requirements of HKFRS 9 that were issued in previous years with limited amendments to the classification and measurement by introducing a “fair value through other comprehensive income” (“FVTOCI”) measurement category for certain financial assets. The finalised version of HKFRS 9 also introduces an “expected credit loss” model for impairment assessments.

Key requirements of HKFRS 9 (2014) are described below:

- All recognised financial assets that are within the scope of HKFRS 9 (2014) are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9 (2014), entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 (2014) requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In the aspect of the impairment assessments, the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit were added. Those requirements eliminate the threshold that was in HKAS 39 for the recognition of credit losses. Under the impairment approach in HKFRS 9 (2014) it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, expected credit losses and changes in those expected credit losses should always be accounted for. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.
- HKFRS 9 (2014) introduces a new model which is more closely aligns hedge accounting with risk management activities undertaken by companies when hedging their financial and non-financial risk exposures. As a principle-based approach, HKFRS 9 (2014) looks at whether a risk component can be identified and measured and does not distinguish between financial items and non-financial items. The new model also enables an entity to use information produced internally for risk management purposes as a basis for hedge accounting. Under HKAS 39, it is necessary to exhibit eligibility and compliance with the requirements in HKAS 39 using metrics that are designed solely for accounting purposes. The new model also includes eligibility criteria but these are based on an economic assessment of the strength of the hedging relationship. This can be determined using risk management data. This should reduce the costs of implementation compared with those for HKAS 39 hedge accounting because it reduces the amount of analysis that is required to be undertaken only for accounting purposes.

HKFRS 9 (2014) will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The directors of the Company has performed a preliminary analysis of the Group's financial instruments as at 31 December 2017 based on the fact and circumstances existing at that date. The directors of the Company have assessed the impact of adoption of HKFRS 9 (2014) on the Group's results and financial position, including the classification categories and the measurement of financial assets and disclosures, as follows:

(a) *Classification and measurement*

The directors of the Company expect to continue recognising initially at fair value for all financial assets which are subsequently measured at amortised costs. The directors of the Company anticipate that the adoption of HKFRS 9 (2014) will not have a material impact on the classification and measurement of the financial assets.

(b) *Impairment*

The directors of the Company expect to apply the simplified approach and record lifetime expected credit losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and bills receivables and other receivables. The application of the expected credit loss model may result in earlier recognition of credit losses for trade and bills receivables and other receivables and increase the amount of impairment allowance recognised for these items.

The directors of the Company will perform a more detailed analysis which considers all reasonable and supportable information for the estimation of the effect of adoption of HKFRS 9 (2014). Based on the preliminary assessment, the directors of the Company expect that the adoption of HKFRS 9 (2014) will not have other material impact on amounts reported in the Group's combined financial statements.

HKFRS 15 Revenue from Contracts with Customers

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Thus, HKFRS 15 introduces a model that applies to contracts with customers, featuring a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The five steps are as follows:

- i) Identify the contract with the customer;
- ii) Identify the performance obligations in the contract;

- iii) Determine the transaction price;
- iv) Allocate the transaction price to the performance obligations; and
- v) Recognise revenue when (or as) the entity satisfies a performance obligation.

HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and the related Interpretations when it becomes effective.

HKFRS 15 will become effective for annual periods beginning on or after 1 January 2018 with early application permitted.

The major sources of revenue of the Group are sales of goods. Under HKFRS 15, revenue is recognised for each of the performance obligations when control over a good is transferred to a customer. The directors of the Company have preliminarily assessed each type of the performance obligations and consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18 Revenue. Furthermore, HKFRS 15 requires the transaction price to be allocated to each performance obligation on a relative stand-alone selling price basis, which may affect the timing and amounts of revenue recognition, and results in more disclosures in the combined financial statements. However, the directors of the Company expect that the adoption of HKFRS 15 will not have a material impact on the timing and amounts of revenue recognised based on the existing business model of the Group as at 31 December 2017.

HKFRS 16 Leases

HKFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessors and lessees.

In respect of the lessee accounting, the standard introduces a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the lease term of more than 12 months, unless the underlying asset has a low value.

At the commencement date of the lease, the lessee is required to recognise a right-of-use asset at cost, which consists of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee. A lease liability is initially recognised at the present value of the lease payments that are not paid at that date.

Subsequently, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, and adjusted for any remeasurement of the lease liability. Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payment made, and remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments. Depreciation and impairment expenses, if any, on the right-of-use asset will be charged to profit or loss following the requirements of HKAS 16 Property, Plant and Equipment, while interest accrual on lease liability will be charged to profit or loss.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

HKFRS 16 will supersede the current lease standards including HKAS 17 Leases and the related Interpretations when it becomes effective.

HKFRS 16 will be effective for annual periods beginning on or after 1 January 2019 with early application permitted provided that the entity has applied HKFRS 15 Revenue from Contracts with Customers at or before the date of initial application of HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$2,403,000 as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in the measurement, presentation and disclosure as indicated above. The directors of the Company are in the process to determine the amounts of right-of-use assets and lease liabilities to be recognised in the combined statement of financial position, after taking into account all practical expedients and recognition exemption under HKFRS 16. The directors of the Company expect that the adoption of HKFRS 16 will not have material impact on the Group's result but certain portion of these lease commitments will be required to be recognised in the combined statements of financial position as right-of-use assets and lease liabilities.

4. Significant accounting policies

The Historical Financial Information has been prepared in accordance with the accounting policies set out below which conform to HKFRSs. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The principal accounting policies are set out below.

Basis of combination

The Historical Financial Information incorporates the financial information of the entities to be controlled by the Company upon the reorganisation.

Control is achieved where the Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns. When the Group has less than a majority of the voting rights of an investee, power over the investee may be obtained through: (i) a contractual arrangement with other vote holders; (ii) rights arising from other contractual arrangements; (iii) the Group's voting rights and potential voting rights; or (iv) a combination of the above, based on all relevant facts and circumstances.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognised as a gain or loss in profit or loss attributable to the Group. When assets and liabilities of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in 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 Group had directly disposed of the related assets and liabilities (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable HKFRSs). 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 investment in an associate or a joint venture.

Merger accounting for business combination involving entities under common control

Applying merger accounting in accordance with Accounting Guideline 5 *Merger Accounting for Common Control Combinations*

The combined financial statements include the financial statements items of the combining entities or businesses in which the common control combination occurs as if the combination had occurred from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statement of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for goods sold in the normal course of business, net of sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Compensation income from sales of functional knitted fabrics is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Leasing

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lease. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefits cost

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme (the “MPF”) are recognised as an expense when employees have rendered service entitling them to the contributions.

Short term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leaves and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the combined statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Research and development expenditure

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;

- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured on the same basis as intangible assets acquired separately.

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Plant and equipment

Plant and equipment are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to allocate the cost of items of plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value 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 assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

Cash and cash equivalents

Bank balances and cash in the combined statements of financial position comprise cash at banks and on hand and short-term bank deposits with a maturity of three months or less.

For the purpose of the combined statements of cash flows, cash and cash equivalents consist of bank balances and cash, as defined above, net of outstanding bank overdrafts.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised in the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group’s financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade, bills and other receivables and deposits, amounts due from a related company, pledged bank deposits, and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for the short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade, bills and other receivables and amounts due from a related company, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit periods granted to individual customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all other financial assets with the exception of trade, bills and other receivables and amounts due from a related company where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade, bills and other receivables and amounts due from a related company is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities including trade payables, other payables and accruals, amounts due to related companies, amounts due to a director and bank borrowing and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Derecognition

A financial asset is derecognised only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

A financial liability is derecognised when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. Key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involve management's estimated based on experience about the economic useful lives of the assets and by making reference to market prices of similar assets. The Group assesses annual residual values and the useful lives of the plant and equipment and if the expectation differs from the original estimates, such a difference may impact the depreciation in the year and the estimate will be changes in the future period.

Estimated impairment of trade, bills and other receivables

The Group makes allowances for doubtful debts based on an assessment of the recoverability of trade, bills and other receivables. Allowances are applied to trade, bills and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful receivables requires the estimation of future cash flows. Where the expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade, bills and other receivables and allowance for doubtful debts in the year in which such estimation has changed. As at 31 December 2015, 2016 and 2017, the carrying values of trade and bills receivables were approximately HK\$11,775,000, HK\$14,273,000 and HK\$47,781,000 respectively while the carrying values of other receivables were approximately HK\$8,505,000, HK\$7,611,000 and HK\$3,753,000 respectively. No impairment loss had been recognised during the Track Record Period.

Estimated allowance for inventories

The management of the Group reviews an ageing analysis of inventories at the end of each Track Record Period and makes allowance for obsolete and slow-moving items identified that are no longer suitable for sale or use. The Group makes allowance for inventories based on the assessment of the net realisable value. The management estimates the net realisable value for inventories based primarily on the latest invoice prices, the costs necessary to make the sale and current market conditions. As at 31 December 2015, 2016 and 2017, the carrying amount of inventories were approximately HK\$2,107,000, HK\$2,193,000 and HK\$12,579,000. No impairment loss has been recognised during the Track Record Period. Approximately HK\$725,000 of inventory has been written off during the year ended 31 December 2016.

Deferred taxes

As at 31 December 2015, 2016 and 2017, the Group has unused tax losses of approximately HK\$196,000, HK\$3,220,000 and HK\$6,790,000 respectively. As at 31 December 2015 and 2016, no deferred tax asset has been recognised on tax losses due to the unpredictability of future profit streams. As at 31 December 2017, a deferred tax asset has been recognised in respect of approximately HK\$3,074,000 of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK\$3,716,000 due to the unpredictability of future profit streams. The realisable of deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which a reversal takes place.

6. Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remained unchanged during the Track Record Period.

The capital structure of the Group consists of amounts due to related companies, amounts due to a director, bank borrowing, bank overdrafts, pledged bank deposits, bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure of the Group periodically. As part of this review, the directors of the Company consider the cost of capital and risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through new share issues. The directors of the Company will also consider the raise of additional borrowings as additional capital.

The directors of the Company also endeavour to ensure the steady and reliable cash flows from the normal business operation.

7. Financial instruments

a) *Categories of financial instruments*

	At 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Financial assets			
Loans and receivables (including bank balances and cash)	35,296	51,732	66,499
	<u>35,296</u>	<u>51,732</u>	<u>66,499</u>
Financial liabilities			
At amortised cost	21,864	25,036	29,824
	<u>21,864</u>	<u>25,036</u>	<u>29,824</u>

b) *Financial risk management objectives and policies*

The Group's major financial instruments include trade, bills and other receivables and deposits, amounts due from a related company, trade payables, other payables and accruals, amounts due to related companies, amounts due to a director, bank borrowing, bank overdrafts, pledged bank deposits and bank balances and cash.

Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group's operational activities are mainly denominated in RMB. The Group is exposed to foreign currency risk primarily arising from purchase of goods by foreign currencies and bank deposits denominated in foreign currencies other than the functional currency of relevant group entity. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's monetary assets and liabilities that are denominated in currencies other than the functional currencies of relevant group entities at the end of the reporting periods are as follows:

	Asset			Liability		
	At 31 December			At 31 December		
	2015	2016	2017	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
RMB	<u>3,067</u>	<u>2,884</u>	<u>3,129</u>	<u>-</u>	<u>-</u>	<u>-</u>
United States Dollars ("USD")	<u>8,121</u>	<u>2,890</u>	<u>2,235</u>	<u>-</u>	<u>1,525</u>	<u>-</u>

Foreign currency sensitivity

The following table details the Group's sensitivity to a 5% changes in HK\$ against RMB except for USD. 5% represents management's assessment of the reasonable possible change in foreign exchange rates. The sensitivity analysis of the Group's exposure to foreign currency risk at the reporting date has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period. A positive number indicates an increase in profit before tax where HK\$ weakening against RMB. For a 5% strengthening against the respective currency, there would be an equal and opposite impact on the profit before tax.

The management considered that the currency between HK\$ and USD is pegged under linked-exchange rate system, the effect of change is not significant, accordingly, it is not included in this sensitivity analysis.

	RMB		
	Year ended 31 December		
	2015	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Increase in profit before tax	<u>153</u>	<u>144</u>	<u>156</u>

The Group's sensitivity to foreign currency was mainly due to outstanding RMB receivables at the end of reporting periods.

In opinion the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank overdrafts (see note 25).

The Group is also exposed to cash flow interest rate risk in relation to pledged bank deposits, bank balances (note 21) and bank borrowing (note 25). The Group currently does not have any interest rate hedging policy. It is the Group's policy to keep pledged bank deposits, bank balances and bank borrowing at floating rate as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of the prevailing market rates on bank balances, variable-rate bank borrowing.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding were outstanding for the whole year. A 50 basis point increase or decrease is used for the Track Record Period when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower for the Track Record Period and all other variables were held constant, the Group's profit before tax would increase/decrease by approximately nil, HK\$60,000, HK\$68,000 and HK\$29,000 for the years ended 31 December 2015, 2016 and 2017 respectively. This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank deposits and borrowing.

Credit risk

As at the end of each reporting period, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets, which comprise pledge bank deposits, bank balances and cash, amounts due from a related company, trade, bills and other receivables as stated in the combined statements of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group's concentration of credit risk by geographical location is mainly in the PRC, which accounted for 100%, 95% and 98% of the total trade receivables as at 31 December 2015, 2016 and 2017.

As at 31 December 2015, 2016 and 2017, the Group has concentration of credit risk as 51%, 10% and 9% of the total trade and bills receivables was due from the Group's largest customer while 87%, 60% and 49% of the total trade and bills receivables and amounts due from a related company were due from the Group's top five largest customers, respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of bank balances and cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowing and ensures compliance with loan covenants.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowing with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for the non-derivative financial liabilities are based on the agreed repayment dates.

Bank borrowing and bank overdrafts with a repayment on demand clause are included in the earliest time bank regardless of the probability of the banks choosing to exercise their rights.

The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of each reporting period.

Liquidity risk tables

	On demand or within one year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<u>At 31 December 2015</u>			
Trade payables	3,121	3,121	3,121
Other payables and accruals	685	685	685
Amounts due to related companies	9,487	9,487	9,487
Amounts due to a director	8,571	8,571	8,571
	<u>21,864</u>	<u>21,864</u>	<u>21,864</u>
	On demand or within one year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<u>At 31 December 2016</u>			
Trade payables	4,781	4,781	4,781
Other payables and accruals	1,249	1,249	1,249
Amounts due to related companies	6	6	6
Amounts due to a director	16,000	16,000	16,000
Bank borrowing	3,033	3,033	3,000
	<u>25,069</u>	<u>25,069</u>	<u>25,036</u>
	On demand or within one year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<u>At 31 December 2017</u>			
Trade payables	9,868	9,868	9,868
Other payables and accruals	1,908	1,908	1,908
Amounts due to a director	9,411	9,411	9,411
Bank borrowing	3,006	3,006	3,000
Bank overdrafts	5,907	5,907	5,637
	<u>30,100</u>	<u>30,100</u>	<u>29,824</u>

Bank borrowing and bank overdrafts with a repayment on demand clause are included in the “on demand or less than one year” time band in the above maturity analysis. As at 31 December 2015, 2016 and 2017, the aggregate undiscounted principal amounts of this bank borrowing amounted to nil, HK\$3,000,000 and HK\$3,000,000 respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary right to demand immediate repayment. The directors of the Company believe that such bank borrowing will be repaid in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflow will amount to approximately HK\$3,006,000.

Maturity analysis – bank borrowing based on scheduled repayment dates

	Within 1 year or demand <i>HK\$'000</i>	Total undiscounted cash flows <i>HK\$'000</i>	Carrying amount <i>HK\$'000</i>
As at 31 December 2015	–	–	–
As at 31 December 2016	3,033	3,033	3,000
As at 31 December 2017	<u>3,006</u>	<u>3,006</u>	<u>3,000</u>

8. Revenue

Revenue represents the amounts received and receivable from sales of goods in the normal course of business, net of sales related tax.

	Year ended 31 December		
	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Sales of functional knitted fabrics	62,466	70,034	110,961
Sales of apparel	137	2,446	12,760
Sales of other products	<u>1,501</u>	<u>7,770</u>	<u>1,554</u>
	<u>64,104</u>	<u>80,250</u>	<u>125,275</u>

9. Segment Information

Operating segments and the amounts of each segment item reported in the combined financial statements are identified from the financial information provided regularly to the Group’s chief operating decision maker for the purposes of allocating resources to, and assessing the performance of the Group’s various lines of business and geographical locations.

The Group is organised into a single operating segment as sales of functional knitted fabrics and apparel primarily in the PRC and all revenue, expenses, results, assets and liabilities and capital expenditures are predominantly attributable to this single segment. Accordingly, no segment analysis by business and geographical information is presented.

Information about major customers

Revenue from customers of the corresponding year contributing over 10% of the total revenue of the Group are as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Customer A ¹	39,231	20,477	28,684
Customer B ¹	8,502	N/A ²	N/A ²
Customer C ¹	N/A ²	13,451	26,254
Customer D ¹	N/A ²	8,454	N/A ²
Customer E ¹	N/A ²	N/A ²	13,095
	<u>39,231</u>	<u>20,477</u>	<u>28,684</u>

¹ Revenue from sales of functional knitted fabrics and apparel

² The corresponding revenue did not contribute over 10% of the total revenue of the Group

10. Other income

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Bank interest income	86	39	88
Gain on disposal of plant and equipment	29	–	–
Government grants (note 32)	23	202	1,180
Compensation income	1,690	214	219
Net foreign exchange gain	–	–	247
Others	18	47	–
	<u>1,846</u>	<u>502</u>	<u>1,734</u>

Included in the other income, approximately HK\$1,690,000, HK\$214,000 and HK\$219,000 for the years ended 31 December 2015, 2016 and 2017, respectively of compensation income represented the gain arising from compensation received from third party factories, net of purchase costs, for yarns which could not meet the Group's specifications.

11. Finance costs

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Interests on:			
– Bank borrowing and overdrafts	–	94	215
	<u>–</u>	<u>94</u>	<u>215</u>

12. Income tax expenses

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current tax:			
Hong Kong	831	1,443	35
PRC Enterprise Income Tax (“EIT”)	<u>910</u>	<u>2,495</u>	<u>5,103</u>
	1,741	3,938	5,138
Deferred taxation (<i>note 26</i>)	<u>171</u>	<u>(66)</u>	<u>457</u>
	<u>1,912</u>	<u>3,872</u>	<u>5,595</u>

- (i) Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits during the Track Record Period.
- (ii) Under the Law of the PRC on EIT and implementation regulation of the EIT Law, the tax rate of the subsidiaries established in the PRC is 25% during the Track Record Period.
- (iii) Pursuant to the rules and regulation of the British Virgin Islands (“BVI”) and Cayman Islands, the Group is not subject to any income tax in these jurisdictions.
- (iv) One of the Group’s subsidiaries established in the PRC is recognised as a High and New-Technology Enterprise (“HNTE”) which has been granted tax concessions by the local tax bureau and is entitled to PRC EIT at concessionary rate of 15% from 1 January 2016 to 31 December 2018.

The income tax expense for the years ended 31 December 2015, 2016 and 2017 can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Profit before tax	<u>14,032</u>	<u>22,416</u>	<u>25,770</u>
Tax at the domestic income tax rate of 25%	3,508	5,604	6,443
Tax effect of preferential tax rate	–	(1,800)	(3,552)
Tax effect of super deduction of research and development expenses (<i>note a</i>)	–	(299)	(469)
Tax effect of income not taxable for tax purpose	(5)	–	(16)
Tax effect of expenses not deductible for tax purpose	63	326	1,752
Tax effect of tax losses not recognised	49	756	124
Utilisation of tax losses previously not recognised	(1,037)	–	–
Utilisation of deductible temporary difference previously not recognised	(85)	–	–
Withholding tax on undistributed earnings of a PRC subsidiary (<i>note 26</i>)	–	–	1,000
Effect of tax exemption granted (<i>note b</i>)	(20)	–	–
Effect of different tax rate of group entities operating in other jurisdictions	<u>(561)</u>	<u>(715)</u>	<u>313</u>
Income tax expenses	<u>1,912</u>	<u>3,872</u>	<u>5,595</u>

Note a: Guangdong Smart Team Textiles Technology Co., Ltd. (廣東兆天紡織科技有限公司) (“Guangdong Smart Team”) is subject to enterprise income tax at the rate of 25%, which was qualified HNTE in November 2016 and was entitled to a concessionary rate of 15% on its estimated assessable profits starting from 1 January 2016.

According to the relevant laws and regulations promulgated by the State Tax Bureau of the PRC that was effective from 2008 onwards, enterprises engaging in research and development activities are entitled to claim 150% of their eligible research and development expenses so incurred as tax deductible expenses when determining their assessable profits for that year (“Super Deduction”). The Group has made its best estimate for the Super Deduction to be claimed for the Group’s entities in ascertaining their assessable profits for the relevant periods ended.

Note b: Tax exemption represented a reduction of Hong Kong Profits Tax for the year of assessment 2015/2016 by 75%, subject to a ceiling of HK\$20,000 for the year of assessment.

Details of the deferred tax are set out in note 26.

13. Profit for the year

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging:			
Directors' emoluments (<i>note 14</i>)	439	570	2,544
Salaries, allowances and other benefits (excluding directors' emoluments)	6,614	7,820	7,586
Contributions to retirement benefits scheme (excluding directors' emoluments)	<u>329</u>	<u>557</u>	<u>573</u>
Total staff costs	<u>7,382</u>	<u>8,947</u>	<u>10,703</u>
Auditor's remuneration	42	251	102
Depreciation of plant and equipment	680	642	749
Expenses in relation to the listing	–	1,303	6,701
Research and development expenses (<i>note</i>)	854	2,046	4,581
Cost of inventories recognised as an expense	14,531	16,061	30,839
Operating lease rentals in respect of rented premises	946	1,031	1,110
Exchange loss, net	166	199	–
Inventory written off (included in the administrative and other expenses)	–	725	–
Loss on written off of plant and equipment	<u>–</u>	<u>–</u>	<u>23</u>

Note: The research and development expenses disclosed here excluded salaries, allowances and other benefits of approximately HK\$1,545,000, HK\$1,870,000 and HK\$2,379,000 and contributions to retirement benefits scheme of approximately HK\$36,000, HK\$76,000 and HK\$132,000 for the years ended 31 December 2015, 2016 and 2017 respectively which had been included in salaries, allowances and other benefits disclosed above.

14. Directors' emoluments

Details of directors' emoluments are as follows:

Emoluments paid or receivable in respect of director's other services in connection with the management of the affairs of the Company and its subsidiary undertakings:

	Fees <i>HK\$'000</i>	Salaries, allowances and other benefits <i>HK\$'000</i>	Contributions to retirement benefits scheme <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2015				
Executive Directors				
Mr. Wong	–	–	–	–
Mr. Xi Bin	–	426	13	439
	<u>–</u>	<u>426</u>	<u>13</u>	<u>439</u>
Year ended 31 December 2016				
Executive Directors				
Mr. Wong	–	25	–	25
Mr. Xi Bin	–	522	23	545
	<u>–</u>	<u>547</u>	<u>23</u>	<u>570</u>
Year ended 31 December 2017				
Executive Directors				
Mr. Wong	–	750	17	767
Mr. Xi Bin	–	783	29	812
Mr. Hung Yuk Miu (appointed on 1 April 2017)	–	951	14	965
	<u>–</u>	<u>2,484</u>	<u>60</u>	<u>2,544</u>

No chief executive was appointed during the Track Record Period.

No director of the Company waived or agreed to waive any emolument paid by the Group during the Track Record Period. No emoluments were paid by the Group to the directors of the Company as an inducement for joining the Group or as compensation for loss of office during the Track Record Period.

15. Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one, one and three were the directors of the Company for the Track Record Period whose emoluments are set out in note 14 above. The emoluments of the remaining four, four and two individuals for the Track Record Period were as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Salaries, allowances and other benefits	1,506	1,724	449
Contributions to retirement benefits scheme	<u>37</u>	<u>51</u>	<u>22</u>
	<u>1,543</u>	<u>1,775</u>	<u>471</u>

Their emoluments were within the following bands:

	Year ended 31 December		
	2015	2016	2017
	Number of individuals	Number of individuals	Number of individuals
Nil to HK\$500,000	3	3	2
HK\$500,001 to HK\$1,000,000	<u>1</u>	<u>1</u>	<u>-</u>

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals or directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the five highest paid individuals waived or agreed to waive any emoluments paid by the Group.

16. Dividends

During the year ended 31 December 2015, HK\$1,907,000 interim dividend has been declared and fully paid by Smart Team, a wholly-owned subsidiary of the Company, to Mr. Wong, on 6 August 2015.

The rate of dividends and the number of shares ranking for the above dividends are not presented as such information is not meaningful having regard to the purpose of this report.

No dividend was paid or proposed by the Company during Track Record Period, nor has any dividend been proposed since the end of the reporting period.

17. Earnings per share

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful.

18. Plant and equipment

	Machineries <i>HK\$'000</i>	Office Equipment <i>HK\$'000</i>	Motor Vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST				
At 1 January 2015	–	979	1,403	2,382
Additions for the year	373	149	1,613	2,135
Disposal for the year	–	–	(603)	(603)
Exchange realignment	(11)	(47)	(44)	(102)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2015	362	1,081	2,369	3,812
Additions for the year	12	537	–	549
Exchange realignment	(29)	(104)	(81)	(214)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2016	345	1,514	2,288	4,147
Additions for the year	696	348	–	1,044
Written off for the year	(2)	(23)	–	(25)
Exchange realignment	48	115	68	231
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017	<u>1,087</u>	<u>1,954</u>	<u>2,356</u>	<u>5,397</u>

	Machineries HK\$'000	Office Equipment HK\$'000	Motor Vehicles HK\$'000	Total HK\$'000
ACCUMULATED DEPRECIATION				
At 1 January 2015	–	110	304	414
Charge for the year	15	203	462	680
Disposal for the year	–	–	(362)	(362)
Exchange realignment	(1)	(11)	(5)	(17)
At 31 December 2015	14	302	399	715
Charge for the year	34	248	360	642
Exchange realignment	(3)	(33)	(14)	(50)
At 31 December 2016	45	517	745	1,307
Charge for the year	57	333	359	749
Written off for the year	–	(2)	–	(2)
Exchange realignment	5	47	19	71
At 31 December 2017	<u>107</u>	<u>895</u>	<u>1,123</u>	<u>2,125</u>
CARRYING VALUES				
At 31 December 2015	<u>348</u>	<u>779</u>	<u>1,970</u>	<u>3,097</u>
At 31 December 2016	<u>300</u>	<u>997</u>	<u>1,543</u>	<u>2,840</u>
At 31 December 2017	<u>980</u>	<u>1,059</u>	<u>1,233</u>	<u>3,272</u>

The above items of plant and equipment are depreciated on a straight-line basis over their estimated useful lives, taking account into their estimated residual values as follow:

Machineries	10%
Office equipment	20% – 50%
Motor vehicles	33%

19. Inventories

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Work in progress	2,107	1,965	8,384
Finished goods	<u>–</u>	<u>228</u>	<u>4,195</u>
	<u>2,107</u>	<u>2,193</u>	<u>12,579</u>

20. Trade and bills receivables, deposits, prepayments and other receivables

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Trade receivables	11,775	10,863	45,474
Bills receivables	<u>–</u>	<u>3,410</u>	<u>2,307</u>
	<u>11,775</u>	<u>14,273</u>	<u>47,781</u>
Other receivables	8,505	7,611	3,753
Prepayments	2,097	4,391	19,796
Deposits	<u>47</u>	<u>144</u>	<u>166</u>
	<u>10,649</u>	<u>12,146</u>	<u>23,715</u>
	<u>22,424</u>	<u>26,419</u>	<u>71,496</u>

The Group allows credit period of 30 to 90 days to its trade customers. The Group does not hold any collateral over its trade and bills receivables. The following is an aged analysis of trade and bills receivables, presented based on the invoice date, which approximates the respective revenue recognition dates, at the end of the reporting period.

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Within 30 days	8,068	10,910	18,697
31 to 60 days	2,390	3,063	16,546
61 to 90 days	749	–	11,066
91 to 180 days	568	–	1,052
More than 180 days	<u>–</u>	<u>300</u>	<u>420</u>
Total	<u>11,775</u>	<u>14,273</u>	<u>47,781</u>

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Past due but not impaired:			
Within 30 days	1,212	2,960	13,605
31 to 60 days	2	–	11,671
61 to 90 days	<u>7</u>	<u>300</u>	<u>420</u>
Total	<u>1,221</u>	<u>3,260</u>	<u>25,696</u>

Included in the Group's trade and bills receivables balances are debtors with aggregate carrying amount of approximately HK\$1,221,000, HK\$3,260,000 and HK\$25,696,000 as at 31 December 2015, 2016 and 2017 respectively which were past due as at the end of the respective reporting period for which the Group has not provided for impairment loss as these balances were either subsequently settled or there has not been a significant change in credit quality and the amounts are still considered recoverable.

The directors of the Company consider that there has not been significant change in credit quality of trade and bills receivables and there is no recent history of default, therefore the amounts are considered recoverable.

Included in other receivables are the following amounts denominated in foreign currency other than the functional currency of relevant group entities:

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
USD	<u>8,029</u>	<u>1,473</u>	<u>2,112</u>

21. Pledged bank deposits and bank balances and cash

Bank balances represented short-term deposits with a maturity of three months or less. At 31 December 2015, 2016 and 2017, bank balances carried at prevailing market rates range from 0.01% to 0.35% per annum. At 31 December 2015, 2016 and 2017, the pledged bank deposits carry fixed interest rate range from 0.6% to 2.3% per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowing and facilities.

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group and also pledged to secure short-term bank borrowing and therefore are classified as current assets.

Included in the pledged bank deposits and bank balances and cash are the following amounts denominated in foreign currencies other than the functional currency of relevant group entities:

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
RMB	<u>3,067</u>	<u>2,884</u>	<u>3,129</u>
USD	<u>92</u>	<u>1,417</u>	<u>123</u>

22. Trade payables, other payables and accruals

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Trade payables	3,121	4,781	9,868
Other payables and accruals:			
Accrued expenses	651	1,249	1,675
Other payables	34	–	233
Other tax payables	2,044	913	5,326
Receipt in advance	554	598	7,023
	<u>3,283</u>	<u>2,760</u>	<u>14,257</u>
	<u>6,404</u>	<u>7,541</u>	<u>24,125</u>

The following is an aged analysis of trade payables presented based on invoice dates at the end of the reporting period.

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Within 30 days	1,729	3,950	3,926
31 to 60 days	1,175	500	4,262
61 to 90 days	4	11	776
91 to 180 days	115	94	459
More than 180 days	98	226	445
Total	<u>3,121</u>	<u>4,781</u>	<u>9,868</u>

The credit period granted is ranging from 30 to 90 days. The Group has financial risk management in place to ensure that all payables are settled within the credit timeframe.

As at 31 December 2015, 2016 and 2017, the Group's trade and other payables that are denominated in foreign currency other than the functional currency of the relevant group entities are set out below:

	At 31 December 2015 HK\$'000	At 31 December 2016 HK\$'000	At 31 December 2017 HK\$'000
USD	—	1,525	—

23. Amounts due from (to) related companies

Amounts due from a related company

The Group allows a credit period of 30 days for sales to its related company which is included in the amounts due from a related company. As at 31 December 2015, 2016 and 2017, the Group had the following balances with related company:

Name of company	Nature of transaction	At 31 December 2015 HK\$'000	At 31 December 2016 HK\$'000	At 31 December 2017 HK\$'000
Zhuhai Zhaotian Trading Co. Ltd (珠海兆天貿易 有限公司) ("Zhuhai Zhaotian") (note)	Trade receivables 0-90 days 181-365 days	— —	5,133 2,124	N/A N/A
		—	7,257	N/A

Note: The English translation of the name is for reference only. The official name of this entity is in Chinese.

Mr. Xi Bin, a director of the Company, has equity interest in the related company during the year ended 31 December 2015 and 2016 and up to March 2017. In March 2017, the amounts due from a related company of approximately HK\$7,257,000 was transferred to trade receivables since Zhuhai Zhaotian was no longer been a related company of the Group. The amount was subsequently settled in 2017 and recorded as settlement of trade receivables.

There is no past due amount as at the end of the respective reporting period. The directors of the Company consider that there is no recent history of default, therefore the amounts are considered recoverable.

Amounts due to related companies

The amounts due to related companies are unsecured, non-interest bearing and repayable on demand.

24. Amounts due to a director

The amounts due to a director are non-trade in nature, unsecured and non-interest bearing and repayable on demand.

25. Bank borrowing and bank overdrafts

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Secured bank overdrafts	–	–	5,637
Secured bank borrowing	–	3,000	3,000
	<u>–</u>	<u>3,000</u>	<u>8,637</u>

Carrying amount of bank overdrafts and bank borrowing repayable (based on scheduled repayment dates set out in loan agreements):

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Within 1 year and amount contain a repayable on demand clause classified as current liabilities	–	3,000	8,637

The secured bank borrowing is a term loan from a bank containing a repayment on demand clause. The maturity analysis of the term loan based on agreed scheduled repayment set out in the loan agreement is summarised in note 7(b).

- (a) The amounts of banking facilities and the utilisation at 31 December 2015, 2016 and 2017 are set out as follow:

	At 31 December 2015 <i>HK\$'000</i>	At 31 December 2016 <i>HK\$'000</i>	At 31 December 2017 <i>HK\$'000</i>
Facilities amount	<u>10,000</u>	<u>21,000</u>	<u>21,000</u>
Utilisation			
– Secured bank overdrafts	–	–	5,637
– Secured bank borrowing	–	3,000	3,000

As at 31 December 2015, 2016 and 2017, all banking facilities were secured by pledged bank deposits and personal guarantees provided by Mr. Wong and Mr. Xi Bin, and the Hong Kong Mortgage Corporation Limited of the Hong Kong Special Administrative Region under the Small and Medium Enterprise Loan Guarantee Scheme.

- (b) As at 31 December 2017, the bank overdrafts carried fixed interest rates ranges from 3.50% to 5.75% per annum.

As at 31 December 2015, 2016 and 2017, interest-bearing borrowing carried interest at variable market interest rates, which is based on the Hong Kong Inter-bank offered rate plus 2.2% per annum as follows:

	At 31 December 2015	At 31 December 2016	At 31 December 2017
Fixed-rate bank overdrafts	N/A	N/A	3.50% to 5.75%
Variable-rate borrowing	N/A	3.36% to 3.58%	3.11% to 3.64%

26. Deferred tax liability

The following is the analysis of the deferred tax (asset) liability:

	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Deferred tax asset	–	–	(508)
Deferred tax liability	171	105	1,070
	<u>171</u>	<u>105</u>	<u>562</u>

The following is the major deferred tax (asset) liability recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Withholding tax on undistributed earnings of a PRC subsidiary <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	–	–	–	–
Charged to profit or loss (<i>note 12</i>)	<u>171</u>	<u>–</u>	<u>–</u>	<u>171</u>
At 31 December 2015 and 1 January 2016	171	–	–	171
Credited to profit or loss (<i>note 12</i>)	<u>(66)</u>	<u>–</u>	<u>–</u>	<u>(66)</u>
At 31 December 2016	105	–	–	105
(Credited) charged to profit or loss (<i>note 12</i>)	<u>(35)</u>	<u>(508)</u>	<u>1,000</u>	<u>457</u>
At 31 December 2017	<u><u>70</u></u>	<u><u>(508)</u></u>	<u><u>1,000</u></u>	<u><u>562</u></u>

As at 31 December 2015, 2016 and 2017, the Group has unused tax losses of approximately HK\$196,000, HK\$3,220,000 and HK\$6,790,000 respectively. As at 31 December 2015 and 2016, no deferred tax asset has been recognised on tax losses due to the unpredictability of future profit streams. As at 31 December 2017, a deferred tax asset of approximately HK\$508,000 has been recognised in respect of approximately HK\$3,074,000 of such losses. No deferred tax asset had been recognised in respect of remaining tax losses of approximately HK\$3,716,000 due to the unpredictability of future profit streams.

Included in unrecognised tax losses are loss of the Group of approximately HK\$196,000, HK\$3,220,000 and HK\$3,716,000 for the years ended 31 December 2015, 2016 and 2017 respectively which will be expired in 2020, 2021 or 2022 respectively.

Under the EIT law, withholding tax of 10% is imposed on dividends declared in respect of profits earned by a PRC subsidiary from 1 January 2008 onwards. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. Deferred taxation has been provided in respect of the temporary differences associated with certain undistributed profit earned by a PRC subsidiary at the applicable withholding tax of 10%.

As 31 December 2015, 2016 and 2017, the aggregate amount of temporary difference associated with undistributed earnings of the subsidiary for which deferred tax liability has not been recognised amounted to approximately HK\$2,027,000, HK\$12,955,000 and HK\$39,719,000 respectively. No deferred tax liability has been recognised in respect of these undistributed earnings because the Company is in the position to control the timing of the reversal of the temporary differences and it is probable that such difference will not reverse in the foreseeable future.

27. Share capital

The share capital in the combined statements of financial position as at 31 December 2015 represented the share capital of Smart Team.

The share capital in the combined statements of financial position as at 31 December 2016 represented the share capital of Smart Team and World Vantage.

The share capital in the combined statements of financial position as at 31 December 2017 represented the combined share capital of the Company, World Vantage and Smart Team.

The Company was incorporated on 21 February 2017 and had an authorised share capital HK\$100,000 divided into 100,000 shares. As at 31 December 2017, the Company had issued one nil paid Share to the Controlling Shareholder.

28. Retirement benefits plan

Hong Kong

The Group operates the MPF under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. Under the MPF, the Group is required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the scheme vest immediately. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs, capped at HK\$1,500 per month, to the MPF Scheme, in which the contribution is matched by the employee.

PRC

As stipulated by rules and regulations in the PRC, subsidiaries in the PRC are required to contribute a state-managed retirement plan for all its employees at a certain percentage of the basic salaries of its employees, subject to a certain ceiling. The state-managed retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-managed retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions.

During the Track Record Period, the total contribution to defined contribution retirement benefits scheme charged to the combined statements of profit or loss and other comprehensive income amounted to approximately HK\$342,000, HK\$580,000 and HK\$633,000 respectively.

29. Changes in ownership interest in a subsidiary

During the year ended 31 December 2016, the Group has the following changes in its ownership interest in subsidiaries that do not result in a loss of control.

Acquisition of additional interest in a subsidiary

On 5 January 2016, the Group acquired an additional 40% issued shares of Smart Union, increasing its ownership interest in Smart Union to 100%. The consideration was approximately HK\$235,000 and the amount was settled. The carrying value of the net assets of Smart Union shared by the non-controlling interest was approximately HK\$570,000. A schedule of the effect of acquisition of additional interest of Smart Union is as follow:

	2016
	<i>HK\$'000</i>
Carrying amount of non-controlling interest acquired	570
Consideration paid for acquisition of additional interest in Smart Union	<u>(235)</u>
Difference recognised in capital reserve within equity	<u><u>335</u></u>

30. Operating leases commitment***The Group as lessee***

The Group leases its offices under operating lease arrangements. Leases are negotiated for lease terms of one to three years. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 31 December 2015 HK\$'000	At 31 December 2016 HK\$'000	At 31 December 2017 HK\$'000
Within one year	532	853	1,142
In the second to fifth year (inclusive)	<u>147</u>	<u>321</u>	<u>1,261</u>
	<u>679</u>	<u>1,174</u>	<u>2,403</u>

31. Related party transactions

During the Track Record Period, transaction with the following parties are considered to be related party transactions:

Name of related party	Relationship with the Group
Mr. Wong	Director and Controlling Shareholder of the Group
Mr. Xi Bin	Director of the Company
Mr. Zhou Dongqin	Former director and shareholder of Smart Union ¹
Zhuhai Zhaotian	Owned as to 40% of the equity interest by Mr. Xi Bin ²
Zhongshan Leaseng Garment Manufacturing Co., Ltd (中山利生製衣有限公司)(note)	Owned as to one third by Mr. Wong and two-thirds by the close family member of Mr. Wong during the Track Record Period

Name of related party	Relationship with the Group
Zhongshan Da Chong Elastic Thread Factory Ltd. (中山市大涌線廠有限公司)(note)	Owned as to 15% by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong
Wuxi Tianhe Textile Technology Co. Ltd. (無錫天合紡織科技有限公司) (note)	Subsidiary of Zhuhai Zhaotian ³
Enping Ying Fung Dyeing Factory Ltd. (恩平盈豐整染有限公司)(note)	Owned as to 25% by Mr. Wong and as to 75% by the close family member of Mr. Wong
Leahander Trading Limited	Owned as to 15% of the equity interest by Mr. Wong and as to 85% collectively by the close family members of Mr. Wong
Leaseng Garment (Hong Kong) Limited	Owned as to one-third by Mr. Wong and as to two-thirds by the close family member of Mr. Wong
Wuxi Lianhe Knitting Co. Ltd. (無錫聯合紡織有限公司)(note)	Owned as to 51% of the equity interest by Mr. Zhou Dongqin

Note: The English translation of the name is for reference only. The official name of this entity is in Chinese.

¹ Mr. Zhou Dongqin ceased to be a director of Smart Union since January 2016.

² Mr. Xi Bin ceased to be a director and equity shareholder of Zhuhai Zhaotian since March 2017.

³ Wuxi Tianhe Textile Technology Co. Ltd. was deregistered on 12 June 2017.

- (a) Save as disclosed elsewhere in the Historical Financial Information, during the Track Record Period, the Group has entered into transactions with related parties as follows:

Related party	Nature of transaction	Year ended 31 December		
		2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Mr. Zhou Dongqin	Sales of knitted fabrics	–	235	–
Zhuhai Zhaotian	Sales of yarns and fibres	744	7,311	–
	Sales of functional knitted fabrics	813	252	–
Zhongshan Leaseng Garment Manufacturing Co., Ltd.	Sales of functional knitted fabrics	1,986	4,300	–
Zhongshan Da Chong Elastic Thread Factory Ltd.	Purchase of yarns	414	597	–
Wuxi Tianhe Knitting Technology Co. Ltd.	Purchase of yarns	1,693	34	–
Enping Ying Fung Dyeing Factory Ltd.	Processing fee	289	32	–
Leahander Trading Limited	Rental expenses	240	240	–
Leaseng Garment (Hong Kong) Limited	Management fee	260	240	–
Wuxi Lianhe Knitting Co. Ltd.	Purchase of yarns	888	–	–

The above transactions were conducted at terms determined on a basis mutually agreed with the Group and the related parties.

- (b) Banking facilities

Mr. Wong and Mr. Xi Bin, the directors of the Company, have provided limited personal guarantee of HK\$10,000,000, HK\$24,000,000 and HK\$24,000,000 for the grant of the banking facilities to the Group for the years ended 31 December 2015, 2016 and 2017 respectively as disclosed in note 25.

- (c) Compensation to key management personnel

The key management personnel are the directors of the Company. Details of the remuneration paid to the directors are set out in note 14 to the combined financial statements.

32. Government grants

Government grants of approximately HK\$23,000, HK\$202,000 and HK\$1,180,000 have been received towards research and development costs for the years ended 31 December 2015, 2016 and 2017 respectively. The amounts have been included in other income for the year.

33. Subsidiaries of the Group

Name of subsidiaries	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/registered capital	Percentage of equity interest attributable to the Company				Principal activities	Notes
				31 December		At the date			
				2015	2016	2017	of this report		
World Vantage	The BVI 28 November 2016	The BVI	USD1	N/A	100%	100%	100%	Investment holdings	(i)
Smart Team	Hong Kong 4 October 2011	Hong Kong	HK\$10	100%	100%	100%	100%	Procurement of fibres	(ii)
Guangdong Smart Team	PRC 29 May 2013	PRC	RMB10,000,000	100%	100%	100%	100%	Sales of functional knitted fabrics	(iii)
Smart Union	PRC 16 October 2014	PRC	RMB1,000,000	60%	100%	100%	100%	Sales of functional knitted fabrics	(iv)
Magic Team (Beijing) International Fashion Design Co., Ltd.* ("Magic Team") 幻天(北京) 國際服裝設計有限公司	PRC 16 July 2015	PRC	RMB500,000	70%	70%	70%	70%	Design and sales of apparel	(v)

* *The English name is for identification only. The official names of the companies are in Chinese.*

All subsidiaries now comprising the Group are limited liability companies and have adopted 31 December as their financial year end date.

Notes:

- (i) No audited financial statements of World Vantage have been prepared since its date of incorporation as it incorporated in the jurisdiction where there are no statutory audit requirements.
- (ii) The statutory financial statements of Smart Team for the year ended 31 December 2015 was prepared in accordance with Small and Medium-size Entity Financial Reporting Framework and Financial Reporting Standard issued by the HKICPA. The statutory auditor of Smart Team was Tommy W. K. Wong & Co. The statutory financial statements of Smart Team for the year ended 31 December 2016 was prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. The statutory auditor of Smart Team was SHINEWING (HK) CPA Limited. The statutory financial statements of Smart Team for the year ended 31 December 2017 has not yet to be issued as of the date of this report because it is only required for tax filing before tax deadline in accordance with the applicable tax law.
- (iii) The statutory financial statements of Guangdong Smart Team for the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC and were audited by 東莞市正合會計師事務所(普通合夥) for the year ended 31 December 2016 and 東莞市德方信會計師事務所(普通合夥) for the year ended 31 December 2015. Both are certified public accountants registered in the PRC. The statutory financial statements of Guangdong Smart Team for the year ended 31 December 2017 is under preparation.
- (iv) The statutory financial statements of Smart Union for the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 東莞市正合會計師事務所(普通合夥), certified public accountants registered in the PRC. The statutory financial statements of Smart Union for the year ended 31 December 2017 is under preparation.
- (v) The statutory financial statements of Magic Team for the years ended 31 December 2015 and 2016 were prepared in accordance with relevant accounting principles and financial regulations applicable to the PRC enterprises and were audited by 北京永恩力合會計師事務所有限公司, certified public accountants registered in the PRC. The statutory financial statements of Magic Team for the year ended 31 December 2017 is under preparation.

34. Major Non-Cash Transaction

During the year ended 31 December 2016, the Group settled the other payables of approximately HK\$235,000 by other receivables.

35. Reconciliation of Liabilities Arising from Financing Activities

The table below details changes in the Group's liabilities arising from financing activities, both cash and non-cash changes. Liabilities arising from financing activities are those which cash flows were, of future cash flows will be, classified in the Group's combined statements of cash flows as cash flow from financing activities.

	Amounts due to a director <i>HK\$'000</i>	Amounts due to related companies <i>HK\$'000</i>	Bank borrowing <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	5,207	21,520	–	26,727
Financing cash flows	3,349	(11,929)	–	(8,580)
<i>Non-cash changes</i>				
Foreign exchange movement	<u>15</u>	<u>(104)</u>	<u>–</u>	<u>(89)</u>
At 31 December 2015	8,571	9,487	–	18,058
Financing cash flows	6,992	(9,528)	3,000	464
<i>Non-cash changes</i>				
Foreign exchange movement	<u>437</u>	<u>47</u>	<u>–</u>	<u>484</u>
At 31 December 2016	16,000	6	3,000	19,006
Financing cash flows	(6,670)	(6)	–	(6,676)
<i>Non-cash changes</i>				
Foreign exchange movement	<u>81</u>	<u>–</u>	<u>–</u>	<u>81</u>
At 31 December 2017	<u><u>9,411</u></u>	<u><u>–</u></u>	<u><u>3,000</u></u>	<u><u>12,411</u></u>

36. Subsequent Financial Statements

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

B. EVENTS AFTER THE REPORTING PERIOD**Reorganisation**

The Group comprising the Company and its subsidiaries underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Company's shares on GEM of the Stock Exchange. Details of the Reorganisation are set out in the section headed "History, Reorganisation and Corporate Structure" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group on 28 February 2018.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the accountants' report on the financial information for each of the three years ended 31 December 2015, 2016 and 2017 of the Group (the "Accountants' Report on Historical Financial Information") from SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set forth in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report on Historical Financial Information" set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following is an unaudited pro forma statement of adjusted combined net tangible assets of the Group (the "Unaudited Pro Forma Financial Information") prepared in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for illustrative purpose only, and is set out below to illustrate the effect of the proposed listing of the Company's shares on the Stock Exchange by way of share offer (the "Share Offer") on the Group's combined net tangible assets attributable to the owners of the Company as at 31 December 2017 as if the Share Offer had taken place on 31 December 2017.

The Unaudited Pro Forma Financial Information has been prepared based on the judgements, estimates and assumptions of the Directors, and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2017 or any further dates following the Share Offer.

	Audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2017 <i>HK\$'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Share Offer <i>HK\$'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company immediately after completion of the Share Offer <i>HK\$'000</i>	Unaudited pro forma adjusted net tangible assets per Share as at 31 December 2017 <i>HK\$</i> <i>(Note 3)</i>
Based on a Offer Price of HK\$0.50 per Offer Share	<u>56,941</u>	<u>39,163</u>	<u>96,104</u>	<u>0.20</u>
Based on a Offer Price of HK\$0.60 per Offer Share	<u>56,941</u>	<u>50,143</u>	<u>107,084</u>	<u>0.22</u>

Notes:

- (1) The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 is extracted from the Accountants' Report on Historical Financial Information as set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Share Offer of 120,000,000 shares are based on the respective Offer Prices of HK\$0.50 per Offer Share and HK\$0.60 per Offer Share (being the low end and the high end of the indicative price range of the Offer Price), after deduction of the underwriting fees and other related expenses incurred or expected to be incurred and borne by the Company in relation to the Share Offer and exclude approximately HK\$8,004,000 of listing expenses which have been charged to combined statements of profit or loss up to 31 December 2017 by the Group.
- (3) The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per Share is calculated based on 480,000,000 Shares in issue immediately following the completion of the Share Offer and the Capitalisation Issue, without taking into account the shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option referred to in the subsection headed "Structure and conditions of the Share Offer – Offer Size Adjustment Option" in this prospectus.
- (4) No adjustments have been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 December 2017.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of a report prepared for the purpose of inclusion in this prospectus, received from the Company's reporting accountants, SHINEWING (HK) CPA Limited, Certified Public Accountants, Hong Kong.



SHINEWING (HK) CPA Limited
43/F., Lee Garden One
33 Hysan Avenue
Causeway Bay, Hong Kong

30 April 2018

The Directors
ST International Holdings Company Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of ST International Holdings Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of net tangible assets of the Group attributable to the owner of the Company as at 31 December 2017 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus (“the Prospectus”) dated 30 April 2018 in connection the proposed listing of shares of the Company by way of share offer (the “Share Offer”) on The Stock Exchange of Hong Kong Limited. The applicable criteria on the basis of which the directors have compiled the unaudited pro forma financial information are described on pages in Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the Share Offer on the Group's net tangible assets as at 31 December 2017 as if the Share Offer had been taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the directors of the Company from the Group's financial information for the year ended 31 December 2017, on which an accountants' report has been included in the Appendix I to the Prospectus.

DIRECTORS' RESPONSIBILITY FOR THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 of the Rules Governing the Listing of Securities on GEM 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 (the “HKICPA”).

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirement 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 behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANTS' RESPONSIBILITIES

Our responsibility is to express an opinion, as required by paragraph 31(7) of Chapter 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 comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 31 of Chapter 7 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 unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Prospectus is solely to illustrate the impact of the Share Offer on unadjusted financial information of the Group as if the Share Offer had been completed at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Share Offer at 31 December 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 of the Company in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We make no comments regarding the reasonableness of the amount of net proceeds from the Share Offer, the application of those net proceeds or whether such use will take place as described in the section headed "Future Plans and Use of Proceeds" in the Prospectus.

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 31(1) of Chapter 7 of the GEM Listing Rules.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Pang Wai Hang

Practising Certificate Number: P05044

Hong Kong

**APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND
THE 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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 February 2017 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Amended and Restated Memorandum of Association (the “Memorandum”) and its Amended and Restated Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 23 April 2018. The following is a summary of certain provisions of the Articles:

- (a) **Shares**
 - (i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) Alteration of capital

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) subdivide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

(vi) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(vii) Calls on shares and forfeiture of shares

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) Directors

(i) Appointment, retirement and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

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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 any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable or that based on legal opinions provided by legal advisers, the board considers it necessary or expedient not to offer the shares to such members on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) Remuneration

The ordinary remuneration of the Directors is to be 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 the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vi) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) Loans and provision of security for loans to Directors

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) 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 the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise 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.

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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 shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/ themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or

(ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

(ii) Voting rights and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(iii) Annual general meetings

The Company must hold an annual general meeting of the Company every year other than the year of the Company's adoption of the Articles within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days. All other general meetings must be called by notice of at least fourteen (14) clear days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;

- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(v) *Quorum for meetings and separate class meetings*

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) *Proxies*

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

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The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not to be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 14 March 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) 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.

(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel 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.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND THE SUBSIDIARIES OF OUR GROUP**1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 21 February 2017. Our Company has established its principal place of business in Hong Kong at Room 1006, Centre Point, 181-185 Gloucester Road, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 31 March 2017. Mr. Hung Yuk Miu was appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the relevant laws and regulations of the Cayman Islands and its constitution which comprises the memorandum of association of our Company 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 share capital of our Company**

The authorised share capital of our Company as at the date of incorporation, being 21 February 2017, was HK\$100,000 divided into 10,000,000 Shares.

Immediately following the incorporation of our Company, on 21 February 2017, the one subscriber Share was transferred, nil paid, to Cosmic Bliss.

On 28 February 2018, the one nil-paid Share held by Cosmic Bliss was credited as fully paid at par and 9,999,999 Shares were allotted and issued, credited as fully paid at par, to Cosmic Bliss, further particulars of which are described in the subsection headed "History, Reorganisation and Corporate Structure – Reorganisation" in this prospectus. Upon completion of the aforementioned allotment and issue, the issued share capital of our Company comprised 10,000,000 Shares.

The authorised share capital of our Company was increased from HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each and the Capitalisation Issue was approved pursuant to the resolutions in writing of our sole Shareholder passed on 23 April 2018 referred to in the paragraph headed "5. Resolutions in writing of our sole shareholder passed on 23 April 2018" below in this appendix and subject to the conditions contained therein.

Immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, the authorised share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 480,000,000 Shares will be issued fully paid or credited as fully paid, and 9,520,000,000 Shares will remain unissued.

Save as disclosed in this paragraph, 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. Reorganisation

The companies comprising our Group underwent the Reorganisation to rationalise our Group's structure in preparation for the listing of the Shares on GEM. Please see the subsection headed "History, Reorganisation and Corporate Structure – Reorganisation" in this prospectus for further details.

4. Changes in share capital or registered capital of the subsidiaries of our Group

The subsidiaries of our Company are listed in the Accountants' Report set out in Appendix I to this prospectus.

The following changes in the share capital of our subsidiaries have taken place within two years immediately preceding the issue of this prospectus:

- (a) On 5 January 2016, Zhou Dongqin transferred the 40% equity interest in Smart Union held by him to Guangdong Smart Team at a consideration of RMB210,000 and such transfer was approved by 東莞市工商行政管理局 (Dongguan Administration for Industry and Commerce) on 14 January 2016.
- (b) On 1 March 2017, being part of the Reorganisation, one share of World Vantage was allotted and issued to our Company for cash at par.

- (c) On 28 February 2018, being part of the Reorganisation, our Company purchased all shares of Smart Team from Mr. Wong, representing the entire issued share capital of Smart Team, at a consideration which was satisfied by our Company by way of (i) crediting as fully paid at par, the nil-paid subscriber Share held by Cosmic Bliss; and (ii) allotting and issuing, credited as fully paid at par, 9,999,999 Shares to Cosmic Bliss, in each case, as directed by Mr. Wong.

5. Resolutions in writing of our sole Shareholder passed on 23 April 2018

By resolutions in writing of our sole Shareholder passed on 23 April 2018:

- (a) our Company adopted the Memorandum and the Articles;
- (b) the authorised share capital of our Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 9,990,000,000 new Shares;
- (c) conditional on the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions thereof) and not being terminated in accordance with the terms of such agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) each of the Share Offer and the grant of the Offer Size Adjustment Option was approved and our Directors were authorised to allot and issue (aa) the Offer Shares pursuant to the Share Offer and (bb) the Shares pursuant to the exercise of the Offer Size Adjustment Option;
 - (ii) conditional on the share premium account of our Company being credited as a result of the Share Offer or otherwise having sufficient balance, our Directors were authorised to allot and issue a total of 350,000,000 Shares, credited as fully paid at par, to the holder of Shares whose name appear on the register of members of our Company at 4:00 p.m. on 23 April 2018 (or as it may direct) in proportion to its then existing shareholdings (save that no Shareholder shall be entitled to be allotted and issued any fraction of a Share) by way of capitalisation of the sum of HK\$3,500,000 standing to the credit of the share premium account of our Company, and the Shares be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the existing issued Shares;

- (iii) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles or under the Share Offer or the Capitalisation Issue, Shares with an aggregate number not exceeding the sum of (aa) 20% of the aggregate number of our Shares in issue immediately following completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue; and (bb) the number of our Shares which are purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (iv) below, 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 the Articles or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (iv) a general unconditional mandate was given to our Directors to exercise all powers of our Company to purchase Shares up to such number representing 10% of the number of our Shares in issue immediately following completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue; 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 the Articles or any applicable law to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (v) the general unconditional mandate mentioned in sub-paragraph (iv) above was extended by the addition to the aggregate number of our Shares which may be allotted and issued or agreed to be allotted and issued by our Directors pursuant to such general mandate of an amount representing the aggregate number of our the Shares purchased by our Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (iv) above.

6. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Group of our own securities.

(a) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on GEM must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by the sole Shareholder on 23 April 2018, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on GEM 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 our Shares in issue immediately following completion of the Share Offer (excluding any Shares which may fall to be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option) and the Capitalisation Issue, 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 the Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(b) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the laws of the Cayman Islands, any repurchases by our Company may be made out of profits or the share premium account of our Company or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the 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 profits or the share premium account of our Company or, if authorised by the Articles and subject to the Companies Law, out of capital.

(c) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and the Shareholders for our Directors to have general authority from the 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 the Shareholders.

(d) *Funding of repurchases*

In repurchasing securities, our Company 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 the current working capital position of our Group, 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.

(e) *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 any of the subsidiaries of our Group.

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 Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert 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. Save as aforesaid, our 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.

No core connected person (as defined in the GEM Listing Rules) of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

7. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Company or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) a share purchase agreement dated 28 February 2018 made between Mr. Wong as vendor and our Company as purchaser for the acquisition of the entire issued share capital of Smart Team by our Company at a consideration which was satisfied by (i) the crediting of the one nil-paid Share held by Cosmic Bliss as fully paid at par and (ii) the allotment and issue, credited as fully paid, 9,999,999 Shares to Cosmic Bliss (being the Reorganisation Agreement);
- (b) a deed of waiver dated 23 April 2018 executed by Mr. Wong and Smart Team pursuant to which an outstanding sum in the amount of HK\$2,000,000 owed by Smart Team to Mr. Wong as at the date thereof was irrevocably and unconditionally waived by Mr. Wong;
- (c) a deed of indemnity dated 23 April 2018 executed by Mr. Wong and Cosmic Bliss in favour of our Company for itself and as trustee for our subsidiaries stated therein containing the indemnities more particularly referred to in paragraph headed “12. Tax and other indemnity” in this appendix (being the Deed of Indemnity);
- (d) a deed of non-competition dated 23 April 2018 executed by Mr. Wong and Cosmic Bliss in favour of our Company for itself and as trustee for our subsidiaries stated therein, details of which are set out in the sub-section headed “Relationship with our Controlling Shareholders – Non-competition Undertaking” in this prospectus (being the Deed of Non-Competition); and
- (e) the Public Offer Underwriting Agreement.

8. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, we had the following registered trademarks:

No.	Mark	Registered owner/ applicant	Place of registration	Registration number	Class	Duration of validity (year/month/day)
1.	兆天新呼吸	Guangdong Smart Team	PRC	16886237	22	2016/07/07 to 2026/07/06
2.	兆天新呼吸	Guangdong Smart Team	PRC	16886339	23	2016/07/07 to 2026/07/06
3.	兆天新呼吸	Guangdong Smart Team	PRC	16886646	24	2016/07/14 to 2026/07/13
4.	兆天新呼吸	Guangdong Smart Team	PRC	16886791	25	2016/07/07 to 2026/07/06
5.	兆天新呼吸	Guangdong Smart Team	PRC	16886714	35	2016/07/07 to 2026/07/06
6.	SMARTTEAM 兆天	Guangdong Smart Team	PRC	11549330	22	2016/02/06* to 2024/03/06
7.	SMARTTEAM 兆天	Guangdong Smart Team	PRC	11549309	23	2016/02/06* to 2024/03/06
8.	SMARTTEAM 兆天	Guangdong Smart Team	PRC	7738693	24	2016/02/06* to 2020/12/06

* The date refers to the date on which the respective trademark was assigned to our Group.

(b) Patents

As at the Latest Practicable Date, we had the following registered patents:

No.	Mark	Registered owner/applicant	Place of registration	Registration number	Duration of validity (year/month/day)	Type of patent
1.	A dyeing process of superfine denier acrylon knitted fabric (一種超細旦腈綸針織布的染色工藝)	Guangdong Smart Team	PRC	ZL 2014 1 0295936.1	2014/06/27 to 2034/06/26	Invention
2.	A moisturising skin care warm-keeping knitted fabric and production process thereof (一種保濕護膚保暖針織面料及其生產工藝)	Guangdong Smart Team	PRC	ZL 2014 1 0327030.3	2014/07/10 to 2034/07/09	Invention
3.	A hygroscopic quick-drying breathable warm keeping knitting fabric and production process thereof (一種吸濕快乾透氣的保暖針織面料及其生產工藝)	Guangdong Smart Team	PRC	ZL 2014 1 0726100.2	2014/12/04 to 2034/12/03	Invention
4.	A multifunctional blended yarn and manufacturing method thereof (一種多功能混紡紗的製備方法)	Guangdong Smart Team	PRC	ZL 2014 1 0716715.7	2014/12/02 to 2034/12/01	Invention
5.	A two-sided looped fabric of weft knitting (一種緯編雙面針織布)	Guangdong Smart Team	PRC	ZL 2015 2 1101959.0	2015/12/28 to 2025/12/27	Utility model
6.	A free cutting flash knitted fabric (一種可自由裁剪的閃光緯編針織布)	Guangdong Smart Team	PRC	ZL 2017 2 0262627.3	2017/03/17 to 2027/03/16	Utility model
7.	Siro-segment color yarn production device and production method (一種賽絡紡段彩紗生產裝置和生產方法)	Smart Union	PRC	ZL 2015 1 0827627.9	2015/11/25 to 2035/11/24	Invention
8.	An ultra-thin low-elasticity warp-free weft knitted fabric and production process thereof (一種超薄、低彈、不卷口的緯編針織布及其生產工藝)	Guangdong Smart Team	PRC	201510994740.6	2015/12/28 to 2035/12/27	Invention

As at the Latest Practicable Date, the following patent registration applications were under process:

No.	Mark	Registered owner/applicant	Place of registration	Application Date	Application Number	Type of patent
1.	A silk-like knitted fabric (一種仿絲綢針織面料)	Guangdong Smart Team	PRC	2017/8/25	CN201710744 996.0	Invention
2.	A CVC jersey and its processing techniques (一種CVC針織布及其加工工藝)	Smart Union	PRC	2017/10/31	CN201711043 131.8	Invention
3.	A bamboo fibre, acetate and nitrate rib knit fabric and its processing technique (一種竹纖維、醋酸羅紋針織布及其加工工藝)	Smart Union	PRC	2017/10/31	CN201711047 761.2	Invention
4.	A dyeing process of chequered pattern (一種格子圖案的染色工藝)	Smart Union	PRC	2017/10/31	CN201711047 763.1	Invention
5.	A fluffy thermal yarn and its processing techniques (一種蓬鬆保溫紗線及其加工工藝)	Smart Union	PRC	2017/10/31	CN201711047 764.6	Invention
6.	A wild silk spandex jersey (一種野蠶絲氨綸針織布)	Smart Union	PRC	2017/10/31	CN201721430 191.0	Utility model
7.	A fabric with laundering durability (一種耐洗滌面料)	Smart Union	PRC	2017/10/31	CN201721440 686.1	Utility model
8.	A comfortable stretch fabric (一種舒彈面料)	Smart Union	PRC	2017/10/31	CN201721440 674.9	Utility model

(c) Domain names

As at the Latest Practicable Date, we have registered two domain names. Our Company's website at www.smart-team.cn is registered under the name of Guangdong Smart Team. Another domain name at magicteamdesign.cn is registered under the name of Magic Team.

Save as aforesaid, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material in relation to our Group's business.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS**9. Directors****(a) Disclosure of interests of Directors**

- (i) Mr. Wong was interested in the Reorganisation in his capacity as the sole shareholder of Cosmic Bliss and as a former shareholder of Smart Team. For details of the Reorganisation, please see the section headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus.
- (ii) Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong, whose interests are disclosed above.
- (iii) Save as disclosed in this prospectus, none of our Directors or their respective associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) Particulars of Directors’ service agreements**(i) Executive Directors**

Each of our executive Directors has entered into a service agreement with our Company pursuant to which he agreed to act as an executive Director for a fixed term of three years with effect from 1 April 2017.

Pursuant to their respective service agreements, each of these Directors is entitled to a basic annual salary as set out below (subject to annual review):

Name	Annual salary <i>(HK\$)</i>
Mr. Wong	900,000
Mr. Xi	864,000
Mr. Hung Yuk Miu	1,236,000

Each of our executive Directors is also entitled to a discretionary bonus under their respective service agreements.

(ii) *Independent non-executive Directors*

Pursuant to the respective letters of appointment, each of Mr. Ng Wing Heng Henry, Mr. Sze Irons and Mr. Fong Kin Tat has been appointed as our independent non-executive Director for a fixed term of three years commencing from 23 April 2018. Each of our independent non-executive Directors is entitled to an annual director's fee of HK\$120,000. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed above, none of our Directors has or is proposed to have a service contract with our Company or any of the subsidiaries of our Group other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

(c) ***Remuneration of Directors***

- (i) The aggregate emoluments paid by our Group to our Directors in respect of the financial year ended 31 December 2017 were approximately HK\$2.5 million.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding the discretionary bonus) payable by our Group to our Directors (including the independent non-executive Directors (in their capacity as directors)) for the year ending 31 December 2018, are expected to be approximately HK\$3.2 million.
- (iii) None of our Directors or any past directors of any members of our Group has been paid any sum of money for each of the years ended 31 December 2015, 2016 and 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 of any other office in connection with the management of the affairs of any members of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for the years ended 31 December 2015, 2016 and 2017.

(d) Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and associated corporations following the Share Offer and the Capitalisation Issue

Immediately following completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, the interests or short positions of our Directors in the shares, underlying shares or debentures of our Company and 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 which will be required to notify our Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, will be as follows:

Long positions

Name of Director	Name of Group member/associated corporation	Capacity/nature of Interest	Total number of shares	Percentage of interest
Mr. Wong	Our Company	Interest of a controlled corporation	360,000,000 Shares <i>(Note 1)</i>	75.00%
Mr. Wong	Cosmic Bliss <i>(Note 2)</i>	Beneficial owner	1 share of US\$1.00	100.00%

Notes:

1. These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. By virtue of the provisions in Part XV of the SFO, Mr. Wong is deemed to be interested in all the Shares held by Cosmic Bliss. Mr. Wong is the sole director of Cosmic Bliss.
2. Cosmic Bliss is an associated corporation of our Company by virtue of its being the holding company of our Company. Cosmic Bliss is wholly owned by Mr. Wong.

10. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, other than a Director or chief executive of our Company whose interests are disclosed under the paragraph headed “(d) Interests and short positions of our Directors in the shares, underlying shares or debentures of our Company and associated corporations following the Share Offer and the Capitalisation Issue” in this appendix above, the following person 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 under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of our Company or any other member of our Group will be as follows:

Long positions

Name of person	Name of Group member	Capacity/nature of Interest	Number and class of securities	Percentage of interest
Cosmic Bliss ^(Note 1)	Our Company	Beneficial owner	360,000,000 Shares	75.00%
Kwan, Vivian Wun-kwan ^(Note 2)	Our Company	Interest of spouse	360,000,000 Shares	75.00%
Ms. Fan	Magic Team	Beneficial owner	RMB150,000 of the paid up capital	30.00%

Notes:

- The entire issued share capital of Cosmic Bliss is owned by Mr. Wong, our executive Director.
- These Shares are registered in the name of Cosmic Bliss, a company wholly owned by Mr. Wong. Ms. Kwan, Vivian Wun-kwan is the spouse of Mr. Wong. By virtue of the provisions in Part XV of the SFO, Ms. Kwan, Vivian Wun-kwan is deemed to be interested in all the Shares Mr. Wong is interested or deemed to be interested.

11. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately after completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised) and the Capitalisation Issue, have an interest or a short position in shares or underlying shares of our Company which would fall to be disclosed to our Company under the provisions in Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the issued voting shares of our Company or any other member of our Group;
- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any 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 any of them is deemed to have under such provisions in the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph headed “18. Qualifications of experts” in this appendix has been interested in the promotion of, or has any direct or indirect interest 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 our Company or any other member of our Group, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for the Offer Shares either in his own name or in the name of a nominee;
- (d) none of our Directors nor any of the parties listed in the paragraph headed “18. Qualifications of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to business of our Group; and

- (e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed “18. Qualifications of experts” in this appendix:
 - (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.

D. OTHER INFORMATION

12. Tax and other indemnity

Cosmic Bliss and Mr. Wong (together, the “**Indemnifiers**”) have entered into a deed of indemnity with and in favour of our Company (for itself and as trustee for each of its subsidiaries) (being the material contract referred to in paragraph 7(c) in this appendix) to provide indemnities on a joint and several basis in respect of, among other matters, 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 section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of our Group on or before the date on which the Share Offer becomes unconditional. Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of its subsidiaries in the Cayman Islands and BVI.

Under the deed of indemnity, the Indemnifiers have also given indemnities to our Group on a joint and several basis in relation to taxation (which includes estate duty) in whatever part of the world which might be payable by any member of our Group in respect of among other matters any income, profits or gains earned, accrued or received or property received as a result of a transfer by any person on or before the date on which the Share Offer becomes unconditional.

The deed of indemnity does not cover any claim and the Indemnifiers shall be 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 our Company or any of its subsidiaries up to 31 December 2017; or

- (b) to the taxation falling on any member of our Group in respect of their accounting period commencing on or after 1 January 2018 unless liability for such taxation 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) with the prior written consent or agreement of the Indemnifiers other 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 before 31 December 2017; or
 - (ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2017 or pursuant to any statement of intention made in this prospectus; or
- (c) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other relevant authority coming into force after the date on which the Share Offer becomes unconditional or to the extent such taxation claim arises or is increased by an increase in rates of taxation after such date of the deed of indemnity with retrospective effect; or
- (d) to the extent of any provision or reserve made for taxation in the audited accounts of any member of our Group up to 31 December 2017 which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve applied pursuant to the deed of indemnity 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, the Indemnifiers have also given indemnities to our Group, on a joint and several basis, against any penalty, administrative or other charges, levies, fines or payments which may be imposed on any member of the Group, or any cost, expense, damages, loss which such member of the Group has suffered or may suffer in connection therewith, as a result of:

- (a) the failure of our Group to complete the lease registration of certain of the leases relating to properties situated in the PRC with local housing authority in accordance with the relevant regulations within a certain time frame, as more particularly set out in the section headed "Business – Our properties" in this prospectus; and

- (b) the failure of our Group to observe relevant laws, regulations or rules concerning the housing provident funds contribution or any other laws and regulations in connection with employee welfare and benefits in the PRC, as more particularly set out in the table relating to the non-compliance incidents under the section headed “Business – Legal compliance” in this prospectus,

provided that such indemnities shall not cover any amounts to the extent that provision has been made for such amounts in the audited accounts of our Company or any of its subsidiaries up to 31 December 2017.

13. Litigation

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 Company’s results of operations or financial condition of our Company.

14. Preliminary expenses

The preliminary expenses of our Company are estimated to be approximately US\$12,100 (equivalent to approximately HK\$94,380) and are payable by our Company.

15. Promoter

- (a) Our Company has no promoter for the purpose of the GEM Listing Rules.
- (b) Within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to any promoters in connection with the Share Offer or the related transactions described in this prospectus.

16. Agency fees or commissions received

The Underwriters will receive a commission the particulars of which are set out in the section headed “Underwriting” in this prospectus. The Underwriters will pay any sub-underwriting commissions and selling concessions out of their commission. The Sole Sponsor will also receive a documentation fee. Such commissions, selling concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Share Offer to be borne by our Company are estimated to amount, in aggregate, to approximately HK\$29.4 million (assuming a Offer Price of HK\$0.55 per Offer Share, being the mid-point of the indicative Offer Price range). Such fees and expenses will be payable by our Company.

17. Sponsor

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made to enable the securities to be admitted into CCASS.

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 6A.07 of the GEM Listing Rules.

The Sole Sponsor will be paid by our Company a total fee of approximately HK\$4.6 million to act as the sole sponsor to our Company in connection with the Listing.

18. Qualifications of experts

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualification
Sunfund Capital Limited	a licensed corporation under the SFO permitted to carry out Type 6 (advising on corporate finance) regulated activity (as defined in the SFO)
SHINEWING (HK) CPA Limited	Certified Public Accountants
SHINEWING Risk Services Limited	Internal control consultant
Kaitong Law Firm	PRC attorneys-at-law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
China Insights Consultancy Limited	Industry consultant

19. Consents of experts

Each of the experts named in the paragraph head “18. Qualification of experts” in this appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or opinion (as the case may be) and the references to its name or summaries of opinions included herein in the form and context in which they respectively appear.

None of the experts named in the paragraph headed “18. Qualifications of experts” in this appendix has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group save that Sunfund Securities Limited, being one of the Joint Lead Managers, which is an associate of the Sole Sponsor and the Underwriter(s), may be required to perform its underwriting obligation in respect of the Offer Shares.

20. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

21. 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 interests in land in the Cayman Islands.

22. No material adverse change

Save as disclosed in the section headed “Financial Information” and the sub-section headed “Summary – Recent development and no material adverse change” in this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2017 (being the date to which the latest audited combined financial statements of our Group were made up) up to the date of this prospectus.

23. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus:
 - (i) no share or loan capital of our Company or of any of its 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;
 - (ii) 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 the subsidiaries of our Group; and
 - (iii) 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 the subsidiaries of our Group;
- (b) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) our Company has no outstanding convertible debt securities;
- (d) there is no arrangement under which future dividends are waived or agreed to be waived; and
- (e) there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus.

25. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) copies of the **WHITE, YELLOW** and **GREEN** Application Forms;
- (b) written consents referred to in the sub-section headed “19. Consents of experts” in Appendix IV to this prospectus; and
- (c) copies of the material contracts referred to in the sub-section headed “7. Summary of material contracts” in Appendix IV to this prospectus.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Leung & Lau at Units 7208-10, 72nd Floor, The Center, 99 Queen’s Road C., Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association;
- (b) the accountants’ report prepared by SHINEWING (HK) CPA Limited on the Group, the text of which is set out in Appendix I to this prospectus;
- (c) the accountants’ report prepared by SHINEWING (HK) CPA Limited on unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the audited financial statements of the companies comprising our Group for the years ended 31 December 2015, 2016 and 2017;
- (e) 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;
- (f) the legal opinion prepared by Kaitong Law Firm in respect of certain aspects of our Group in the PRC;

- (g) the CIC Report;
- (h) copies of the material contracts referred to in the sub-section headed “7. Summary of material contracts” in Appendix IV to this prospectus;
- (i) copies of the written consents referred to in the sub-section headed “19. Consents of experts” in Appendix IV to this prospectus;
- (j) the service contracts and the letters of appointment referred to in the sub-section headed “9(b) Particulars of Directors’ service agreements” in Appendix IV to this prospectus;
- (k) the Companies Law; and
- (l) the internal control review report prepared by SHINEWING Risk Services Limited.

