OVERVIEW

The Group is a knitwear manufacturer established in Hong Kong for more than 17 years. It manufactures an extensive assortment of knitwear products ranging from classically styled wardrobe basics to high quality fashion apparel including but not limited to pullovers, cardigans, jackets, coats and skirts together with knitted accessories such as knitted berets, scarves, gloves and hats which are categorised as womenswear, menswear and kidswear. The Group's customers mainly comprise international apparel brand owners headquartered in the USA or the European countries such as Germany and Switzerland with their products marketed under their own labels and sold around the world. The Group does not possess its own labels. All the Group's products are manufactured in accordance with the specifications and requirements set out by the Group's customers in the sale orders and/or designs recommended or inspired by the Group.

The major subsidiaries of the Group are Nice Regent, Fornton Holdings, Fornton Knitting and Fung Ching. The former three subsidiaries were incorporated in Hong Kong whilst Fung Ching is a WFOE established in the PRC. The production of the Group has been carried out at (i) the Processing Factory under the Processing Agreements since 1996; and (ii) also at the FC Factory since 2006. The FC Factory mainly carries out the pre-laundering procedures including knitting, linking and handstitching with the support of the Processing Factory for the remaining procedures. The Processing Factory carries out the entire production process, with certain production procedures outsourced to other production factories in the PRC (i.e. subcontractors) on a case by case basis. For each of the three years ended 31 December 2010, the annual production capacity of the Group (including the Processing Factory but excluding the subcontractors engaged by the Processing Factory) was approximately 1.6 million to 1.8 million units of apparel.

Leveraging on the long-term business relationships with the major customers and its reputation for quality, the Group's turnover increased by approximately 17.0% for the year ended 31 December 2010 as compared with the year ended 31 December 2009. For each of three years ended 31 December 2010, the Group's turnover amounted to approximately HK$316.6 million, HK$304.5 million and HK$356.1 million respectively, representing a CAGR of approximately 6.06%, and the total comprehensive income for the year amounted to approximately HK$27.1 million, HK$22.2 million and HK$27.7 million respectively, representing a CAGR of 1.0%. Despite the relatively low CAGR of the comprehensive income due to the cumbrance from the financial crisis triggered at the end of 2008, the Group was back on the growing track in 2010, gaining an annual growth rate of approximately 24.6% for its comprehensive income for the year ended 31 December 2010. For the four months ended 30 April 2011, the Group's turnover and comprehensive expenses amounted to approximately HK$49.2 million and HK$3.8 million respectively, representing a decrease of 14.3% and an increase of approximately 21.6% respectively as compared to the corresponding period in previous year. The decrease in turnover for the four months ended 30 April 2011 was primarily due to industry convention for knitwear products as first half of the year is a conventional slack season for knitwear products and more orders for winter collection are normally placed in second quarter of the year. The increase in comprehensive expense for the same period was mainly attributable to decrease in turnover as aforesaid and the increase in administrative expenses arising from recruitment of more staff for facilitating the expansion plan to be carried out by the Group.

The fees paid by the Group pursuant to the Processing Agreements and the Processing Factory Tenancy Agreement 2000 for rental of the production premises for the Processing Factory, direct and indirect labour cost, utility cost and staff cost amounted to approximately HK$27.7 million, HK$27.0 million, HK$31.2 million and HK$9.9 million, respectively for the Track Record Period. It is expected that the new production factory with annual production capacity of approximately 4,188,000 pieces of apparel to be constructed on the Land at Yangwu Village, Dongguan City, Guangdong Province, the PRC acquired by the Group will commence operation by the fourth quarter of 2012 so as to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory. The Group intends to continue with the processing arrangement with the PRC Processing Party for production to be carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting new processing arrangement with any other PRC parties.

COMPETITIVE STRENGTHS

The Group believes that it has several business strengths that set it apart from its competitors and enable it to continue to grow and enhance its profitability. The competitive strengths of the Group include:

Established relationships with premium apparel brand owners

The Group has secured several major international apparel brand owners which possess recognised designer labels including but not limited to Jones New York and Anne Klein. The relationships between the Group and most of the key customers have sustained for more than 10 years, during which the Group provides a product mix of knitwear products with different knitting patterns, styles, materials, accessories and colour tones in accordance with the preferences and standards as specified by the customers and/or designs recommended or inspired by the Group. The Directors believe that one of the factors for the success of the Group is attributable to its ability to secure and maintain long-term relationships with these well-recognised international apparel brand owners.

As at the Latest Practicable Date, the Group has sustained business relationships with its top five customers for a period ranging from 5 to over 10 years. Such loyal relationships were established by the Group's comprehensive pre-order services including but not limited to (i) development services to design, and showcase new sample collections for customers each season; (ii) market research on global fashion trend and preparation of trend books; (iii) presentations of new fashion trends and ideas; and (iv) brainstorming the ideas of design for the customers and its stable delivery of good quality products, which secures the commitment of the customers for future orders.

The Directors consider that another major strength of the Group to secure such long established relationships is its efficient communications with the customers and its advice to the customers on the designs of the products, the use of yarn and other accessories according to the latest fashion trend and the specific target customers in the market. The sales and merchandising department of the Group is responsible for coordinating the communications between the customers and the production team in the PRC. The merchandisers of the Group communicate with the overseas customers in respect of their requests for upcoming fashion trends through emails, telephone and/or regular visits to the customers' representative offices in Hong Kong or their overseas headquarters. Such regular communications allow the Group to better understand the needs and requirements of its customers. Leveraging on the strong relationships between the Group and its customers, the Directors believe that the Group can obtain stable orders for its knitwear products from its customers and maintain its scale of production during both market upturns and downturns.

Comprehensive quality assurance checks for products and recognition from customers

As the major customers of the Group are recognised international apparel brand owners with strict and comprehensive quality assurance review for their products, the Group has put strong emphasis on its product quality and reliability. To ensure the quality of the products produced by the Group is in accordance with the customers' standards, the Company performs in-line quality assurance check for almost all the WIPs produced along the production lines. As at the Latest Practicable Date, there were 237 employees responsible for the in-line quality assurance checks and final inspections of the products along the production lines. The staff responsible for quality assurance check carries out stringent quality control procedures along the production lines after each major production procedure such as knitting, linking, handstitching, laundering, label sewing and final checking.

For example, after the linking process, all the linked garments are inspected by the quality assurance staff in terms of the quality of stitches. In the event that defects of the WIPs are found after a particular production procedure, the quality assurance staff will send those defective WIPs back to the production department of previous production stage for rectification. Some customers also assign their own staff to perform specific quality check for the products manufactured under their labels in the Processing Factory. One of the major customers even assign their own staff to station in the Processing Factory to do the final inspection of their own products. To ensure stable quality of the Group's products, the quality assurance checks carried out by the staff cover almost all the WIPs produced in each major production process. The Directors believe that the quality assurance check with almost full coverage can maintain stable quality of the Group's products, which in turn enhances the loyalty of the customers.

To recognise the Group's emphasis and effort in quality assurance of the products, one of its customers, namely Jones Apparel Group USA Inc., has presented the Most Valuable Partner Award to the Group commending the reliability and quality of the Group's products. In view of such close collaboration between the major customers and the Group and the positive feedback from the customers in respect of the reliable performance of the Group throughout the entire period of cooperation, the Directors believe that the Group's commitment to high and stable quality of the products constitutes a competitive edge over other apparel manufacturers.

Most of the recognised international apparel customers carry out a comprehensive quality assurance review before they take delivery of the finished products. One of the major customers requires the Group to enter into a compliance agreement which sets out, among others, (i) specific requirements and standards for the production of the goods, components, trim, materials and packaging such as the facilities for the production of goods as approved by the customers; and (ii) the code of conduct of the Group. For example, the Group agreed not to distribute any products which have failed the quality assurance review, and will completely destroy any goods that are wearable with minimal flaws which have the customers' trademark or name screened, including tagless labels, embroidered, printed, engraved or otherwise incorporated directly onto the goods, as well as any goods that have failed the applicable safety testing. Some of the customers pay regular on-site quality check for the products produced under their brand names.

Strong and established product design and development capability

Since 2003, the Group has established a design and development department. It is mainly responsible for devising design and development plans for all customers each season in accordance with the upcoming fashion trend in the international apparel market and the culture and preferences of each major customer. The design and development department collects the latest information of the fashion market and brainstorms with customers various new design ideas in terms of yarn, accessories, cutting, knitting pattern, silhouette and colour tones design. To facilitate customers in devising production plan for the upcoming seasons, the design and development department would present the latest market information to and assess the fashion trend for the customers, and discuss with the customers on the design of upcoming collections. After such brainstorming meeting, the customers' designers would develop their own collections based on the information and inspirations provided by the Group. Each year, the Group develops two collections of knitwear product samples with a minimum of 80 new style designs and a minimum of 100 technique swatches in each collection for customers' consideration. The Directors believe that the design and development capability together with efficient communication and exchange of ideas between the Group and the major customers can facilitate the production plans of the customers, which in turn enhances the loyalty of the customers to the Group.

Strong relationships with suppliers and subcontractors

As the market demand for knitwear products fluctuates rapidly with economic situation, there are large differences in market demand between the peak seasons and low seasons. As such, the Group has to secure a steady supply of raw materials and other accessories for its production and, through the Processing Factory, outsource some of its production procedures to other production factories with a view to maintaining reliable production of products with stable quality during the peak seasons. Over the years of collaboration with the suppliers and subcontractors, both the Group and the Processing Factory have established a strong and close business relationships with their suppliers of yarn and accessories and the subcontractors. As at the Latest Practicable Date, both the Group and the Processing Factory have established relationships with some of the suppliers and subcontractors for more than 10 years without entering into long-term contracts. This arrangement is in line with the industry practice, and shows the mutual trust between the Group, the Processing Factory, the suppliers and the subcontractors. Save as disclosed in the section headed "Litigation" in Appendix V to this prospectus, during the Track Record Period, there was no material disagreement between the Group and each of the Processing Factory, suppliers and subcontractors arising from the defects or other quality issues of the raw materials from the suppliers, the WIPs or finished goods produced by the subcontractors. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Group purchased raw materials from 274, 277, 292 and 147 suppliers located all over the world. As at the Latest Practicable Date, the Group's business relationships with its top five suppliers ranged from 3 to 10 years. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Processing Factory had approximately 178, 160, 182 and 85 subcontractors in the PRC respectively.

Expertise in apparel manufacturing

The growth and success of the Group's business is attributable to its experienced and dedicated management team with extensive knowledge in the apparel manufacturing industry. The management team is led by Madam Wong and Mr. Wong, who have approximately 27 and 15 years of management and operating experience in the textile industry respectively. Some of the major customers and suppliers were old business acquaintances with Madam Wong before the commencement of the Group's business. The Directors believe that the experienced management and design teams enable the Group to adapt to the rapidly-changing market environment in a timely manner and to capture the market opportunities swiftly and accurately.

Computerisation of the knitting process

To ensure efficient and effective production of knitwear products in high and stable quality, as at the Latest Practicable Date, the Group has installed 140 sets and 9 sets of computerised knitting machines in the FC Factory and the Processing Factory respectively to handle the initial production process, i.e. knitting. With such computerised knitting machines, the Group is capable of producing complicated knitting pattern of swatches so as to cater for the appetite and the demand of the medium-to-high-end customers located in highly competitive apparel markets in the world. The Directors believe that computerisation of the knitting process can help reduce the bottle-necked pressure imposed on the Group in respect of potential labour shortage, reduce the production costs and its reliance on the subcontractors. To further promote the computerisation of the knitting process of the production of the Group and keep pace with the overall market trend from labour intensive knitting to computerised knitting, the Group intends to install an additional 100 sets of computerised knitting machines in the third quarter of 2012 to replace all manually-operated knitting machines.

Focus on premium yarn with higher margins and development of new blending of yarn

The Group has positioned itself as a knitwear manufacturer for key international apparel brand owners with their products sold around the world under their well-known designer labels. In light of the standard of quality as required by key customers in the highly competitive apparel markets in the world, the Group selects to use premium yarn, which is patented, for the production of knitwear products. The Group is knowledgeable in handling different kinds of premium yarn and is capable of applying them to different kinds of knitwear products. The Directors believe that the use of premium yarn not only achieves the standards set out by the customers, but also one of the factors contributing to the higher margins for the Group, thereby benefiting the financial results of the Group.

To fulfill the growing appetite for products with newly developed yarn or knitting pattern, the Group initiates the innovation of different blending of yarn for a wide variety of knitwear products. The design and development department also cooperates with the purchasing department and the yarn suppliers to research on and develop new blending of yarn so as to bring novelty to the product designs. The Directors believe that the effort put on research will facilitate the Group in keeping abreast of the mindsets of the customers, enabling the Group to provide better customers service.

Strong growth prospects through multiple channels

The Group not only cooperates with international apparel brand owners based in USA and the European countries such as Germany and Switzerland, but also enters the onshore market by cooperating with the distributors and exporters located in Hong Kong. Such multiple channels for sales and distribution of the knitwear products of the Group provide extensive reach of the Group's products to both offshore and onshore markets. This business model reduces the impact on the Group's performance during possible adverse change of the global economic market. Moreover, the Group plans to further extend its root to the PRC apparel market by attracting potential customers including but not limited to the local brand owners in the PRC or those international apparel groups which labels are recognised but under penetrated in the PRC's apparel market with a view to enhancing sales and benefiting from the rapid growth of the PRC's economy. The Directors believe that the multiple channels can offer strong and optimistic growth prospects to the Group.

BUSINESS STRATEGIES

In view of the rapidly growing PRC economy and the emergence of fashion awareness of the middle-class in the PRC, the Group intends to extend its customer base to the PRC apparel brand owners and other European markets such as Portugal and Italy and enhance its position as an ODM knitwear manufacturer in the knitwear industry. To achieve these goals, the Group will adopt the following strategies:

To enhance the sales and merchandising department

To facilitate the expansion plan to be carried out by the Group to attract more international apparel groups which intend to increase market share into the PRC, the Group has been recruiting experienced staff for the sales and merchandising department with a view to leveraging on their experience and established network in the apparel industry to strengthen the sales and merchandising team, and to improve the services to, and communications with, the customers.

To enhance the design capability of knitwear products

To further strengthen its established design and development department and strengthen its design and development services provided to the customers, the Group has been recruiting experienced designers to increase the number of sample collections designed by the Group per year. Currently, the Group designs and produces two knitwear sample collections per year for the customers' consideration and design inspirations. The Group has also established a showroom on a larger scale in its headquarter for showcasing more samples, collections of the knitwear products and swatches of different knitting patterns designed and developed by the Group for promotion and marketing purpose. The Group would also enhance the capability of the design and development team through participating in fashion exhibitions twice a year and acquiring computer software for design and development, details of which are set out in the section headed "Future plans and use of proceeds" in this prospectus.

To enhance the development capability of yarn

To bring novelty to the knitwear products and increase the competitive edge of the Group's products, the Group intends to enhance the development capability of the design and development department by encouraging direct development and design of new blending of yarn for the knitwear products. The Directors believe that the more special the blending of yarn or knitting pattern is, the more capable the Group to satisfy the changing appetite of the customers.

To increase the market sense and enhance a better understanding of the customers' appetite, the Group assigns its staff from sales and merchandising department and design and development department to participate in more events relating to the updating of market information and latest fashion trends such as international fashion shows and trade shows.

To enhance the production capacities

To handle complicated or sophisticated pattern or style of knitwear products, the Group has ordered an additional 120 sets of computerised knitting machines to handle the knitting procedure of the production process and these 120 sets of computerised knitting machines were installed in the second quarter of 2011. As at the Latest Practicable Date, there were 9 sets and 140 sets of computerised knitting machines in the Processing Factory and FC Factory respectively. The Group also intends to acquire an additional 100 sets of computerised knitting machines in the third quarter of 2012. It is expected that additional computerised knitting machines will increase the production capacity of the Group and reduce reliance on labour. As the computerised machines can produce more complicated or sophisticated patterns and styles of knitwear products, the design and development department may have more flexibility to explore other design possibilities whilst the sales and merchandising department will be in a better strategic position to attract more prime international brand owners which put stronger emphasis on design and specification of their knitwear products.

To fully implement ERP System for better management control and to enhance corporate governance

With the expansion and development of the Group's production base, in order to streamline the Group's internal control, to allow full integration of the Group's various production facilities and to improve the information technology management for better operation management, the Group has collaborated with a software development company in April 2011 for the design and development of an ERP System that is tailor-made for the Group. It is expected that service agreement will be entered into between the Company and the system vendor in November 2011 and the use of ERP System is expected to commence in December 2012. The ERP System could enable the Group's management to exercise more rigorous and efficient control over the Group's operation and lay a solid foundation to ensure the maintenance of the Group's economic efficiency.

CUSTOMERS

Since the commencement of its manufacturing business, the Group has been able to secure international fashion groups with wide variety of products marketed under numerous well-recognised labels and sold in their franchised or chain stores located all over the world. As at the Latest Practicable Date, the labels of the apparel manufactured by the Group included but not limited to Jones New York and Anne Klein which are under top five customers of the Group. Jones Group and another international well-known specialty retailer headquartered in USA are the two most substantial customers contributing to the Group's business throughout the Track Record Period in terms of the turnover generated from their sales and their long-term business relationships with the Group.

Location of the customers

The Group's customers are mainly international apparel groups headquartered in USA and the European countries such as Germany and Switzerland whilst their products are sold in their respective chain stores or franchised stores under their labels, department stores or other specialty retailers around the world.

Set out below is the Group's turnover by headquarter's locations of the customers during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Turnover										
USA	236,119	74.6	228,948	75.2	270,664	76.0	50,897	88.7	37,178	75.6
Europe	50,586	16.0	46,402	15.2	52,022	14.6	1,923	3.3	6,385	13.0
Canada	16,496	5.2	17,703	5.8	22,065	6.2	3,311	5.8	3,064	6.2
Other countries *(Note)*	13,374	4.2	11,446	3.8	11,371	3.2	1,235	2.2	2,553	5.2
Total	316,575	100.0	304,499	100.0	356,122	100.0	57,366	100.0	49,180	100.0

Note: During the Track Record Period, other countries included but not limited to Japan, Hong Kong, Brazil, Singapore, Taiwan, Israel, India, South Korea, South Africa, United Arab Emirates and Australia.

During the Track Record Period, approximately 98.1%, 99.2%, 99.5% and 99.3% of the turnover of the Group were denominated U.S. dollars, and approximately 1.9%, 0.8%, 0.5% and 0.7% of the turnover of the Group were denominated in HK dollars.

Top five customers

All the top five customers in terms of the turnover generated from the sales of the Group's products thereto during the Track Record Period own various international well-known fashion labels and have maintained long-term business relationships with the Group for more than 5 years. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the aggregate turnover generated from the top five customers of the Group amounted to approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's total turnover respectively. During the Track Record Period, turnover generated from the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0% of the Group's total turnover respectively.

As the Group's customers only enter into short-term purchase orders instead of long-term sales contracts with the Group, there is no assurance that the relationship between the Group and any customers will continue on the same or similar terms, and the customers may terminate their respective relationships with the Group at any time as they wish in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it is difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period depending on the volume of purchase orders from the customers, whether existing or new.

Notwithstanding that the Group has maintained long-term relationships with its customers, to reduce reliance on the key customers and to avoid significant impact on the Group's performance if the major customers reduce their order amounts, the Group has strived for extending its business reach to the PRC market and attracting more potential customers such as the international apparel groups which labels are recognised but under-penetrated in the PRC. The Group has been in frequent communication in respect of the style, design, type, quality and pricing of the potential sales orders with the potential customers such as the PRC local high-end branded products retailers and international brands retailers which intend to establish sales channels in the PRC market. Some of the potential customers have exchanged specific requirements with the Group and have considered the designs recommended by the Group. As at the Latest Practicable Date, the Group has secured sales orders in an aggregate amount not less than HK$20 million from customers in the PRC.

Set out below are the years of relationships between the top five customers of the Group and the respective percentages of turnover generated from the top five customers during the Track Record Period:

Top five customers of the Group for the year ended 31 December 2008

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	52.6%
Customer B	over 10	14.4%
Customer C	over 5	12.5%
Customer D	over 10	4.9%
Customer E	over 10	4.0%

Top five customers of the Group for the year ended 31 December 2009

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	55.4%
Customer B	over 10	13.9%
Customer C	over 5	10.9%
Customer D	over 10	4.9%
Customer E	over 10	4.8%

Top five customers of the Group for the year ended 31 December 2010

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	56.3%
Customer B	over 10	17.4%
Customer C	over 5	8.6%
Customer E	over 10	4.9%
Customer F	over 10	2.2%

Top five customers of the Group for the four months ended 30 April 2011

Name of customers	Years of relationship as at the Latest Practicable Date	Approximate percentage of turnover
Customer A	over 10	70.0%
Customer C	over 5	9.4%
Customer E	over 10	5.2%
Customer B	over 10	4.8%
Customer F	over 10	4.5%

Note: Customers A, D, E and F are under the same ultimate holding company but decisions for placing orders with the Group are made by different and independent management located in different countries.

Customer A, D, E and F are under the same ultimate holding company, which is a global specialty retailer company established in the USA, the products of which are sold in three channels: full price retail stores, online, and outlet. The product types include sophisticated, fashionable collections of casual and tailored apparel, shoes, accessories, and personal care products for men and women. The major sales regions of Customer A are USA, Canada, Europe and Asia. The major sales region of Customer D, E and F are in North America, Canada and Japan respectively.

Customer B is a leading designer, marketer and wholesaler of branded apparel, footwear and accessories. Customer B markets directly to consumers through its chain of specialty retail and value-based stores and through its e-commerce web sites. Its operations comprised five revenue-generating segments: wholesale better apparel, wholesale jeanswear, wholesale footwear and accessories, retail and licensing. The product types include apparel, footwear, jeanswear, jewelry and handbags. Its sales regions are located worldwide but mainly in the USA.

Customer C is a member company of a group which is one of the world market leaders in the premium fashion and luxury segment of the apparel market. The brand portfolio, which covers an extensive product range consisting of classic-modern business wear, elegant evening and relaxed casual fashion, shoes and leather accessories, as well as licensed fragrances, eyewear, watches, children's fashion and motor-cycle helmets. Its sales regions are located worldwide but mainly in Europe.

Apart from the direct sales of products to the international brand owners, the Group also sells its products to trading companies in Hong Kong which are mainly engaged in sourcing quality apparel products or accessories in the PRC for the relatively small-scale overseas apparel companies. The orders placed by such companies through the trading companies are relatively small as compared with that by the direct customers of the Group. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, turnover generated by such trading companies represented approximately 0.9%, 1.8%, 1.1% and nil of the Group's total turnover respectively.

PRODUCTS

The Group's knitwear products can be divided into three categories namely womenswear, menswear and kidswear and the Group's turnover during the Track Record Period was mainly derived from the sales of womenswear, representing approximately 89.4%, 91.8%, 91.6% and 89.5% respectively of the Group's turnover for the Track Record Period. Set out below is the Group's turnover by product categories during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Turnover										
Womenswear	283,129	89.4	279,590	91.8	326,383	91.6	57,259	99.8	44,013	89.5
Menswear	32,616	10.3	23,584	7.8	29,739	8.4	107	0.2	5,167	10.5
Kidswear	830	0.3	1,325	0.4	—	—	—	—	—	—
Total	316,575	100.0	304,499	100.0	356,122	100.0	57,366	100.0	49,180	100.0

For the Track Record Period, the sales volume of the Group amounted to approximately 2.4 million units, 2.9 million units, 3.0 million units and 0.5 million units of finished apparel goods. Set out below are the total sales quantities of womenswear, menswear and kidswear during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	('000 units)	*('000 units)*	*('000 units)*	*('000 units)*	*('000 units)*
Total sales quantities					
Womenswear	2,208	2,756	2,853	546	426
Menswear	156	123	167	1	27
Kidswear	6	9	—	—	—
	2,370	2,888	3,020	547	453

To maintain the Group's turnover throughout the financial crisis triggered at the end of 2008, the Group adjusted the selling price of the products in 2009 and thus the selling price decreased by approximately 21.6% for the year ended 31 December 2009. Rallying on the recovery of the global economy in 2010, the average selling price of the products increased by approximately 12.4% for the year ended 31 December 2010. For the four months ended 30 April 2011, the average selling price of the products was HK$109, representing a slight increase of 3.8% as compared to that for the corresponding period of previous year. Set out below are the average selling prices for womenswear, menswear and kidswear during the Track Record Period:

	Year ended 31 December			Four months ended 30 April	
	2008	2009	2010	2010	2011
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
Average selling price					
(Note 1)	134	105	118	105	109
Womenswear *(Note 2)*	128	101	114	105	103
Menswear *(Note 2)*	209	192	178	107	191
Kidswear *(Note 2)*	138	147	—	—	—

Notes:

1. The average selling price represents the turnover for the financial year/period divided by the total sales quantities for the financial year/period.

2. The selling price of each of the product categories depends on (i) the complexity of the product design; (ii) the quantity of an order; (iii) the production lead time required by customers; and (iv) the prices of raw materials. Accordingly, the selling prices of knitwear products vary significantly.

Womenswear

The Group manufactures a product mix of quality womenswear including knitted tops, coat, one piece, knitted vest and skirts of different styles, cutting, knitting patterns, themes, materials and colour combinations in accordance with the specifications and requirements as set out by the customers and/or designs recommended by the Group. Most of the womenswear products manufactured by the Group are made of yarn with high percentage of wool for winter seasons and cotton for summer season. Set out below are some of the womenswear samples/products of womenswear manufactured by the Group:

Knitted tops

Knitted cardigans

Knitted coat

One piece

Menswear

To satisfy the different appetite and theme preferences of different customers, the Group manufactures a wide range of quality menswear including knitted cardigans, knitted top and coat of different styles, cutting, knitting patterns, themes, materials and colour combinations in accordance with the specifications and requirements as set out by the customers. Most of the menswear products manufactured by the Group are made of yarn with high percentage of wool for winter season and cotton for summer season. Set out below are some of the menswear samples/products of menswear manufactured by the Group:

Knitted jacket

Knitted top

Coat

Vest

Kidswear

The Group has mainly focused on the production of menswear and womenswear products since the commencement of its business. In 2008 and 2009, the Group also produced kidswear products for its customers. The kidswear products manufactured by the Group include knitted tops, knitted vest, jacket, coat, poncho and one piece of different themes, colour combination and styles as specified by the customers.

The following table sets out the respective average sale units and selling price of each category of knitwear products produced by the Group during the Track Record Period:

	Year ended 31 December 2008	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,208	128
Menswear	156	209
Kidswear	6	138
Total/average	2,370	134

	Year ended 31 December 2009	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,756	101
Menswear	123	192
Kidswear	9	147
Total/average	2,888	105

	Year ended 31 December 2010	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	2,853	114
Menswear	167	178
Kidswear	—	—
Total/average	3,020	118

	Four months ended 30 April 2010	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	546	105
Menswear	1	107
Kidswear	—	—
Total/average	547	105

	Four months ended 30 April 2011	
	Sale units	Average selling price
	('000 units)	*(HK$)*
Womenswear	426	103
Menswear	27	191
Kidswear	—	—
Total/average	453	109

PRODUCTION

The Group has carried out its production in the production facilities in the PRC at (i) the FC Factory since 2006; and (ii) the Processing Factory under the Processing Agreements since 1996. The FC Factory mainly carries out the pre-laundering procedures with the support of the Processing Factory for the remaining procedures. The Processing Factory carries out the entire production process of the Group with some production procedures being outsourced to the subcontractors in the PRC on a case by case basis so as to achieve the production optimisation of the Group and satisfy the growing demand of the Group's products from the customers. It is expected that the new production factory with annual production capacity of approximately 4,188,000 pieces of apparel to be constructed on the Land located in Yangwu Village, Dongguan City, Guangdong Province, the PRC acquired by the Group will be in operation by the fourth quarter of 2012 so as to substitute the existing production premises of the FC Factory and expand the production scale of the Group to two complete production lines comprising the existing one in the Processing Factory and another in the new production factory. The Group intends to continue with the processing arrangement with the PRC Processing Party for production carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. The Group will operate the new production factory on its own without adopting new processing arrangement with any other PRC parties.

The FC Factory would cease operation when the new production factory is ready and all machines and equipment currently used therein are expected to be relocated to the new production factory.

Set out below are the number of permanent full-time staff (including but not limited to the production staff) based in the Group's headquarter in Hong Kong, the FC Factory and the Processing Factory as at the end of each of the three financial years ended 31 December 2010 and the Latest Practicable Date:

	As at 31 December			As at the Latest Practicable
Number of permanent full-time staff employed by	**2008**	**2009**	**2010**	**Date**
The Group				
Headquarter in Hong Kong	39	33	40	37
The FC Factory	487	357	235	257
The Processing Factory	992	903	902	946
Total	1,518	1,293	1,177	1,240

The decrease in permanent full-time staff based in the FC Factory in 2009 and 2010 was mainly due to acute shortage of skillful labour in Guangdong Province in 2008 and 2009. As such, more labour intensive production procedures such as knitting and handstitching were outsourced to the subcontractors. After 31 December 2010 and up to 30 April 2011, the number of full-time staff has once decreased due to more difficulty to recruit production staff in Guangdong Province and the Group's computerisation of the knitting procedures since 2010 resulting from the acquisition of 20 sets of computerised knitting machines. After the Track Record Period, the number of full-time staff employed by the FC Factory increased significantly and exceed the level as at 31 December 2010 as more staff was employed for managing additional 120 sets of computerized knitting machines newly acquired by the Group in second quarter of 2011.

Set out below are the details of the production facilities of the Group in the PRC:

The FC Factory

The FC Factory has been leased by the Group from an Independent Third Party since December 2005 under the FC Tenancy Agreements. It is located in Changping Town, Dongguan City, Guangdong Province, the PRC and comprises one 3-storey factory building for production, two blocks of 4-storey dormitory and other ancillary facilities with a gross floor area of approximately 12,000 sq.m. Before this, the Group has been carrying out its production only through the Processing Factory pursuant to the Processing Agreements. In 2005, in view of the demand for larger production capacity, the Group leased the FC Factory from an Independent Third Party for an initial term of three years at a monthly rental of

RMB78,000. On 1 December 2008, the Group extended the term of leasing of the FC Factory for an additional two years and in November 2010, the term of leasing was extended for further three years until 30 November 2013. The FC Factory mainly carries out pre-laundering procedures of the production including knitting, linking and handstitching under 進料加工安排 (import processing arrangement*), details of which are set out in the paragraph headed "Processing Arrangements" in this section.

As at the Latest Practicable Date, there were 140 sets of computerised knitting machines and 402 other manually controlled machines including but not limited to linking machines and handstitching machines in the FC Factory. The annual production volume and production capacity of the FC Factory are set out in the paragraph headed "Production capacity" in this section.

The Processing Factory

After entering into the 3rd Supplemental Processing Agreement, the Former PRC Processing Party provided production premises as required under the 3rd Supplemental Processing Agreement by procuring the leasing of the production premises of gross floor area of approximately 3,140 sq.m. to Nice Regent by 東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*)), an Independent Third Party, pursuant to the Processing Factory Tenancy Agreement 1996. In 1999, the PRC Processing Party procured Dalang Xiangwei, an Independent Third Party, to enter into the Processing Factory Tenancy MOU 1999 with Nice Regent pursuant to which Dalang Xiangwei agreed to build a new production plant in accordance with the specifications set out by Nice Regent, and once the new production plant was built, it would lease it to Nice Regent as the production premises for the Processing Factory to carry out its knitwear production. In 2000, the lessor completed the construction of the new production factory and entered into the Processing Factory Tenancy Agreement 2000 with Nice Regent to confirm the lease of the newly completed production plant and ancillary buildings with gross floor area of approximately 17,437.36 sq.m. (of which approximately 10,324.63 sq.m. is the area of the factory building) to Nice Regent for 10 years from 20 December 2000 to 19 December 2010. In 2004, Nice Regent entered into another supplemental agreement with the same lessor pursuant to which the lessor agreed to lease additional production factory adjacent to its existing facilities with total gross floor area of approximately 3,800 sq.m. In 2007, Nice Regent entered into another supplemental agreement to further extend the lease of the production plant of an aggregate floor area of approximately 21,237 sq.m. for additional 3 years from 20 December 2007 to 19 December 2010. In January 2010, the Processing Factory Tenancy Agreement 2000 was further extended for additional three years to 31 December 2012. Details of the said tenancy agreements relating to the leasing of the production premises of the Processing Factory are set out in the paragraph headed "Tenancy agreements" in this section.

As at the Latest Practicable Date, the production plant of the Processing Factory comprised a 4-storey factory building, a 4-storey dormitory, another 6-storey dormitory, a 3-storey staff quarters and other ancillary facilities. It carries out the full range of the production procedures for the Group's production including knitting, linking, handstitching, trims matching, laundering, fabrics cutting, sewing, ironing, labelling and quality assurance checks.

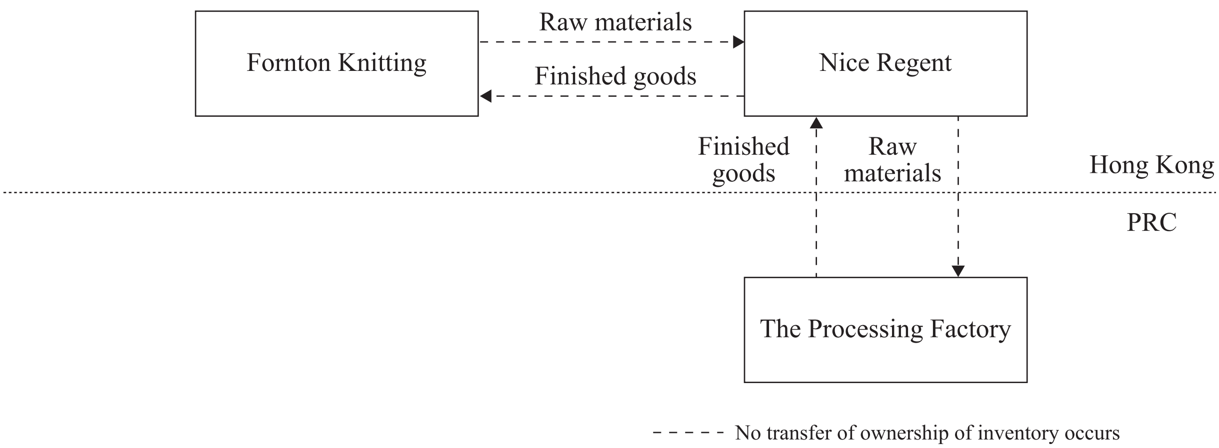
Under the Processing Agreements, Nice Regent is responsible for, among others, the supplies of all the raw materials and trims, and all the machineries required for the production of knitwear products carried out in the Processing Factory whilst the PRC Processing Party is responsible for the production of the knitwear products in return for the Processing Fees which should include the rental of the Processing Factory, the labour cost and the utility cost. Since the PRC Processing Party has arranged for a lease of the premises for the Processing Factory directly between Nice Regent and the lessor, such part of the Processing Fees comprising rental is paid by Nice Regent directly to the lessor. The source of suppliers of raw materials and WIPs from Nice Regent to the Processing Factory is from Fornton Knitting for which Fornton Knitting passes the raw materials and WIPs to Nice Regent for production processing at a subcontracting fee paid to Nice Regent by Fornton Knitting. To handle the increasing orders during the peak seasons, the Processing Factory outsources the knitting procedure to the FC Factory and other production procedures to other production factories in the PRC.

As at the Latest Practicable Date, there were 495 production machines including but not limited to knitting machine, linking machines, handstitching, sewing machines, etc in the Processing Factory. The annual production volume and production capacity of the Processing Factory are set out in the paragraph headed "Production capacity" in this section.

Processing arrangements

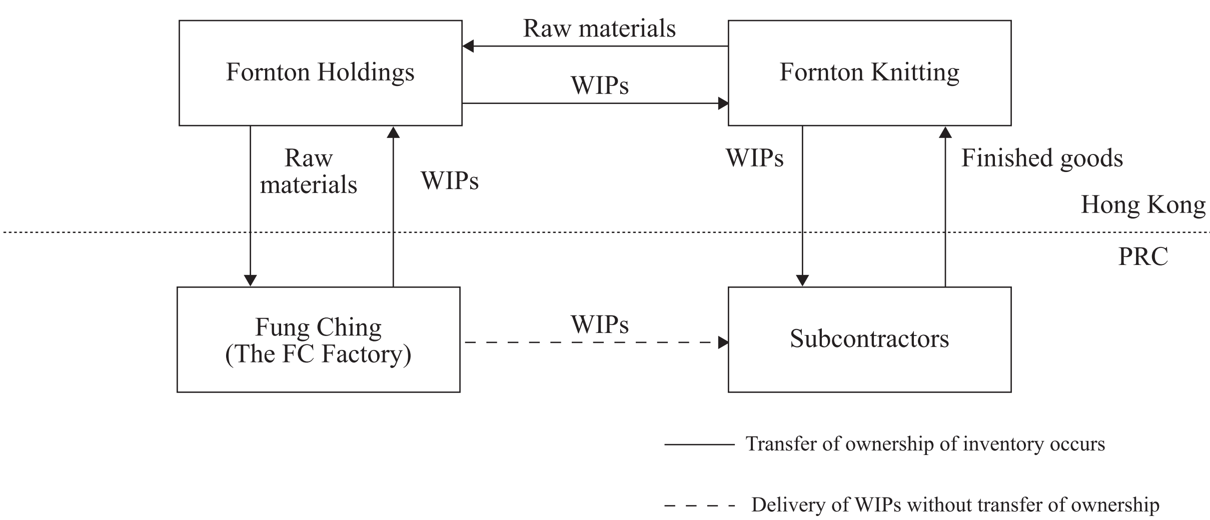
來料加工安排 (the contract processing arrangement) adopted by Nice Regent*

The Group carries out its knitwear production at the Processing Factory under the contract processing arrangement, pursuant to which the Processing Factory receives the raw materials imported from Hong Kong by Nice Regent with VAT exemptions and produces the finished goods at its production premises with some production procedures outsourced to the subcontractors in the PRC at specified subcontracting fees as determined by reference to the seasonable demand, complexity of the products, ultimate selling prices, costs of raw materials and other labour and utility costs. After production, the Processing Factory then exports the finished goods to Nice Regent under the contract processing arrangement at the Processing Fees as determined by reference to rental income of the production premises, number of employees involved in the production and the utility costs incurred during the production. Subcontracting fees paid to the subcontractors for the processing services provided to the Processing Factory for the production of the Group's products would also be borne by Nice Regent. There is no transfer of ownership of the inventory under the contract processing arrangement. Details of the contract processing arrangement (the contract processing arrangement*) pursuant to the Processing Agreements are set out in the paragraph headed "Processing Agreements" in this section and a diagram detailing 來料加工安排 (the contract processing arrangement*) adopted by Nice Regent is set out below:



進料加工安排 (the import processing arrangement) adopted by Fornton Holdings*

Fung Ching is a WFOE set up in the PRC and is not encouraged to carry out production in the PRC by 來料加工安排 (the contract processing arrangement*). As such, it carries out the pre-laundering procedures of the production under 進料加工安排 (the import processing arrangement*) by which Fung Ching purchases and imports raw materials from Fornton Knitting via Fornton Holdings and then Fung Ching sells back the WIPs to Fornton Knitting via Fornton Holdings after processing, Fornton Knitting then sells the WIPs to the subcontractors in the PRC for further processing to finished goods. To expedite the production process, Fornton Knitting would sometimes instruct Fung Ching to directly deliver the WIPs to the subcontractors, and after the processing, the subcontractors would sell and export the finished goods to Fornton Knitting. Set out below is the diagram illustrating the aforesaid processing and logistic arrangement of the production:



The following table sets out the major differences between 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*):

	來料加工安排 (the contract processing arrangement*) adopted by Nice Regent	**進料加工安排 (the import processing arrangement*) adopted by Fornton Holdings**
General	The foreign party provides the raw materials to the processing factory in the PRC, which manufactures the finished goods for the foreign party and once finished production, exports the finished goods to the foreign party.	The foreign party sells the raw materials to the production enterprise in the PRC and buys back the WIPs or finished goods (as the case may be) from the production enterprise in the PRC.
Agreement	The foreign party enters into a processing agreement which sets out the rights and responsibilities of the foreign party and the processing factory in the PRC.	Sale and purchase agreement is entered into between the foreign party and the production enterprise in the PRC.
Processing fees	Processing fee is payable by the foreign party to the processing factory in the PRC pursuant to the processing agreement.	The foreign party sells the raw materials to the production factories in the PRC and buys back the WIPs and finished goods therefrom. As such, no processing fees are involved.
Role of foreign party	The foreign party provides raw materials, machinery, technical support and managerial know-how to the processing factory in the PRC without consideration.	The foreign party is simply a seller of raw materials to the production enterprise in the PRC and a purchaser of the WIPs or finished goods therefrom.
Role of the processing factory/production enterprise in the PRC	The processing factory in the PRC in turn provides factory premises, utilities and labour force and carries out the processing or assembling work in accordance with the requirements of the processing agreement and under the supervision of the foreign party.	The production enterprise is a separate legal person and in the current case is a type of foreign investment enterprise established in the PRC (FIE) and it purchases raw materials from the foreign party and sells the WIPs or finished goods back to the foreign party.
Transfer of ownership of raw materials, WIPs and finished goods	No transfer of ownership of raw materials and finished goods is involved. The title remains with the foreign party despite the physical delivery thereof.	There is transfer of ownership and title to and from the production enterprise in the PRC before and after the manufacturing process respectively.

	來料加工安排 (the contract processing arrangement*) adopted by Nice Regent	進料加工安排 (the import processing arrangement*) adopted by Fornton Holdings
Hong Kong taxation	The foreign party is allowed to claim for the apportionment of manufacturing and trading profits on a 50:50 basis.	The foreign party is not allowed to claim for the apportionment of trading profits on a 50:50 basis.
Customs duty	The imported materials are exempt from customs duty, provided that the outputs are exported.	The imported materials are exempt from customs duty, provided that the outputs are exported.
VAT	(i) Subcontracting income of the processing factory in the PRC is not subject to VAT; and (ii) VAT paid in the PRC is not creditable.	(i) Export sales of the production enterprise in the PRC is not subject to VAT; and (ii) VAT paid in the PRC is creditable against domestic sales (if any). If there is no domestic sales, it can be refundable.
EIT	Processing factories's subcontracting income is usually subject to EIT on deemed basis.	WFOE's taxable profit is subject to EIT on actual basis.

The Group has adopted 來料加工安排 (the contract processing arrangement*) by its subsidiary, Nice Regent, to handle the orders since the commencement of its business. To expand the production scale of the Group, the Group has set up Fung Ching to handle the pre-laundering production to adopt 進料加工安排 (the import processing arrangement*) as Fung Ching is set up in the form of a WFOE in the PRC. As such, the Group's production is carried out by the Processing Factory and the FC Factory under 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*) respectively.

Fornton Knitting is an administrative hub which is responsible for sourcing potential customers and suppliers on behalf of the Group, communicating and negotiating with the existing customers and suppliers, and centralising and handling the orders by delegating to either (i) Fornton Holdings to handle the manufacturing of the products through 進料加工安排 (the import processing arrangement*); or (ii) Nice Regent to handle the manufacturing of the products under 來料加工安排 (the contract processing arrangement*). Nice Regent was set up in 1995 and entered into the Processing Agreements to adopt the 來料加工安排 (the contract processing arrangements*) since the Directors consider that it is not advisable for Fornton Knitting, being the major administrative hub accommodating the functions of securing and managing the customers' orders and monitoring the overall production and logistic arrangement of the products, to bear all legal, financial and operational risks relating to 來料加工安排 (the contract processing arrangement*). Similarly, 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*) are two different processing arrangements subject to different sets of regulatory requirements. As such, the Directors consider that it is more advisable to set up a separate legal entity, i.e. Fornton Holdings, to adopt 進料加工安排 (the import processing arrangement*) instead of adopting such processing arrangement by either the command center of the Group (i.e. Fornton Knitting) or the subsidiary adopting different processing arrangement (i.e. Nice Regent). It is an usual business strategy for businesses to set up different group companies as a separate legal entity to perform diversified functions. In view of the different regulatory requirements for the processing arrangements as mentioned above, the Directors believe that it would be more efficient and convenient to delegate the production to different subsidiaries adopting different processing arrangements.

Fung Ching is a WFOE established in the PRC and its raw materials used are imported under 進料加工安排 (the import processing arrangement*), under which the WIPs manufactured by Fung Ching are exported but not transferred directly to the subcontractors for further processing such that the customs duty in respect thereof can be exempted. The considerations for these transactions were determined with reference to the amount of the raw materials, WIPs or finished goods (as the case may be), the complexity of the specifications of raw materials, WIPs and finished goods and the number of working hours and production staff necessary for the production.

Under 進料加工安排 (the import processing arrangement*), there is a margin of the internal sales charged by Fung Ching to Fornton Knitting through Fornton Holdings whilst Fornton Holdings has not charged any margins to Fung Ching or Fornton Knitting. Such margin, as determined by reference to the market prices comparable to similar transactions after arm's length negotiation, is in substance equivalent to the subcontracting fees charged by the subcontractors to the Processing Factory for the processing of WIPs. In view of the above, the Directors and the Sponsor are of the view that such internal sales were conducted on normal commercial terms in all material respects.

Commercial rationale for the said arrangements

The Group commenced its business in 1990s, at which time the government in Guangdong Province encouraged foreign enterprises to establish their production arms in Guangdong Province by promulgating favourable policies such as VAT exemption for materials imported under 來料加工安排 (the contract processing arrangement*). As such, the Group commenced its knitwear manufacturing business in the PRC under 來料加工安排 (the contract processing arrangement*) via Nice Regent with a view to establishing its production arm in the PRC whilst setting up its administration and marketing functions in Hong Kong. In 2006, the Group set up Fung Ching as its WFOE in the PRC having considered (i) the need for the Group to expand its production scale in the PRC; and (ii) favourable government policies for the establishment of WFOEs. As Fung Ching is a WFOE which is not encouraged (and positioned) to import its raw materials under 來料加工安排 (the contract processing arrangement*), it carries out pre-laundering procedures at the FC Factory under 進料加工安排 (the import processing arrangement*) instead with the support of the Processing Factory for the remaining procedures.

In view of the above, the Group adopts both 來料加工安排 (the contract processing arrangement*) and 進料加工安排 (the import processing arrangement*) along with the changes in legal environment in the PRC and its need for business development throughout these years.

Compliance with applicable rules and regulations

Based on the confirmation letters issued by each of 東莞市國家稅務局常平稅務分局 (Changping branch of the Dongguan Municipal State Tax Bureau*) and 東莞市地方稅務局常平稅務分局 (Changping branch of the Dongguan Municipal Local Tax Bureau*) on 25 February 2011, the PRC Legal Advisers and Tax Consultant are of the view that the Group has not been subject to any material tax disputes. As advised by the PRC Legal Advisers, the transactions mentioned above and the logistic arrangement relating thereto comply with the applicable laws and regulations in the PRC in all material respects.

Compliance with transfer pricing regulations

The Group has engaged the Tax Consultant to conduct transfer pricing study in respect of the Group's transactions. As advised by the Tax Consultant, the Group complies with the relevant transfer pricing regulations in Hong Kong and the PRC in all material aspects. The Tax Consultant and the PRC legal advisers to the Sponsor obtained verbal confirmation from the chief of the division in-charge of Fung Ching's income tax that (i) Fung Ching complies with the requirements under the relevant PRC transfer pricing regulations; and (ii) the tax division has no further query on Fung Ching from the transfer pricing perspectives after the formal review of the transfer pricing documentation. Based on the results of the study and the financial information of the Group, the Tax Consultant is of the view that the transactions relating to the Group's manufacturing were conducted on normal commercial terms in all material respects after performing the following due diligence work and substantive tests:

In respect of Fung Ching, the Tax Consultant has performed the following:

(i) reviewed the mode of operations and functions taken up

(ii) reviewed the financial results, tax filing records and correspondences with tax authorities

(iii) recomputed and reconciled the necessary tax provisions

(iv) checked the prevailing transfer pricing rules and reviewed Fung Ching's tax filing compliance

(v) reviewed the disclosures and basis adopted in contemporaneous transfer pricing documentation report prepared by 廣東中誠安泰會計師事務所有限公司 and submitted to in-charge tax authority

(vi) verified the data presented in the aforementioned documentation report to competent database

(vii) reviewed the confirmation issued by the Large Enterprises and International Tax Division of Dongguan Municipal State Tax Bureau that evaluated the aforementioned documentation report

(viii) reviewed sample calculations of costs charged by Fung Ching to Fornton Holdings during the Track Record Period and compared with that charged by third parties that performed similar types of activities

(ix) visited and obtained confirmation from the in-charge tax authority on 25 February 2011 that Fung Ching was entitled to exemption of income tax in years 2008 and 2009 and half reduction of income tax in years 2010 to 2012

(x) visited and obtained confirmation from the in-charge tax authorities on 25 February 2011 that Fung Ching did not commit any tax evasion, tax avoidance and violate tax law

In respect of Fornton Knitting, Fornton Holdings and Nice Regent, the Tax Consultant has performed the following:

(i) reviewed the mode of operations and functions taken up

(ii) reviewed the financial results, tax filing records and correspondences with the IRD

(iii) recomputed and reconciled the necessary tax provisions

(iv) checked the prevailing transfer pricing rules in Hong Kong and reviewed the companies' tax filing compliance

(v) reviewed the companies' tax records and no material tax losses are noted

(vi) reviewed the companies' tax records and noted that the companies rendered all of their profits for Hong Kong profits tax during the Track Record Period as appropriate

Title defects of the FC Factory

Pursuant to《劃撥土地使用權管理暫行辦法》(Provisional Rules on Administration of Allocated Land Use Rights*), the lessor of the FC Factory, being Baishigang Village Committee, shall not transfer, lease or mortgage the land occupied by the FC Factory to any parties without (i) the approval of the relevant government authorities for the land use rights assignment; (ii) conducting land use rights assignment procedure; and (iii) payment of land use right assignment fee. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Baishigang Village Committee has not conducted, and will not conduct, the land use right assignment procedure for the leased land occupied by the FC Factory because they will only do so if they need these certificates to obtain loans from banks and currently they do not have such intention. As such, according to Article 46 of《中華人民共和國城鎮國有土地使用權出讓和轉讓暫行條例》(Interim Regulations of the PRC Concerning the Assignment and Transfer of the Right to the Use of the State-owned Urban Areas*), the relevant government authorities are entitled to confiscate the illegal rental income and impose a fine on the lessor according to the severity of the breaches. In addition, Baishigang Village Committee has not obtained the building ownership certificate and thus it shall not lease the buildings occupied by the FC Factory to any parties. It was common for the collective organizations such as Baishigang Village Committee not to obtain the relevant certificates unless they need these certificates to obtain loans from the banks, as government authorities usually will not challenge their ownership.

In respect of the unauthorized leasing of the FC Factory by the lessor as detailed above, the PRC Legal Advisers advised that (i) Baishigang Village Committee, instead of Fung Ching, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the FC Tenancy Agreements may be deemed as void; (iii) the leasing of the FC Factory may be suspended if any third parties file an opposition thereto; and (iv) the Group may not claim from the lessors all related losses but is entitled to claim against the lessor for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property. To mitigate any adverse effect on the Group of such unauthorized leasing, the Group has devised several measures, details of which are set out in the paragraph headed "Mitigation measures" in this section. As at the Latest Practicable Date, Fung Ching has not received any removal notice from the lessor or any relevant PRC authority.

Title defects relating to the Processing Factory

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor of the Processing Factory has not obtained the relevant state-owned land use rights certificates and the building ownership certificates in respect of the production premises of the Processing Factory, and thus it is not allowed to lease such production premises. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the lessor will only do so if they need these certificates to obtain loans from the banks and currently they have no such intention. In respect of the above, the PRC Legal Advisers advised that (i) the lessor of the premises for the Processing Factory, instead of Nice Regent, should bear all the legal consequences resulting therefrom; (ii) there is a risk that the Processing Factory Tenancy Agreement 2000 may be deemed as void; (iii) the leasing of such production premises to Nice Regent may be suspended in the event any third parties file an opposition thereto; and (iv) Nice Regent may not claim from the lessors all related losses but is entitled to claim for reduction or exemption of rental if a third party claims its rights upon the leased properties and makes it impossible for the Group to use the leased property.

As the Group's production is mainly carried out at the FC Factory and the Processing Factory, both production factories are crucial to the Company. To mitigate any adverse effect on the Group of such unauthorised leasing, the Group has devised several mitigation measures, details of which are set out in the paragraph headed "Mitigation measures" in this section. As at the Latest Practicable Date, Nice Regent has not received any removal notice from the lessor or any relevant PRC authority.

New production plant

In December 2010, the Group acquired a piece of industrial land with site area of approximately 30,400.5 sq.m. located at Yangwu Village, Dalang Town, Dongguan City, Guangdong Province, the PRC from the Vendor, an Independent Third Party, at a total cost (including commission and other expenses) of approximately HK$13.9 million. The maximum gross floor area that can be developed for the Land is about 54,720.9 sq.m. The fair value of the Land as at 31 July 2011, as appraised by the Valuer, amounted to HK$14,400,000, details of which is disclosed in Appendix III of this prospectus.

According to the Group's preliminary development plan, the Group intends to establish a new production factory on the Land with an annual production capacity of approximately 4,188,000 pieces of knitwear products with a view to substituting the existing production premises of the FC Factory and expanding the production scale of the Group to two complete production lines of which one is currently set up in the Processing Factory and another will be set up in the new production factory. All the machinery and equipment currently used at the FC Factory, including the additional 120 computerised machines installed in the second quarter of 2011, will be relocated to the new production factory. As the production scale will be expanded by the establishment of the new production factory, the amount of subcontracting work of the Group is expected to decrease.

The Group will apply to the relevant government authorities for all applicable licenses and permits for the new production plant. The application process will commence in December 2011 and the construction is expected to commence in first quarter of 2012 and will finish by the fourth quarter of 2012. Total capital committed for the new production plant as at the Latest Practicable Date was the total acquisition consideration and relevant cost and expenses of approximately HK$13.9 million for the acquisition of the Land. The estimated total investments for the new production plant (excluding the acquisition cost of production machinery and office equipment for the new production plant) are RMB48,650,000 and the sources of funding will be the net proceeds from the Share Offer and the working capital of the Group.

The new production factory would be solely operated by the Group. Upon commencement of the operation of the new production factory, the Group would continue to adopt 來料加工安排 (the contract processing arrangement*) with the PRC Processing Party for the production carried out in the Processing Factory provided that there is no significant change in the regulatory and economic environment. As advised by Tax Consultant, there will not be any significant tax implication arising from the commencement of operation of the new production factory and the business and operation model of the Group will remain the same (i.e. production will be carried out by production factory operated by Fung Ching under 進料加工安排 (the import processing arrangement*) and the Processing Factory under 來料加工安排 (the contract processing arrangement*) with some production procedures being outsourced to the subcontractors) after the commencement of operation of the new production factory. The Directors are also of the view that there will not be any significant financial impact as a result of the establishment of the new production factory except for the following:

(i) the new production factory will have a complete production line instead of carrying out the pre-laundering procedures only and thus the Group's production overheads and labour cost will increase but it will be offset by the estimated decrease in subcontracting cost; and

(ii) the tenancy agreement for the FC Factory will be terminated and thus Fung Ching will not be subject to rental charge but instead there will be depreciation for land and plant for the Group.

It is expected that the new production factory will commence operation by the fourth quarter of 2012.

Mitigation measures

The Processing Factory and FC Factory have been in operation on the premises mentioned above for over 15 years and 5 years respectively and have never received any removal orders from the lessor and any relevant PRC authorities during the operation. Accordingly, the Directors consider that the possibility of receiving removal orders from relevant authorities is low and the Sponsor's legal advisers as to the PRC laws concur with such view. The Directors do not expect any loss in revenue arising from the aforesaid as the Group can subcontract the production to its subcontractors within a short notice period. However, to prepare for the possible disruption of production in the Processing Factory and the FC Factory due to the risks mentioned in the paragraph headed "The FC Factory" and "The Processing Factory" above, the Group has devised mitigation measures as follows:

(i) The Group has entered into the legally binding Letters of Intent (Yu Xing) with Yu Xing, an Independent Third Party, pursuant to which the Group may lease from Yu Xing the Spare Factory (Yu Xing) of a gross floor area of approximately 9,700.5 sq.m. at Qingxi Town, Dongguan City, Guangdong Province, the PRC and the production facilities therein so as to continue its production in the Spare Factory (Yu Xing) in the event that a removal order is imposed on either the FC Factory or the Processing Factory. The monthly rental of the Spare Factory (Yu Xing) and its production facilities shall not be more than RMB8.4 per sq.m. Pursuant to the terms of the Letters of Intent (Yu Xing), an aggregate earnest money of approximately RMB162,968 shall be paid by the Group of which an aggregate RMB81,484 was paid five days after the signing of the Letters of Intent (Yu Xing) and the balance is payable within five days after the earlier of (i) the date of signing the formal tenancy agreement or (ii) 31 December 2012, and if Yu Xing decides to lease the Spare Factory (Yu Xing) to parties other than the Group, Yu Xing has to give 2-month notice to the Group in writing. The total annual capacity of the Spare Factory (Yu Xing) is over 3,800,000 pieces of apparel, which is adequate for the Group's current and expected production needs. It is expected that it will only take several days to relocate the production of either the FC Factory or the Processing Factory to the Spare Factory (Yu Xing). The Directors consider that the Group will not incur any significant relocation cost;

(ii) The Group has also entered into the legally binding Letters of Intent (He He) with He He, an Independent Third Party, pursuant to which the Group may lease from He He the Spare Factory (He He) with a gross floor area of approximately 13,753.1 sq.m. at Qingxi Town, Dongguan City, Guangdong Province, the PRC and the production facilities therein. The monthly rental of the Spare Factory (He He) and its production facilities shall not be more than RMB8.0 per sq.m. Pursuant to the terms of the Letters of Intent (He He), an aggregate earnest money of approximately RMB220,050 shall be paid by the Group, of which approximately RMB110,025 was paid five days after the signing of the Letters of Intent (He He) and the balance is payable within five days after the earlier of (i) the date of signing the formal tenancy agreement or (ii) 31 December 2012, and if He He decides to lease the Spare Factory (He He) to parties other than the Group, He He is obliged to give 2-month notice to the Group in writing. The total annual capacity of the Spare Factory (He He) is over 1,200,000 pieces of apparel which, together with production capacity of the Spare Factory (Yu Xing), are more than adequate for the Group's current and expected production needs. It is expected that it will only take several days to relocate production to the Spare Factory (He He). The Directors consider that the Group will not incur any significant relocation cost; and

(iii) The Processing Factory may also outsource the production to other production factories in the PRC. The Processing Factory had over 100 subcontractors during the Track Record Period. Given the long term relationship between the Processing Factory and its subcontractors, the Directors do not foresee any difficulties in outsourcing the production of the Processing Factory to the subcontractors.

In view of the mitigation measures as set out above and the fact that it is expected that the Group's new production facilities on the Land will come into operation by the fourth quarter of 2012, the Directors believe that the possible disruption of production due to relocation of the FC Factory and/or the production facilities of the Processing Factory will not have any material impact on the operation of the Group. Nevertheless, the Controlling Shareholders have undertaken to indemnify the Group for all costs and losses incurred by the Group as a result of the aforesaid defects in respect of the leasing of the production premises of the FC Factory and Processing Factory.

Headquarter in Hong Kong

During the Track Record Period, the Group maintained the administration, finance, design and development, sales and merchandising and other core functions of the business in its headquarter previously located at 1st Floor, Po Shau Centre, No. 115 How Ming Street, Kwun Tong, Kowloon, Hong Kong which was leased from an Independent Third Party at a monthly rental ranging from HK$63,020 to HK$112,872. As the tenancy for previous office space ended on 31 December 2010, the Group entered into the Headquarter Tenancy Agreement in December 2010 with a view to expanding its office for, among other things, establishing showcase rooms for its sample collection. In December 2010, the Group moved its headquarter to Unit A, 32nd Floor, Legend Tower, 7 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong with a gross floor area of approximately 8,887 sq.ft. which is leased at a monthly rental of HK$150,000 for a term of three years under the Headquarter Tenancy Agreement. The headquarter serves as the principal contact point to the customers and an information hub to gauge the fashion trends and changing consumer preferences. As the lessor, Long Rise, is a company held in equal shares by Madam Wong and her father, the transaction contemplated under the Headquarter Tenancy Agreement constitutes a continuing connected transaction for the Company under the Listing Rules, details of which are set out in the section headed "Continuing Connected Transaction" in this prospectus.

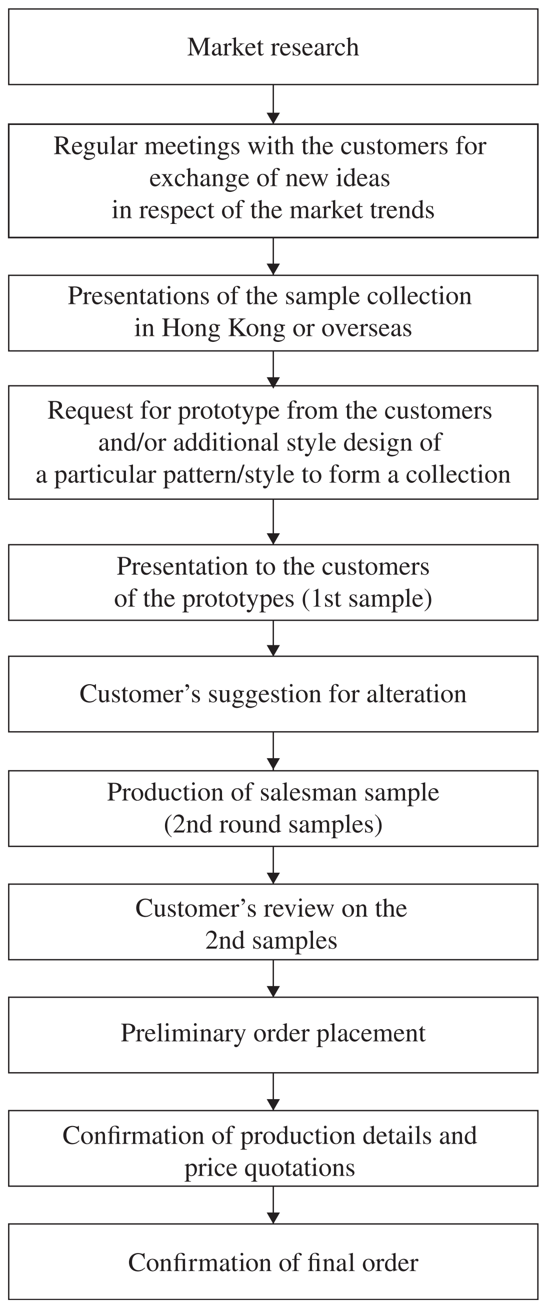
Operation of the Group

The operation of the Group can be divided into two major stages, namely the development stage and the production stage. Set out below are the major procedures to be carried out in these two stages:

Development stage

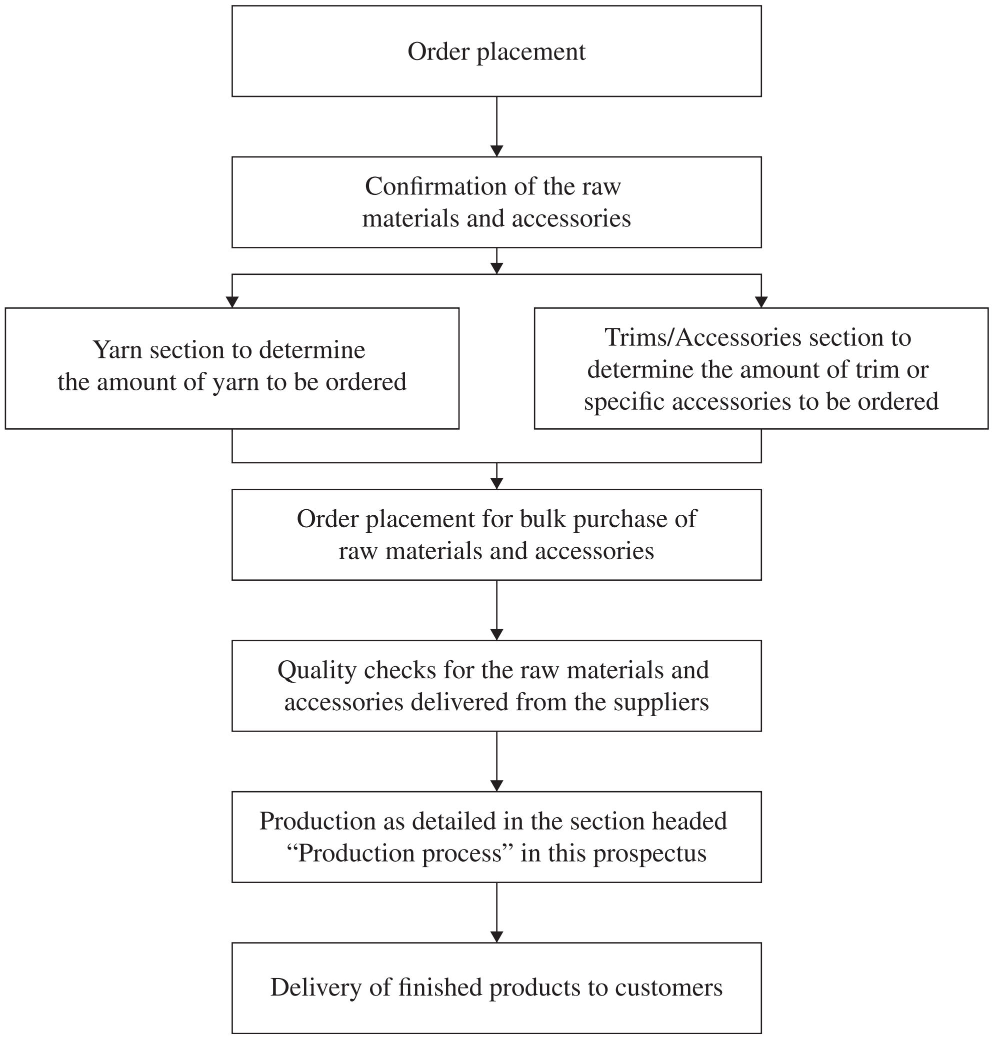
Prior to the confirmation of the orders placed by the customers, different functions of the Group such as the design and development department, the sales and merchandising department, the sample department together with the yarn department and trims/accessories department take up important roles to perform numerous development procedures for the Group's production.

Set out below is the flow chart summarising the workflow at the development stage. The design and development department conducts and holds regular meetings, market research on the latest fashion trends and recent development of new fabrics with the key customers to keep pace with the changes in consumer preferences in view of their market positioning. Each year, the Group will design two collections of knitwear products based on the upcoming fashion trends with a view to brainstorming new ideas to the designers of the customers through the presentations and meetings with the major customers in Hong Kong and overseas from time to time. The customers who collected the inspirations from the Group would then ask the Group to prepare the prototype (1st round sampling) of the products and/or provide additional designs of a particular pattern/style to form a collection. The Group may further modify the prototype according to the specifications and requirements in respect of color tone, embellishment, use of yarn, cutting, knitting pattern and etc as set out by the customers. Once the customers are satisfied with the prototypes, the Group would be asked to produce a more advanced sample, which is the salesman sample. The Group would confirm all the production details including but not limited to the production schedule, the products' specifications and the price quotations if the customer shows their intent to place an order after the receipt of the salesman sample. A finalised purchase order will be issued by the customer once all the production details and terms are confirmed.



Production stage

Set out below is the workflow of the production stage before the production starts:

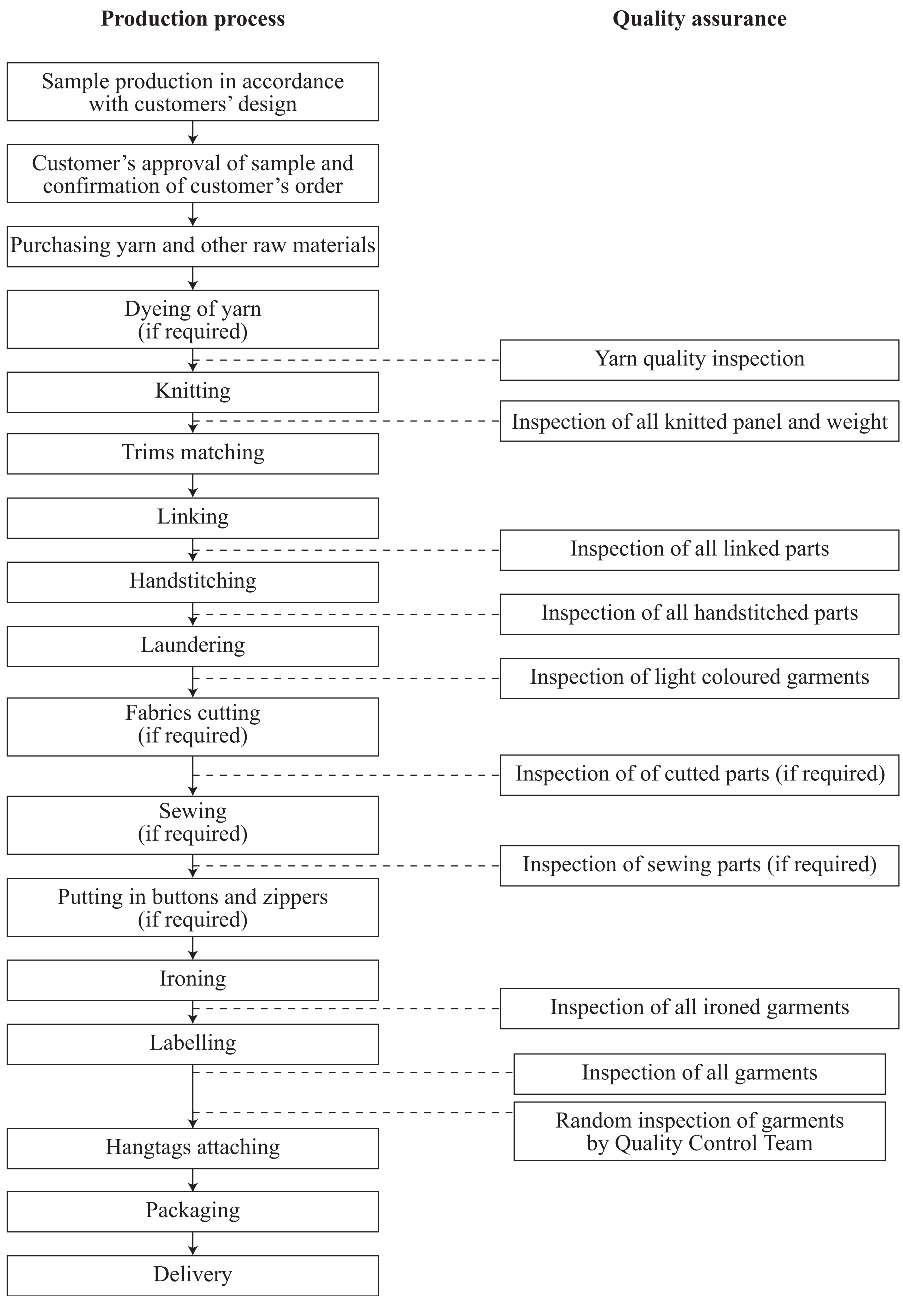


A customer must first confirm its order in respect of quantity, price, specifications and requirement and the delivery date of the knitwear products. The sales and merchandising department will then circulate the details of such confirmed order to all the relevant departments for devising their production plan in accordance with their specific responsibilities. For example, the yarn section, trims/accessories section and sales and merchandising department are responsible for purchasing the amount of yarn and accessories necessary for the production, and making orders to the relevant suppliers for the required yarn and accessories taking into account the quantity required, the blending of the yarn, the delivery time and cost incurred for the sourcing of such production materials. If specific colour of yarn is required for the products, the yarn section of the purchasing department will follow up the dyeing of the yarn, estimate the time required for dyeing and check the quality of the dyed yarn. Normally, the production cycle takes two months to complete.

Production process

The diagram below illustrates principal procedures involved in the Group's production process.

Principal procedures of production process



The principal procedures of the production include knitting, linking, handstitching, trims matching, laundering, fabrics cutting, sewing, button and zippers, ironing, labelling, hangtags attaching, packing and all corresponding quality assurance inspections after each major production procedure.

Knitting

Before the installation of the newly purchased 120 sets of computerized knitting machineries in the second quarter of 2011, the knitting teams in the Processing Factory and the FC Factory worked on approximately 451 sets manually-operated knitting machines once specified amount of yarn was received. After the installation of 120 sets of computerized knitting machines in the FC Factory, the knitting procedures are carried out by smaller number of more skillful labour. Swatches (織片) in different knitting pattern and colour would be produced by yarn with different composition, such as wool, cotton and cashmere, mainly through computerized knitting machines. The gradual computerisation of knitting procedures enables the Group to enhance efficiency and reduce the reliance on labour.

Inspection for all knitted panel and weight

To avoid obvious loss or wastage of yarn used for the production, staff responsible for weight matching would weigh every bulk of swatches to check whether there is material difference between the weight of panel and that of the yarn used for the production. Material difference between two implies loss or wastage incurred during the production of knitting which would drive the Group to revise the existing procedures or remedy for such loss and wastage. After weight matching, the quality assurance staff would inspect the quality of panel in terms of its tension and the number of stitches of the swatches as required by the customers.

Trims matching

Knitwear product normally comprises major knitted garments, accessories and other trims such as collars, cuff rims and pockets. Once the knitted garments are inspected by the responsible staff, the trims matching department would match the required trims for each piece of knitwear product. For example, if the final product is a cardigan, the trims matching department would collect the required rims, pockets and collars to match with the cardigan in accordance with the specification and requirements of the customers. All the required trims would be transferred to the linking department for linking up together as a knitwear product.

Linking and inspection for linked parts

Once the front, back, sleeves and all trims are available and prepared by the knitting department and trims matching department, and the quality assurance check are performed, the production staff would carry out the linking procedures to link all these knitted parts together. The linked garment would then be inspected by the quality assurance staff before proceeding to the next production procedure, i.e. handstitching.

Handstitching and inspection for all handstitched parts

After linking all the major parts and trims of the garments together and passing the inspection of the linked garments, the experienced and skillful handstitching staff would stitch the tiny and delicate joints between two trims by hand. This is one of the critical manual production procedures that cannot be done by the computerised machines. As such, the production staff responsible for handstitching is important to the knitwear production. All the handstitched garments would be transferred to the quality assurance department for quality inspection in terms of delicacy of each stitch before proceeding to the next production procedure, i.e. laundering.

Laundering (washing and shrinking) and inspection of laundered garments

To assure the cleanliness, neatness and softness of the stitched garments, the responsible staff washes the stitched garments with detergent of specified chemical composition, guaranteeing the degree of softness of the garments as required by the customers. After the laundering of the garments, all the washed garments are inspected by the quality assurance staff in respect of cleanliness, neatness, softness and, most importantly, the degree of shrinkage.

Fabric cutting and sewing (if required)

If the design of the knitwear products involves fabrics cutting and sewing, the washed garments are sent to fabrics cutting and sewing department. All fabrics will be cut to customers specification and checked by quality assurance department and sent to sewing department. The sewing department will assemble the fabrics into the garment which will be checked by quality department for quality inspection.

Buttons and zippers sewing (if required)

If the design of the knitwear product involves buttons or zippers, the washed garments are sent to the sewing section for buttons and zippers sewing. All the accessories such as buttons and zippers are sourced and checked by the accessories department and are made ready for this sewing procedure as required. Some of the customers designate the suppliers of buttons and zippers so as to ensure the quality of such accessories.

Ironing and measurement inspection

All the washed garments passing the quality assurance check or those with buttons or zippers sewn are transferred to the ironing department for ironing. Ironing helps restoring the original size of the garments so as to ensure that the size of the washed garments meets the standard after the laundering process.

Labelling and inspection for all finished garments

After measurement inspection, labels designated by customers are sewn on the garments. The quality check in respect of the labels received by the Group is carried out before the labels are transferred to the production department for production.

Hangtags attaching

Hangtags with textile details and sales details such as price and size are attached on the finished products. After hangtags attaching, final checking is carried out.

Packing and delivery

The production staff packs all the finished products with hangtags and deliver to the designated warehouses of the customers for quality check.

Most of the recognised international apparel customers carry out comprehensive quality assurance review before they take delivery of the finished products. The Group has also entered into compliance agreements with some customers which sets out, among others, (i) specific requirements and standards for the production of the goods, components, trim, materials and packaging such as the facilities for the production of goods as approved by the customers; (ii) the terms and conditions of the purchase order; and (iii) the code of conduct of the Group. For example, the Group agreed not to distribute or otherwise transfer any products which have failed the quality assurance review, and will completely destroy any goods that are wearable with minimal flaws which have the customers' trademark or name screened, including tagless labels, embroidered, printed, engraved or otherwise incorporated directly onto the goods, as well as any goods that have failed applicable safety testing. Some of the customers pay regular on-site quality check for the products produced under their brand names.

Processing Agreements

The Processing Factory was established on 31 October 1988 under its former name and was responsible for the manufacturing of knitwear products for the 1st Former Foreign Party under the Master Processing Agreement.

Set out below are the material terms of the Master Processing Agreement and each of the supplemental agreements thereof entered into subsequently:

Master Processing Agreement

Date	:	26 October 1988
Parties	:	The 1st Former Foreign Party; The Former PRC Processing Party; and The Processing Factory in its former name (i.e Yangpo Yonghao)
Term	:	three years from 27 October 1988 to 26 October 1990, which was ultimately extended to 31 October 2011 under the 2nd Supplemental Processing Agreement, 5th Supplemental Processing Agreement, 6th Supplemental Processing Agreement, 7th Supplemental Processing Agreement and 8th Supplemental Processing Agreement

Primary responsibilities of the contracting parties:

(i) the Former PRC Processing Party and the Processing Factory shall provide processing services of knitted products to 1st Former Foreign Party at the processing fees to be agreed as mentioned below;

(ii) the Former PRC Processing Party and the Processing Factory shall provide utility, labour and production premises for the production;

(iii) the 1st Former Foreign Party shall provide all raw materials, accessories and packing materials necessary for the production;

(iv) the 1st Former Foreign Party shall provide a batch of machinery for the production as set out in the Master Processing Agreement (the ownership of which shall be transferred to the PRC Processing Party once the aggregate agreed cost of the machinery of HK$450,100 is fully paid by offsetting 20% of the processing fees paid by 1st Former Foreign Party);

(v) the 1st Former Foreign Party shall bear the responsibility for any defective products arising from defective raw materials or accessories or technical supervision by the 1st Former Foreign Party if the products have already left the Processing Factory; and

(vi) the 1st Former Foreign Party shall take out insurance coverage for the machinery, raw materials, accessories, packing materials, the WIPs and finished products.

Processing Fees:

(i) the processing fees payable by the 1st Former Foreign Party to the Former PRC Processing Party for the first year shall be approximately HK$600,000 and that for the subsequent years shall include an increment based on the first-year processing fees; and

(ii) the exact amount of the processing fees shall be determined by negotiation between the parties with reference to, among other things, the specifications of the samples or the cost of the trial production and that each staff shall have a monthly salary of at least HK$600 on the basis of 26 working days a month and an 8 hours day.

Termination or renewal:

(i) if any party to the Master Processing Agreement wishes to terminate or renew the Master Processing Agreement, the parties shall negotiate to reach an agreement six months prior to the expiry date thereof.

1st Supplemental Processing Agreement

Date : 16 April 1990

Parties : The 2nd Former Foreign Party;

The Former PRC Processing Party; and

The Processing Factory in its former name (i.e. Yangpo Yonghao)

Material terms:

(i) the 2nd Former Foreign Party agreed to lend a set of machinery and equipment of an aggregate value of HK$239,000 to the Processing Factory at no cost;

(ii) the processing fees attributable to the new machinery shall amount to approximately HK$500,000 per year but the exact fee shall be further agreed;

(iii) the monthly salary for each production staff shall be above HK$800, and which shall be increased by 10% annually; and

(iv) the 1st Former Foreign Party was changed to the 2nd Former Foreign Party together with a change of authorised representative.

2nd Supplemental Processing Agreement

Date : 10 May 1991

Parties : The 2nd Former Foreign Party;

The Former PRC Processing Party; and

The Processing Factory in its former name (i.e. Yangpo Yonghao)

Material term:

The term of Master Processing Agreement (as supplemented by the 1st Supplemental Processing Agreement) was extended for five years to 30 October 1996.

3rd Supplemental Processing Agreement

Date : 21 April 1995

Parties : Nice Regent;

The Former PRC Processing Party; and

The Processing Factory

Material terms:

(i) the Processing Factory was renamed as Dongguan Da Lang Xiang Wei Fornton Knitting Factory; and

(ii) Nice Regent took over all the rights and obligations of the 2nd Former Foreign Party under the Master Processing Agreement (as supplemented by the 1st Supplemental Processing Agreement and 2nd Supplemental Processing Agreement).

4th Supplemental Processing Agreement

Date : 5 May 1995

Parties : Nice Regent;

The Former PRC Processing Party; and

The Processing Factory

Material term:

Nice Regent shall lend a set of machinery and equipment of an aggregate value of HK$333,000 to the Processing Factory.

5th Supplemental Processing Agreement

Date : 9 September 1996

Parties : Nice Regent;

The Former PRC Processing Party;

The PRC Processing Party; and

The Processing Factory

Material terms:

(i) the Former PRC Processing Party shall transfer its rights and obligations under the Master Processing Agreement (as amended by the 1st, 2nd, 3rd and 4th Supplemental Processing Agreements) to the PRC Processing Party;

(ii) the Former PRC Processing Party shall become a business agent;

(iii) the term of the Master Processing Agreement (as supplemented by the 1st, 2nd, 3rd, and 4th Supplemental Processing Agreement) was extended to 31 October 2001;

(iv) the processing fees for the first year of the extended period shall be HK$1,200,000, which shall be increased by 10% for each subsequent year; and

(v) the monthly salary for each production staff shall not be less than HK$800.

6th Supplemental Processing Agreement

Date	:	28 May 2001
Parties	:	Nice Regent;
		The PRC Processing Party;
		The Processing Factory; and
		The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd, 3rd, 4th and 5th Supplemental Processing Agreements) was extended for an additional five years to 31 October 2006;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

7th Supplemental Processing Agreement

Date	:	20 September 2006
Parties	:	Nice Regent;
		The PRC Processing Party;
		The Processing Factory; and
		The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd, 3rd, 4th, 5th and 6th Supplemental Processing Agreements) was extended for additional two years to 31 October 2008;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

8th Supplemental Processing Agreement

Date	:	29 July 2008
Parties	:	Nice Regent;
		The PRC Processing Party;
		The Processing Factory; and
		The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd 3rd, 4th, 5th, 6th and 7th Supplemental Processing Agreements) was extended for additional three years to 31 October 2011;

(ii) the processing fees for the first year of the extended term shall be HK3,000,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$800.

9th Supplemental Processing Agreement

Date	:	23 June 2011
Parties	:	Nice Regent;
		The PRC Processing Party;
		The Processing Factory; and
		The Former PRC Processing Party

Material terms:

(i) the term of Master Processing Agreement (as supplemented by the 1st, 2nd 3rd, 4th, 5th, 6th, 7th and 8th Supplemental Processing Agreements) was extended for additional two years to 31 October 2013;

(ii) the processing fees for the first year of the extended term shall be HK$7,800,000, which shall be increased by 10% in each subsequent year; and

(iii) the monthly salary of each staff of the Processing Factory shall not be less than HK$1,300.

Party responsible for other issues

According to the Processing Agreements, the Processing Factory shall be responsible for the labour related issues and liable for defective products except those caused by the defects of materials or the mistakes of technical guidelines provided by the Group. There are no specific provisions concerning the responsible party for environmental protection and work safety, but the PRC Legal Advisers advised that the Processing Factory shall be responsible for the environmental protection and work safety issues pursuant to the Interim Measures of the Approval and Management of Processing Trade.

Approval and extension for the Processing Agreements

The Master Processing Agreement and relevant supplemental processing agreements as set out above were approved by Dongguan FEWC or Dongguan FETC (as the case may be), both of which are appropriate authorities to approve the Processing Agreements as advised by the PRC Legal Advisers. On 23 June 2011, the Group has extended the processing arrangement to 31 October 2013 pursuant to the 9th Supplemental Processing Agreement and on 7 July 2011, the business licence of the Processing Factory was extended to 31 October 2013 as well. As advised by the PRC Legal Advisers, there is no substantive legal impediment for the Group and the PRC Processing Party to obtain further approval for the extension of the Processing Agreements and extension of the business licence of the Processing Factory. In view of the further extension of the business license to 13 October 2013, the Processing Factory has no current intention and imminence to apply for the transformation to foreign-owned enterprise and may make such decision only subject to the Group's operations and the overall business environment approaching the expiry of the business license in 2013.

No material breach of the Processing Agreements

As confirmed by the PRC Processing Party, the Processing Factory and the Former Processing Party on 31 March 2011, Nice Regent has complied with the terms of the Processing Agreements during the Track Record Period. Except for the non-compliance of the PRC regulations related to social insurance and housing provident fund, there was no breach of the Processing Agreements by the aforesaid three counterparties during the Track Record Period and up to the Latest Practicable Date in any material respect. As confirmed by the PRC Legal Advisers, the Processing Factory, instead of Nice Regent, is the party responsible for the payment of the social insurance fee, housing provident fund and any penalty (if any).

Background information of the contracting parties

The PRC Processing Party

The PRC Processing Party was established by 東莞市大朗鎮對外加工裝配有限公司 (Dongguan Dalang Foreign Processing Co. Ltd*) on 25 July 1987 as 集體所有制 (a collective ownership enterprise*). The PRC Processing Party is a government organization under the supervision of 東莞市財貿辦 (Dongguan Financial Trade Office*) and is mainly responsible for the governance of all the processing arrangements in Dalang Town. The PRC Processing Party and its beneficial owners are Independent Third Parties. During the Track Record Period, part of the Group's production relied on the processing arrangement as stipulated under the Processing Agreements. The Directors believe that the Processing Agreements enable the Group to improve production efficiency, reduce production costs and assist in maintaining a competitive cost base.

The Former PRC Processing Party

The Former PRC Processing Party is a government-funded legal entity responsible for the governance of all the processing arrangements in Dongguan City. It delegated its governing authority of the processing arrangements in Dalang Town to respective government funded legal entities in Dalang Town with a view to reducing its heavy workload arising from the blossoming of the processing arrangements in Dongguan City in the 1990s. As such, the role of business agent as taken up by the Former PRC Processing Party is to oversee the whole processing arrangement under the Processing Agreements and no specific fees are paid to the Former PRC Processing Party in this connection. The Former PRC Processing Party remained in such role as at the Latest Practicable Date.

The Processing Factory

To the best of the Company's knowledge, information and belief, the Processing Factory was set up under the Processing Agreements solely for carrying out the customer orders received from Nice Regent. However, there is no provision in the Processing Agreements which prohibits the PRC Processing Party from entering into other processing arrangements with Independent Third Parties for the provision of similar processing services. So far as the Company is aware, the Processing Factory provided processing services solely for the Group during the Track Record Period. According to the effective business license of the Processing Factory, its business scope is manufacturing of knitwear (except those knitwear products which require relevant authorities' approval) and thus it is entitled to do business pursuant to the aforesaid business scope approved in the business licence, and its lawful business activities are under the protection of relevant PRC laws and regulations.

Processing Fees

During the Track Record Period, the Processing Fees included the rental of the Processing Factory, direct and indirect labour cost and utility cost and staff cost attributable to the production of the Group's products. Ownership of the machinery and equipment provided by the Group remains vested in the Group and is required to be returned to the Group upon the termination of the Processing Agreements. As at the Latest Practicable Date, no machinery and equipment used in the Processing Factory were provided by the 1st Former Foreign Party and the 2nd Former Foreign Party and all the machinery and equipment used therein are owned by Nice Regent. Labour cost is subject to variation depending on the number of workers actually engaged by the PRC Processing Party for the production to the Group and the amount of overtime allowance payable to such workers.

The following table sets out the breakdown of the Processing Fees paid by the Group during the Track Record Period:

	Year ended 31 December						Four months ended 30 April			
	2008		2009		2010		2010		2011	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* *(unaudited)*	*%*	*HK$'000*	*%*
Processing Fees										
Cost of sales										
— Direct labour	14,507	52.3	13,730	50.8	15,207	48.8	3,149	40.3	3,985	40.4
— Utilities	3,107	11.2	2,538	9.4	2,768	8.9	740	9.5	779	7.9
— Indirect labour	1,889	6.8	1,992	7.4	2,105	6.7	717	9.2	808	8.2
— Rental for Processing Factory's production premises	1,688	6.1	1,619	6.0	1,640	5.3	541	6.9	566	5.8
	21,191	76.4	19,879	73.6	21,720	69.7	5,147	65.9	6,138	62.3
Administrative expenses										
— Staff costs	6,537	23.6	7,147	26.4	9,456	30.3	2,663	34.1	3,719	37.7
Total	27,728	100.0	27,026	100.0	31,176	100.0	7,810	100.0	9,857	100.0

As at 31 December 2008, 31 December 2009, 31 December 2010 and 30 April 2011, the carrying amount of machinery and equipment provided by the Group to the Processing Factory were approximately HK$3,590,000, HK$2,767,000, HK$2,387,000 and HK$2,377,000 respectively. For the Track Record Period, the production volume of the Group amounted to approximately 2,370,000 pieces, 2,888,000 pieces, 3,020,000 pieces and 453,000 pieces of garments respectively.

The Directors have confirmed that the pricing and other terms of the Processing Agreements and the rental charged under the Processing Factory Tenancy Agreement 1996 and the Processing Factory Tenancy Agreement 2000 during the Track Record Period were effected on arm's length basis and on normal commercial terms.

The PRC Legal Advisers have confirmed that the terms of the Processing Agreements do not contravene any laws and regulations in the PRC on the following basis:

(i) the execution and amendments of the Processing Agreements have been approved by competent Foreign Trade and Economic Cooperation Bureau pursuant to relevant PRC Laws;

(ii) the contents and form of the Processing Agreements are both legitimate and valid. The Processing Agreements are legally binding and enforceable;

(iii) the Processing Factory was established in accordance with the PRC Laws; and

(iv) the Processing Factory operating as a processing entity to carry out the manufacturing operation under the Processing Agreements has obtained all the relevant legal approvals and consents.

Tenancy agreements

The Processing Factory

The Processing Factory Tenancy Agreement 1996

Date	:	30 March 1996
Parties	:	東莞市大朗鎮巷尾管理區 (Dongguan Dalang Xiangwei Administrative District*) (now known as 東莞市大朗鎮巷尾社區居民委員會 (Dongguan Dalang Xiangwei Residents Committee*)), as the lessor Nice Regent, as the lessee
Term	:	six years to 31 December 2001

Material terms:

(i) The lessor shall lease to Nice Regent a production plant comprising an industrial building, a dormitory and other facilities of a total gross floor area of approximately 3,140 sq.m. located in 坑尾塘 (Kang Wei Tang) in Dongguan City;

(ii) The annual rental shall amount to HK$250,000 to HK$360,000; and

(iii) Either of the parties shall give 3-month prior notice to the other party for the extension or termination of the leasing of the premises. If such termination is not agreeable to either party, the aggrieved party shall be paid 3 months rent by the party in breach as compensation.

The Processing Factory Tenancy MOU 1999

On 17 September 1999, Nice Regent and Dalang Xiangwei entered into a legally binding memorandum of understanding pursuant to which:

(i) Dalang Xiangwei agreed to build a new production plant and other ancillary facilities with an aggregate floor area of approximately 140,000 sq.m for Nice Regent to substitute the then existing production premises of the Processing Factory;

(ii) Once the new production factory and other ancillary facilities were built, Dalang Xiangwei, as the lessor, shall lease the new production premises to Nice Regent at a monthly rental ranging from RMB7.8 to RMB8.8 per sq.m; and

(iii) Nice Regent shall pay Dalang Xiangwei an earnest money of RMB500,000 (of which RMB250,000 shall be settled within 10 days from the date of signing and the remaining half shall be settled upon the completion of construction work of the new production factory was half-way through), which shall be used to offset the rental from the 19th month of leasing of the new production factory.

The Processing Factory Tenancy Agreement 2000

Date	:	28 November 2000
Parties	:	Dalang Xiangwei, as the lessor
		Nice Regent, as the lessee
Term	:	until 31 December 2012
		(as extended under supplemental agreement dated 1 January 2010)

Material terms:

(i) The lessor shall lease to Nice Regent the newly constructed production plant as agreed to be built by the lessor under the Processing Factory Tenancy MOU 1999 with a gross floor area of approximately 17,437.36 sq.m. located in 新美塘 (Xin Mei Tang) in Dongguan City; and

(ii) The annual rental shall amount to approximately HK$1,632,000 to approximately HK$1,841,000.

The FC Factory

The FC Tenancy Agreement

Date	:	17 November 2005
Parties	:	Dongguan Changping Baishigang Village Committee, as the lessor;
		Fornton Holdings, as the lessee from 2005 to 2008
		Nice Regent, as the lessee from 2008 to 2013
Term:	:	until 30 November 2013
		(as extended under supplemental agreement dated 1 December 2008 and 26 November 2010 respectively)

Material terms:

(i) The lessor shall lease to Nice Regent a production plant comprising a 3-storey factory building, two blocks dormitory and other ancillary facilities with an aggregate gross floor area of approximately 12,000 sq.m. located in Baishigang village in Dongguan City;

(ii) The annual rental shall range from RMB$57,800 to RMB$78,000; and

(iii) Either party shall pay the other party 6-month rental with 3-month advance notice if they terminate the agreement before the expiry.

Non-compliances with relevant rules and regulations by Fung Ching in respect of the FC Factory

Non-compliance with relevant regulations relating to social insurance contributions before the Track Record Period

As set out in the legal opinion issued by the PRC Legal Advisers, according to the confirmation letter issued by 東莞市社會保障局常平分局 (Changping branch office of Dongguan Social Security Department*) (the "Social Security Department") on 2 March 2011, Fung Ching has made the social insurance contributions (including endowment insurance, medical insurance, injury insurance, maternity insurance and unemployment insurance) for its employees from 1 October 2006 to 2 March 2011, and has complied with all national and local laws relating to social insurance during the Track Record Period. However, for the period commencing from 28 February 2006 (date of incorporation of Fung Ching) to 1 October 2006, Fung Ching did not make any social insurance contributions for its employees as Fung Ching only obtained its social insurance registration certificates on 25 September 2006 after a period of time to establish its operations and recruit sufficient labour and staff for its production. According to the abovementioned confirmation letter, the Social Security Department, which is the appropriate and competent government authority relating to social insurance contributions of Fung

Ching as confirmed by the PRC Legal Advisers, agreed to discharge all the possible liabilities (including all possible social insurance fees payable by Fung Ching) before 1 October 2006 and all possible penalty. As such, no provision was made by the Group for the potential penalty.

Non-compliance with relevant regulations relating to housing provident fund

Pursuant to the disclosure in the paragraph headed "Non-compliance with relevant regulations relating to housing provident fund" in the section headed "Risk factors" in this prospectus, Fung Ching is required to register with the applicable housing fund management centre and establish a housing fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing fund account as part of its employees' welfare and benefits. Fung Ching has not made relevant contribution for every employee as some of its employees were unwilling to participate in the housing provident fund schemes. During the Track Record Period, the unpaid contributions of the housing provident fund amounted to approximately HK$487,000, HK$382,000, HK$319,000 and HK$67,000 respectively.

As advised by the PRC Legal Advisers, according to《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such potential penalty because (i) as at the Latest Practicable Date, Fung Ching has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on Fung Ching for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of Fung Ching in respect of the non-contribution towards the housing provident fund; and (iii) the amount of possible penalty is insignificant.

Notwithstanding the above, the Company will comply with the necessary filing requirements for all of Fung Ching's employees and settle all the outstanding housing provident fund contribution to the relevant authorities prior to the Listing.

Indemnity given by the Controlling Shareholders

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above breaches of Fung Ching including but not limited to any losses suffered by the employees of Fung Ching due to the Group's failure to make the housing provident fund contribution, penalties and surcharges that may be imposed by the relevant authorities. The Sponsor is of the view that the Controlling Shareholders have sufficient financial resources to satisfy such indemnities.

Non-compliances with relevant rules and regulations by the Processing Factory

Non-compliance with relevant regulations relating to social insurance

As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made social insurance contributions for every employee as some of the employees of the Processing Factory were unwilling to participate in the social insurance scheme. For each of the three years ended 31 December 2010 and the four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$4.9 million, HK$4.9 million, HK$6.0 million and HK$1.9 million respectively.

As advised by the PRC Legal Advisers, pursuant to the PRC Social Insurance Law, if the Processing Factory fails to make the full contribution on time, the relevant social insurance fee levy authorities are entitled to order the non-complying unit to make the social insurance contribution for its employees within a specified time limit and pay the daily surcharges of 0.05% calculated on the unpaid contribution from the due date on which the social insurance contribution should have been made. If the Processing Factory fails to make the contribution within the period set out in any payment demand that might be issued to the Processing Factory by the relevant social insurance fee levy authorities, the Processing Factory will be subject to fines equal to one to three times of the unpaid contribution. No provision has been provided by the Group for such unpaid contribution and potential penalty and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for the social insurance contributions, and there is no penalty imposed on the Processing Factory for failure to make punctual and full social insurance contributions for its employees; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the social insurance schemes; and (iii) as advised by the PRC Legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the social insurance contributions and Nice Regent or the Group will not be liable for the said liabilities because the Processing Factory, instead of Nice Regent, is the party which entered into the labour contracts with its employees and thus the Processing Factory shall be the party obliged to pay social insurance pursuant to the PRC Social Insurance Law. As advised by the Company, the Processing Factory may not recomply with relevant laws and regulations and the main reason being its employees are unwilling to participate in the social insurance contributions.

Non-compliance with relevant regulations relating to housing provident fund

Pursuant to the disclosure in the paragraph headed "Non-compliance with relevant regulations relating to housing provident fund" in the section headed "Risk factors" in this prospectus, the Processing Factory is required to register with the applicable housing fund management centre to establish a housing provident fund account with an entrusted bank for each employee and make contributions for all of its employees to the housing provident fund account as part of its employees' welfare and benefits. As advised by the management of the Processing Factory, as at the Latest Practicable Date, the Processing Factory has not made contributions to the housing provident fund for every employee as some of the employees of the Processing Factory were unwilling to participate in the housing provident fund scheme. During each of the three years ended 31 December 2010 and four months ended 30 April 2011, the unpaid contributions thereof amounted to approximately HK$1.1 million, HK$1.1 million, HK$1.3 million and HK$0.4 million respectively.

As advised by the PRC Legal Advisers, according to 《住房公積金管理條例》(Regulations on the Administration of Housing Provident Fund*) and《東莞市住房公積金繳存管理辦法》(Measures Concerning the Administration of Payment of Housing Provident Fund in Dongguan*), the housing provident fund management centre possesses the discretion right to notify the non-complying unit to establish a housing provident fund account for each employee and/or to make contributions towards the housing provident fund within a specific time limit. Should the unit fail to establish housing provident fund account for its employees and/or to contribute towards housing provident fund within that specified time limit, the management center of housing provident fund may impose fines ranging from RMB10,000 to RMB50,000 and may apply to the People's Court to enforce the payment of any housing provident fund under the relevant PRC laws and regulations. No provision has been provided by the Group for such non-compliance and no rectification measures by the Group are necessary for the non-compliance of the Processing Factory because (i) as at the Latest Practicable Date, the Processing Factory has not received any notification or directive from the relevant authority for housing provident fund contribution and, there is no penalty imposed on the Processing Factory for failure to make punctual and full housing provident fund contributions; (ii) there is also no claim made by the employees of the Processing Factory in respect of the non-contribution towards the housing provident fund; (iii) as advised by the PRC legal Advisers, the Processing Factory will be solely liable for all the liabilities arising from the housing provident fund contributions and Nice Regent and the Group will not be liable for such unpaid contributions and all possible penalty because the Processing Factory, instead of Nice Regent, is the party which entered into the labour contracts with its employees and thus the Processing Factory shall be the party obliged to pay the housing fund for its employees pursuant to the 《住房公積金管理條例》(Regulations on the Administration of the Housing Fund*); and (iv) the amount of the potential penalty is insignificant. As advised by the Company, the Processing Factory may not recomply with relevant laws and regulations relating to housing provident fund as its employees are unwilling to participate in the housing provident fund.

Indemnity given by the Controlling Shareholders

Notwithstanding that the Group is not liable for the contributions and payments of the social insurance and housing provident fund of Processing Factory, in any event, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above breaches of the Processing Factory including but not limited to any (if at all) reimbursement to the Processing Factory by the Group in respect of the outstanding expenses on the social insurance contribution and the housing provident fund and/or the penalty for the noncompliance of timely and full social insurance contribution and housing provident fund contribution of the Processing Factory.

Save for the non-compliances as disclosed above, the Directors confirmed that the Group has complied with all the relevant PRC regulatory requirements in respect of the Processing Agreements during the Track Record Period. As advised by the PRC Legal Advisers, the Processing Factory has obtained all necessary licences, approvals and permits from the appropriate regulatory authorities for its business operations in the PRC pursuant to the Processing Agreements and save as aforesaid, has complied with relevant laws and regulations relevant to the Group's business in material respects.

With a view to ensuring the continuous compliance with the relevant PRC regulatory requirements, the Group intends to engage a PRC legal consultant to handle all the PRC legal matters of the Group.

Property interests

Hong Kong

The Group's headquarter in Hong Kong is located at Unit A, 32nd Floor, Legend Tower, No. 7 Shing Yip Street, Kwun Tong, Kowloon with a gross floor area of approximately 8,887 sq.ft. leased by the Group from Long Rise, a company owned as to 50% by Madam Wong and 50% by her father. Pursuant to the Headquarter Tenancy Agreement, the monthly rental is HK$150,000. The Valuer has reviewed the Headquarter Tenancy Agreement and confirmed that the rent payable under the Headquarter Tenancy Agreement is fair and reasonable and is consistent with prevailing market rates for similar premises in similar locations in Hong Kong and the terms of the Headquarter Tenancy Agreement are on a normal commercial terms. The text of the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this prospectus.

PRC

FC Factory

Details of the FC Factory are disclosed in the paragraph headed "The FC Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this prospectus.

The Processing Factory

Details of the Processing Factory are disclosed in the paragraph headed "The Processing Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this prospectus.

New production plant

Details of the new production factory are disclosed in the paragraph headed "The Processing Factory" of the sub-section headed "Production" in this section. The text to the Valuer's letter, summary of valuations and valuation certificates are set out in Appendix III to this prospectus.

Production capacity

All the Group's products have been produced at the Processing Factory since 1996 and also at the FC Factory since 2006 with some procedures outsourced to the subcontractors. As at the Latest Practicable Date, the FC Factory had 140 sets of computerised knitting machines and 177 sets of manually operated knitting machines whilst the Processing Factory had 9 sets of computerised knitting machines and 225 manually operated knitting machines. All the equipment and machinery were sourced from Italy, Germany and the PRC.

Set out below is the production capacity of each of the Processing Factory and the FC Factory:

	Estimated annual production capacity (pieces of WIPs/apparels in thousands) *(Note 2)*			Approximate output volume for the year ended 31 December (pieces of WIPs/apparels in thousands) *(Note 3)*			Approximate utilisation rate for the year ended 31 December (%) *(Note 4)*			Approximate utilisation rate for the four months ended 30 April (%) *(Note 4)*
	2008	**2009**	**2010**	**2008**	**2009**	**2010**	**2008**	**2009**	**2010**	**2011**
Production of WIPs:										
The FC Factory *(Note 1)*	921	921	1,126	213	173	182	23.1	18.8	16.2	22.7
Production of finished goods:										
The Processing Factory	1,601	1,601	1,805	2,370	2,888	3,020	N/A	N/A	N/A	N/A

Notes:

1. The FC Factory only carries out pre-laundering procedures and thus its output is in terms of pieces of swatches.

2. The annual maximum output of the Processing Factory is estimated based on the assumption that the output is solely produced by the Processing Factory with part of its knitting procedure outsourced to the FC Factory without outsourcing to other subcontractors. The Processing Factory operates for 302 days per year and 9 hours per day.

3. As the Processing Factory outsources various production procedures (including but not limited to knitting, linking and handstitching procedures) to the subcontractors in the PRC, the annual output of the Processing Factory is enlarged and thus it is larger than the estimated production capacity thereof.

4. It is not feasible to calculate the utilisation rate of the Processing Factory without taking into account the output of the subcontractors as the Company is not able to quantify the exact amount of output contributed by the subcontractors from the annual output of the Processing Factory.

The Group plans for its production every year based on the orders of the customers forecasted by the Company. Detailed production is planned on the basis of the actual orders received. The Group also reviews its production plan regularly in order to ensure that the finished products are delivered in a timely manner. For the three years ended 31 December 2010, the low utilisation rate of the FC Factory was mainly due to the labour shortage prevailing in the Guangdong Province arising from substantive outflow of workers back to their hometown following the outburst of the financial crisis in 2008 and thus some pre-laundering procedures of the Group's production were outsourced to the subcontractors instead of being carried out in the FC Factory. For the four months ended 30 April 2011, the utilization rate increased to approximately 22.7% due to computerization of the production of the Group, despite more acute labour shortage in Guangdong Province for the same period. After the installation of additional 9 sets of computerised knitting machines in the Processing Factory and 140 sets in the FC Factory, which has commenced operations in third quarter and second quarter of 2011 respectively, it is expected that the demand for skillful production labour for knitting procedures of the Group would decrease. As such, the Directors believe that the labour shortage situation prevailing in the Guangdong Province will not adversely affect the operation of the Group.

Outsourcing

To mitigate the bottlenecked situation of the production process, maximise the production capacity of the Group and tackle difficulty in recruiting production staff to the handle the labour intensive procedures such as knitting and handstitching in the Guangdong Province, some production procedures such as knitting, linking and handstitching procedures were outsourced to other production factories in the PRC (i.e. the subcontractors). Despite the fact that both the FC Factory and the Processing Factory are capable of carrying out the same production procedures as the subcontractors did, some of the subcontractors are specialised in and handled only one specific production procedure and some of them also installed computerised knitting machines for production. As such, it is more efficient and cost effective to outsource the specific production procedures to the subcontractors specialised therein during the peak seasons or labour shortage. The Processing Factory has not entered into any formal master subcontracting agreements with the subcontractors. Instead, the Processing Factory issues subcontracting notes to the subcontractors to confirm the quantities, the required production procedures and specifications of the WIPs. The subcontracting fees are settled by cheques and offset by the prepayment provided to the subcontractors by the Group. The Group carries out quality assurance checks for most of the knitted, linked and handstitched garments produced by the subcontractors so as to ensure the high quality of the products. During the Track Record Period, the Group has not experienced any material adverse consequence from any unsatisfactory products produced by the subcontractors.

The Directors believe that the Processing Factory's outsourcing arrangement optimises the production flow, resolves the bottleneck of the production process, allows the Group to leverage on the expertise and resources of the subcontractors, and to reduce the reliance on the availability of skillful labour. In addition, the Group is not required to make significant capital investments for additional production facilities for boosting up the production capacity.

The subcontracting fees are determined on the basis of the complexities of the specifications of the knitwear products, the estimated time required and labour cost for the processing of each order. In respect of the knitting procedures of the knitwear products, the Group, through the Processing Factory, provides specified amount of yarn in terms of weight to the subcontractors for the production of knitted garments. By the time the subcontractors finish the production, the Group would reconcile the weight of the knitted garments produced by the knitting subcontractors with the weight of yarn provided by the Processing Factory to the knitting subcontractors at the beginning of production, and would make sure a specified amount (in terms of piece) of swatches are produced. The Processing Factory would ensure that there is no material discrepancy between the weight of yarn and the weight of knitted garments. The Group will check it through the weight matching process carried out in the Processing Factory before proceeding to the next production procedure.

For the three years ended 31 December 2010 and four months ended 30 April 2011, the Processing Factory had approximately 178, 160, 182 and 85 subcontractors respectively to handle various production procedures such as knitting, linking and laundering. During the Track Record Period, the aggregate subcontracting fees paid to top five subcontractors of the Group amounted to approximately 40%, 41%, 35% and 42% of the subcontracting fees. To ensure the quality of the products and compliance with the requirements standards set out by the customers, the Group (i) exercises comprehensive quality assurance check for almost all of the WIPs or finished goods produced by the subcontractors upon receipt thereof in the Processing Factory; (ii) engages professional third parties to perform lab-test for the samples produced by the sub-contractors; and (iii) regularly visits the subcontractors to enhance the communication. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the subcontractors have obtained necessary permits and licenses to commence production for the Group.

The Processing Factory places orders with the subcontractors on normal business terms and the subcontracting fees would be paid to the subcontractors within up to 30 days after the Group has delivered the finished products to its customers. As such, the actual credit periods granted by the Group's subcontractors during the Track Record Period normally ranged from one months to four months. As such and taking into account the production cycle of the Group, the Group will settle the subcontracting fees for the Processing Factory as long as the fees were incurred for the production of the Group's products in approximately 2.5 months after the receipt of the WIPs produced by the subcontractors. WIPs delivered by the subcontractors to the Group are end-products in respect of the subcontracting work and are not required to be returned to the subcontractors for further processing as further processing (if required) would be performed by the Processing Factory.

Taking into account a credit period from one month to four months granted by the subcontractors, the Group is only required to pay the subcontracting fees to the subcontractor after delivery of end-products to the Group's customers. In order to ensure sufficient working capital for the production of the subcontractors in view of the long credit period granted thereby, the Group would normally prepay not more than 70% of the subcontracting fees to the subcontractors even they have not delivered all their products to the Group. The Group would sometimes prepay more than 70% of the subcontracting fees on the subcontractors' special requests taking into account the years of relationships with the subcontractors and the subcontracting fees would be settled by the end-products delivered by the subcontractors. As at 31 December 2008 and 2009, the outstanding prepayments to the subcontractors amounted to approximately HK$3.4 million and HK$0.8 million respectively which were both fully utilized as at the Latest Practicable Date. As at 31 December 2010, the outstanding prepayments to the subcontractors amounted to approximately HK$3.8 million, of which approximately 99.9% were utilized as at the Latest Practicable Date. As at 30 April 2011, the outstanding prepayments to the subcontractors amounted to approximately HK$1.5 million, of which approximately 99.6% were utilized as at the Latest Practicable Date. Such prepayments would be recognised as subcontracting fees in the income statement of the Group after the Group delivered the finished goods to its customers. The subcontracting fees charged by the subcontractors ranged from HK$1.9 to HK$80 per pound/piece of the yarn depending on the complexity and requirements of the customers for the three years ended 31 December 2010. As confirmed by the Directors, all the subcontractors of the Processing Factory are Independent Third Parties and the terms of the subcontracting arrangement between the Processing Factory and the subcontractors were negotiated on an arm's length basis and on normal commercial terms. During the Track Record Period, the subcontracting costs of the Group amounted to approximately HK$72.8 million, HK$86.4 million, HK$106.0 million and HK$15.9 million respectively, representing approximately 31.1%, 36.6%, 38.8% and 41.5% of the Group's cost of sales in the respective periods. The subcontractors are required to compensate the Group if there are damages on the WIPs or the finished knitwear products caused by the subcontractors during the production process.

During the Track Record Period, there were no material conflicts or disputes arising from the failure to reach the standards as required or late delivery of the products between the Processing Factory and the subcontractors. The Directors believe that the Group, the Processing Factory and the subcontractors have maintained good business relationships despite the fact that the Processing Factory has not entered into any fixed-term contracts with them. The Processing Factory had over 100 subcontractors during the Track Record Period. In view of the abundance of production factories in Dongguan City, the Group does not foresee any material difficulties in obtaining the required production services from the subcontractors through the Processing Factory in the PRC.

As confirmed by the Directors, none of the Directors, their respective associates or Shareholders who own more than 5% of the issued share capital of the Company immediately following the completion of the Share Offer and Capitalisation Issue, had any interests in any of the five largest subcontractors of the Group during the Track Record Period.

SALES AND DEVELOPMENT

Sales and merchandising

Since the commencement of the manufacturing business, the Group has been able to secure a number of customers including but not limited to international fashion groups with wide variety of products marketed under numerous well-recognised labels or trademarks and sold in their franchised or chain stores located all over the world. As at the Latest Practicable Date, the labels of the apparel manufactured by the Group included but are not limited to Jones New York and Anne Klein. The top five customers in terms of the turnover generated for the Group during the Track Record Period own various international well-known labels and have maintained long-term business relationships with the Group for more than 5 years. During the Track Record Period, the aggregate turnover generated from the top five customers of the Group amounted to approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's total turnover respectively and the turnover generated from the Group's largest customer accounted for approximately 52.6%, 55.4%, 56.3% and 70.0% of the Group's total revenue respectively during the Track Record Period.

Apart from the direct sales of products to the international brand owners, the Group also sells its products to some of the trading companies in Hong Kong which are mainly engaged in sourcing quality apparel products or accessories in the PRC for the relatively small-scale overseas apparel companies. The orders placed by such companies through the trading companies are relatively small as compared with that by direct customers of the Group. During the Track Record Period, turnover generated by such trading companies represented approximately 0.9%, 1.8%, 1.1% and nil of the Group's total turnover respectively.

The Directors believe that it is a common practice in the apparel industry that some of the overseas customers prefer cooperating with the trading companies in Hong Kong in lieu of dealing with the manufacturers directly. Normally the trading companies in Hong Kong provide services including but not limited to sourcing designated designs in line with the style or theme of the coming collections of the customers from different manufacturers in the PRC, providing quality assurance check prior to the product delivery, financing the production by placing deposits to manufacturers and offering credit sales to their immediate customers.

The sales and merchandising department of the Group is principally responsible for searching potential customers, handling enquiries from existing customers and following up the orders and shipments of products for the customers. To maintain close relationships with the customers or foster new business relationships with potential customers of the Group, the sales and merchandising department also pays regular visits to the existing customers in Hong Kong, Europe, USA and the PRC so as to keep pace with the requirements or development trend or direction of the customers. They also showcase the potential customers the Group's products and production capacity by slideshows or face-to-face presentations or by inviting them to visit the production facilities of the Group located in the PRC and/or showroom in Hong Kong. The Directors are of the view that it is essential for the Group to understand the business focus and development objectives of the customers and to foster better understanding of the customers in respect of the Group's competitive edge in terms of its production capacities and design and development capabilities.

To further strengthen the sales and merchandising department, the Group has recruited more experienced professionals to devise the overall objectives and direction of the business development and exploring more business opportunities to cooperate with the international brand owners.

The Directors believe that the success of the Group to establish the strong and long-term business relationships with its key customers is mainly attributable to quality and timely delivery of the medium to high-end products and, more importantly, the design and development of value-added services provided by the Group which is detailed in sub-section headed "Design and development" in this section.

Given the aforesaid value-added services provided by the Group to the customers, the customers are able to reduce the procurement costs for searching adequate materials for production, secure the supply of the raw materials and accessories and increase their competitiveness in the rapidly-changing global apparel market. The Directors believe that such full-fledged pre-order and after-sale value-added services help foster strong loyalty of customers and reinforce the commitment from the customers to place further orders with the Group. Leveraging on such close relationships between the Group and its customers, the Directors believe the Group is able to obtain a stable demand for its knitwear products and maintain a relatively stable production scale throughout favourable or unfavourable market conditions.

To strengthen the position of the Group as a knitwear manufacturer for the international apparel groups with their products sold all over the world, the Group selects its customers in terms of the cost of raw materials, the size of the orders, the complexity of the knitting pattern, the years of relationship, the market position in their respective retail markets, financial position and working culture in a prudent way. The Group prefers long-term relationships with its customers instead of one-off orders placed by random customers. Customers with tight budget, lower market position in their respective markets, and unstable financial condition or working culture different from that of the Group will normally not be the target customers of the Group.

As most of the Group's direct customers are sizeable global brand owners based in USA and the European countries with renowned brand names, the Directors believe that the Group is only one of their suppliers of the required knitwear products and unlikely to be a sole manufacturer under their brands.

For the Track Record Period, the five largest customers accounted for approximately 88.4%, 89.9%, 89.4% and 93.9% of the Group's turnover respectively. The Group's largest customer during the Track Record Period is a prestigious fashion brand owner headquartered in USA. Turnover generated therefrom accounted for approximately 52.6%, 55.4%, 56.3% and 70.0% of the Group's total turnover respectively during the Track Record Period. The Group has been engaging in business with its five largest customers ranging from 5 to over 10 years.

None of the Directors, their respective associates or any Shareholder who will hold more than 5% of the issued share capital of the Company immediately following the completion of the Share Offer and the Capitalisation Issue had any interest in any of the five largest customers during the Track Record Period.

The table below sets out the difference in the sales arrangements and the terms offered to two major types of the Group's customers during the Track Record Period:

	Type of customers	
	Direct customers (USA and European apparel brand owners)	**Trading companies in Hong Kong**
Distribution channel	The finished products are packed in the Processing Factory and are delivered to the shipping companies arranged by Fornton Knitting. The shipping companies then deliver the products to the chain stores, franchised stores or other retail locations as designated by the direct customers of the Group including the brand owners based in USA and the European countries.	The finished products are packed in the Processing Factory and are delivered to the trading companies in Hong Kong for further quality assurance check and then the trading companies in Hong Kong transfer the finished products to the shipping companies for redistribution to the retailers scattered around the world.
Credit terms	Open account ranging from 30 to 45 days settled by telegraph transfer and letters of credit	Open account from 30 to 45 days settled by bank cheques and letter of credit

The sales of the Group to its customers including the international apparel groups based in USA and the European countries with their sales of products around the world and the trading companies in Hong Kong, were primarily fixed on "FOB Hong Kong" term, which means that the title of the knitwear products would pass to the customers once the products are delivered to the shipping companies in Hong Kong designated by the direct customers or by the trading companies in Hong Kong. Once the knitwear products are delivered to the customers' designated shipping companies or premises which are taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership are transferred, the sales to these customers were recognised as revenue.

To ensure that the credit terms granted to the respective customer are adequate and appropriate in view of the financial position of the customers, the years of relationships between the Group and the customers and overall economic condition of the market and that the credit risk is minimised, the Group reviewed the credit terms and settlement records of the customers regularly and adopted a strict credit control policy during the Track Record Period. During the Track Record Period, the Group had not experienced any significant level of bad debts. The senior management of the Group will review the receivables at the end of each reporting period to determine whether it is necessary and appropriate to make impairment for the receivables in accordance with the available objective evidence.

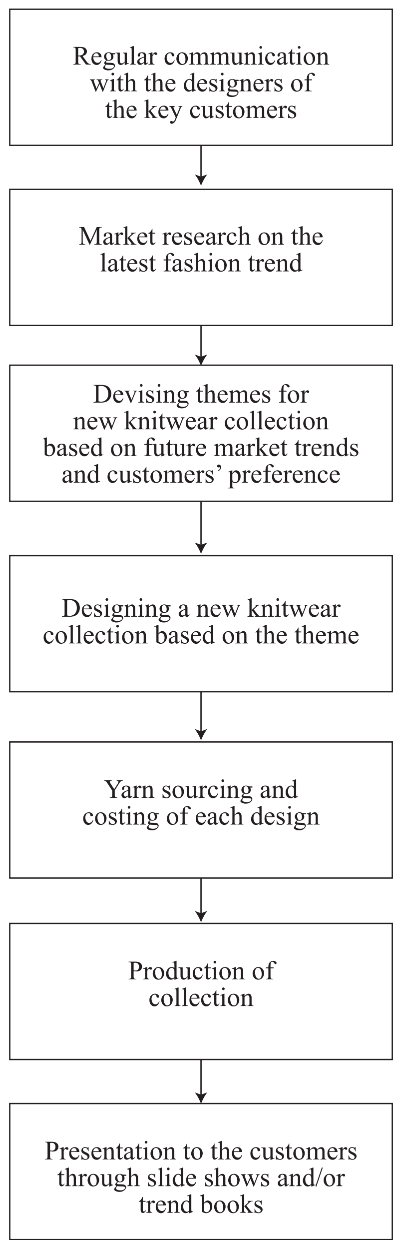
Design and development

To enhance the Group's ability to anticipate and effectively respond to the swift changing fashion trends in the global apparel market, the Group has established its design and development department since 2003. Also, since July 2002 the Group has engaged a design consultant to provide product design and development services to the Group. The Directors believe that the establishment of the design and development department and the services provided by the design consultant can enhance the competitive advantage of the Group, strengthen the business relationships with the existing customers and explore business opportunities with potential customers. As at the Latest Practicable Date, there was one designer with experience of seven years in the design and development department. During the Track Record Period, expenses incurred for the design and development activities of approximately HK$3.0 million, HK$2.7 million, HK$3.4 million and HK$1.4 million respectively were mainly attributable to (i) salary of staff in design and development department; (ii) design consultant fee; (iii) transportation fee for staff to take part in international trade shows or fashion shows; and (iv) sampling cost. During the Track Record Period, cost incurred for sampling amounted to approximately HK$1.1 million, HK$1.2 million, HK$2.8 million and HK$1.2 million respectively.

The services provided by the design and development department include but not limited to (i) designing and producing two collections of knitwear products every year to serve as a source of inspiration for the customers; (ii) producing samples in accordance with the specifications and preferences of the customers for the customers' consideration matching their budget and style; (iii) gauging the global fashion trends and yarn development by carrying out market research through international fashion magazines, websites, fashion shows and fashion trade fairs held in various cosmopolitan cities such as New York, Europe and presenting the findings to the customers through trend books, presentations or regular brainstorming meetings with the designers of the customers held in Hong Kong or New York; (iv) assisting the yarn development to develop and explore new yarn and new blending of yarn and knitting pattern for customers' consideration and inspiration; and (v) sourcing different raw materials and accessories based on the customer's requests. Notwithstanding that the Group and its customers held regular meetings for presenting the samples and brainstorming the designs with the designers of the customers, it is not feasible to quantify the percentage of revenue derived from customers' adoption of the Group's designs and samples as (i) the designers of the customers would normally only adopt the designs of the Group partially such as the designs of collars, sleeves, knitting pattern and cutting of the knitted products instead of full adoption; and (ii) the sales orders of the Group did not specify such partial adoption of the designs provided by the Group.

To enhance the capabilities of the design and development team for the expansion of the Group, the Group intends to assign their design and development team together with the sales and merchandising team to participate in the fashion exhibitions twice a year and acquire computer software for design and development, details of which are set out in the table relating to the future plans of the Group under the section headed "Future plans and use of proceeds" in this prospectus.

The designers of the department design two collections of knitwear products every year with each collection of a minimum of 80 new designs and three final samples for each new design. A total of a minimum of 240 pieces of knitwear products and 80 styles of swatches are produced per collection for the customers' consideration. With a view to strengthening the position as an ODM manufacturer in the market, the Group has put more emphasis on strengthening the design and development capacities of the Group. For the year ended 31 December 2010, the Group's sample cost increased by approximately 141.3% as compared to the previous year. Set out below is the process for the design and production of each collection per year:



To prepare two knitwear collections per year, the designers conduct market research on the latest fashion trends and yarn development. The market research is done by browsing the international fashion website, shop list, scanning the international fashion magazines or local magazines issued in different cities such as New York, Los Angeles, London, Paris, Milan, etc, and by communicating with the existing customers so as to have preliminary ideas of the themes of collection that the customers would like to release in the coming season.

After collecting information on the coming fashion trend through various sources, the design and development department starts devising the themes and trend for the coming collection of knitwear products. The department then sources specific yarn for its new collection before the production commences. After the production, the department then on a case by case basis holds presentation to the customers.

To innovate the designs produced by the Group in the previous seasons, the design and development department also works with the purchasing department to explore new blending of yarn and new knitting pattern swatches produced by the yarn suppliers. Sometimes the Group provides specification on the blending or knitting pattern of swatches to the yarn suppliers for specific order.

After sourcing the required raw materials for the products, the designers start (i) drawing sketches for the products when performing production specifications of the new designs such as type of yarn to be used, textures of the swatches and etc; (ii) following up the production process of the sample; and (iii) carrying out the size fitting and making some artworks for idea swatch.

Once the samples are produced, the design and development department takes photos of the samples so as to keep records for the entire collection. The team also prepares the costing of the samples to give a brief idea for the customers in respect of the budget of that particular design of knitwear products.

When the new collection of the knitwear products is produced, the design and development department then showcases the newly-produced collection in the showroom set up in the headquarter of the Group in Hong Kong for customers to visit or conducts presentation of the new collection to the customers overseas. The team also provides relevant photos and market information to the customers upon their requests. The sales and merchandising department would adopt the design once the customers are satisfied with particular styles.

Apart from the preparation of the collection for customers, the design and development department also sources trimming materials, makes graphic trend books and prepares sample orders for the customers on special requests to generate new ideas. The Directors believe that the design capacities of the Group and the value-added pre-order services provided by the design and development department of the Group contribute to the success of the Group in establishing strong and close relationships with its customers.

QUALITY ASSURANCE

In light of the keen competition in the global fashion apparel retail market and the long-established reputation of the customers maintained in the global apparel market, the customers put much emphasis on the quality of their products. As such, the Group has designed a comprehensive quality control programme since the commencement of its operation with a view to meeting the quality standard and fulfilling the specifications of the products as set out by the customers. As at the Latest Practicable Date, there were a total of 217 staff under the production department responsible for the quality assurance checks along the production line whilst 20 staff under the quality assurance department are responsible for final inspections for the Group's products carried out in the FC Factory and the Processing Factory. Production staff under the production department and the quality assurance staff under the quality assurance department do not have specific professional qualification of quality assurance as the in-line product checks is relatively simple. The quality assurance staff under the quality assurance department have an average of five years of experience in quality assurance. Two of the staff have more than 13 years of experience in quality assurance industry.

As at the Latest Practicable Date, there were 2 staff responsible for weight matching; 41 staff responsible for the inspection of all the knitted garments after the knitting process; 17 staff responsible for intermediate inspection for all the linked garments; 18 staff responsible for another intermediate inspection of the handstitched garments; 3 staff responsible for semi-product inspection; 4 staff responsible for the checking of dirts of all washed garments after the laundering process; 18 staff responsible for measurement inspection; and 114 staff responsible for the final quality assurance check before the process of hangtags attaching. On top of these 217 staff responsible for in-line quality checks, there were 20 staff who are responsible for quality check after every major production procedure. Some of the customers even assigns its own staff to do the inspections at the production factories of the Group for their orders.

The Directors believe that high quality of the products also requires stable and quality supply of raw materials. All the products of the Group are made of yarn, which is knitting materials blended with wool, cotton, lycra, etc. The major composition of yarn used for the Group's products is wool. The Group procures its principal raw materials and other accessories such as buttons and zippers in Italy and the PRC.

To ensure the quality of the raw materials used for the Group's production and the knitted or linked garments produced by the subcontractors, as at the Latest Practicable Date, 47 staff were responsible for the quality assurance checks for the yarn in terms of its degree of tenacity, the colour and size prior to the production and the inspection of the prototypes of each product before production commences. Those raw materials or semi-finished garments that fail to meet the standards may be returned to the suppliers or subcontractors for fixing or replacement.

During the Track Record Period, the defect rates of the purchases together with the production process were maintained at less than 2%. Under comprehensive quality control programme carried out by the quality assurance division stationed in the FC Factory and the Processing Factory, the average defect rate of each order from the subcontractors was maintained at approximately 1% for the three years ended 31 December 2010. Despite compensation of approximately HK$0.2 million, HK$2.3 million, HK$0.7 million and HK$26,000 having been paid to certain customers of the Group during the Track Record Period mainly due to late delivery or defects of the products, the Directors do not consider such incidents have any material impact to the relationship with these customers as none of these customers have ceased to place orders to the Group as a result of such incidents.

The Group has obtained the Most Valuable Partner Award presented by Jones Apparel Group USA Inc. in 2005. The Directors believe that the Group's commitment to high quality and reliability helps strengthen the recognition and trust among its customers which subsequently translate to increased orders with the Group.

Most of the recognised apparel customers of the Group carry out a comprehensive quality assurance review of the products, and impose code of conduct on the Group and enter into compliance agreements with the Group. Turnover attributable to the customers who have entered into compliance agreements with the Group amounted to 93.4%, 96.2%, 99.2% and 99.3% of total turnover of the Group for the three year ended 31 December 2010 and four months ended 30 April 2011. One of the compliance agreements which the Group entered into with one of the top five customers requires the Group to, among others,

(i) comply with all the applicable laws, rules and regulations including but not limited to those laws relating to wage and hour, labour, health and safety, emigration, discrimination and environmental laws and regulations;

(ii) comply with the terms and conditions set out by the customer in the compliance agreement including but not limited to prohibition of the Group from selling, transferring or otherwise disposing of any goods manufactured for the customer according to the order by the Group, including any overruns, seconds (goods that are wearable with minimal flaws), thirds (goods with defects conspicuous to the average customer) or rejected goods etc.; and

(iii) strictly maintain the confidentiality of any and all confidential and propriety information and/or data of the customer including but not limited to the customer's trade secrets, know-how, inventions, processes, products, products ideas, sketches, specifications and designs and etc.

It is also stipulated that any breach of the compliance agreement by the Group shall entitle the customer to terminate or cancel any and/or all purchase orders with the Group and/or to reject and return any or all goods for a full refund.

Among the customers who have entered into compliance agreements with the Group, three of them have conducted periodic audits on the Group and the Processing Factory, representing 92.9%, 94.2%, 94.2% and 97.4% of all the customers in terms of turnover during the three years ended 31 December 2010 and four months ended 30 April 2011 respectively. During the audits, they were provided with information regarding the business, operation, employees related and other information (including payroll) which they requested. In addition, the Company has specifically notified such customers which were therefore aware of the shortfall in contributions to social insurance and housing provident fund by the Group and the Processing Factory and the title defects of the Processing Factory and the FC Factory. The other customers who entered into the compliance agreements with the Group have not requested to conduct audit on the Group or the Processing Factory or find it necessary to request the Group to provide them with information on those aspects. Although the Group has not specifically notified such other customers of the shortfall in contributions to social insurance and housing provident fund and the title defects relating to the production factories of the Group, the Directors believe that such shortfall situation and title defects are common in the Guangdong Province and the Group's customers would be aware of the same.

Regarding the non-compliances of Fung Ching, 東莞市社會保障局常平分局 (the Changping Branch Office of Dongguan Social Security Department*), being the appropriate and competent government authority relating to social insurance contributions of Fung Ching as confirmed by the PRC Legal Advisers, has issued a letter confirming that Fung Ching has complied with all national and local laws relating to social insurance during the Track Record Period and agreed to discharge all possible liabilities (including all possible social insurance fees payable by Fung Ching) before 1 October 2006 (which was due to the fact that Fung Ching only obtained its social insurance registration certificates on 25 September 2006) and all possible penalty. Also, the shortfall in housing provident fund contribution mainly arises because some of the employees of Fung Ching were unwilling to participate in the housing provident fund schemes.

Regarding the non-compliances of the Processing Factory, the shortfall in contribution mainly arises because some of its employees were also unwilling to participate in the social insurance contributions and housing provident fund. In addition, neither the Group nor the Processing Factory has received any notification or directive from the relevant authorities for payment of shortfall in contributions to social insurance and housing provident fund, and no penalty has been imposed on the Group or the Processing Factory on such shortfall in contribution. As advised by the PRC Legal Advisers, the title defects relating to the FC Factory and the Processing Factory arose from non-compliances by the relevant lessors only. By reason of the aforesaid, the Group is of the view that it is not in breach of any compliance agreements it entered into with its customers. None of these customers has raised any issue about breach of the compliance agreements with the Group during the Track Record Period and up to the Latest Practicable Date. The Group does not foresee any adverse consequences arising from any of such issues on the compliance agreements.

Such relevant customer and other customers of the Group have not imposed any restrictions on the Group's engagement of subcontractors in the production of their products. Some of the customers pay regular on-site quality check for the products produced under their brand names. Normally after the on-site visit, the customers would issue written performance reports which list out the visual defect rate, measurement defect rate and other parameters for assessing the performance and quality of the products produced by the Group. Some of the customers would assess the overall performance of the Group in terms of costs, quality and service and delivery and give an overall ranking or marks for the Group. To further enhance the quality checking of the products, one of the major customers has assigned its staff to station in the Processing Factory to perform daily on-site quality check for the products produced under its brands in the Processing Factory whereas another major customer of the Group has assigned its staff to perform on-site quality checks for the products produced under its brands in the Processing Factory frequently.

The Group has adopted the following quality control and assurance procedures to ensure that its products satisfy the high quality standards required by its customers.

Weight matching (磅片)	To ensure there is no material loss or wastage of yarn during the knitting production process, some of the quality assurance staff carry out weight checking process to reconcile the weight of knitted garments with the weight of yarn available for the production of knitted garments.
Inspection for knitted garments (查片)	After the weight checking of the knitted garments, the quality assurance staff perform comprehensive inspection for all the knitted garments in terms of tenacity and number of stitches.
Inspection for linked garments	As linking procedure is one of the most complicated procedures which require high degree of skill and experience, full and comprehensive quality assurance inspection is required so as to ensure that the joint between two major pieces of knitted garments are linked meticulously.
Inspection for handstitched garments	The quality assurance staff inspect the linked garments to check whether there are some redundant strands of yarn remaining in the linked garments after handstitching.
Semi-product inspection	All the semi-products are examined by the quality assurance staff under specific lamps to check (i) whether the semi-finished garments are knitted, linked and handstitched in accordance with the specifications of the customers; and (ii) whether they are free from major defects.
Inspection for washed garments	After the laundering procedure, the quality assurance staff perform inspection for the washed garments to ensure that the washed garments are free from dirts.

Measurement inspection	After laundering and steaming procedures, the size of the garments may be affected. The quality assurance staff measure the size of the garments to ensure that all the garments comply with the standard of the size in respect of collar, sleeve, front, back and other parts of the clothes as specified by the customers.
Inspection for finished products	The finished products are examined carefully and are inspected on a sampling basis and tested by means of measuring equipment as to its texture before warehousing and packaging/shipment. Some of the key customers of the Group assign their own quality assurance staff to station in the Processing Factory to carry out quality inspection.

As at the Latest Practicable Date, there were 217 production staff under the production department responsible for the quality check after every major production procedure such as knitting, linking, handstitching, laundering, steaming and label sewing whilst there were 20 staff under the quality assurance department responsible for final inspection of the products. Some customers of the Group also assign their own quality assurance staff to station in the Processing Factory and the FC Factory so as to assure the quality of finished products. The quality assurance staff perform full inspection for almost all the garments manufactured in each major production procedure and sampling check in the final check of the finished products. If the defective products are more than 2.5% of each bulk of finished products, the whole bulk of the finished products will be inspected again.

To ensure quality delivery of the knitwear products to the customers, the Group has adopted prudent approach to secure its supply of the major raw materials, i.e. yarn. Leveraging on the experience and network in the apparel industry, the Group would negotiate with the suppliers in person so as to obtain a stable supply of yarn at a competitive price with short delivery lead time and favourable payment terms. The Directors believe that the stable supply of yarn contributes to the success of the Group's business.

PROCUREMENT AND SUPPLIES

Since the commencement of the business, the Group has established strong and close relationships with its suppliers. For the three years ended 31 December 2010 and four months ended 30 April 2011, the Group purchased its raw materials from 274, 277, 292 and 147 suppliers all over the world respectively. As at the Latest Practicable Date, the Group's business relationships with its top five suppliers ranged from 3 to 11 years. The following tables set out the number of years of relationships between the Group and the top five suppliers and their respective percentages of purchases of the Group during the Trade Record Period:

Top five suppliers of the Group for the year ended 31 December 2008:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier A	3	17.1%
Supplier B	7	14.5%
Supplier C	3	11.9%
Supplier D	11	5.1%
Supplier E	7	4.5%

Top five suppliers of the Group for the year ended 31 December 2009:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier E	7	15.5%
Supplier F	6	11.8%
Supplier G	3	7.8%
Supplier H	11	7.2%
Supplier B	7	6.9%

Top five suppliers of the Group for the year ended 31 December 2010:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier B	7	20.8%
Supplier A	3	10.2%
Supplier I	6	8.3%
Supplier G	3	3.5%
Supplier J	3	3.0%

Top five suppliers of the Group for the four months ended 30 April 2011:

Name of Supplier	Years of relationship as at the Latest Practicable Date	Approximate percentage of purchase
Supplier I	6	19.1%
Supplier H	11	9.9%
Supplier B	7	9.8%
Supplier J	3	8.3%
Supplier A	3	5.7%

The Directors confirm that none of the Company, Directors, their respective associates or Shareholders who owns more than 5% of the entire issued share capital of the Company immediately following the completion of the Share Offer and Capitalisation Issue, had any interests in any of the five largest suppliers of the Group during the Track Record Period.

Late delivery is common in the knitwear manufacturing business due to various factors. Most knitwear is manufactured from April to August in time for the Fall/Winter seasons in the northern hemisphere. The push to get large volume produced within this short period of time puts pressure on every aspect of production. The main reason for delays that occur at this point in the process is when suppliers are slow to deliver because the major raw materials involved (i.e. yarn) may contain specified color or pattern which are mostly tailored made for each order. The same process/methods/technical conditions may not give the same result every time. These challenges faced by the suppliers of yarn may finally require corrections and re-processing that can delay the delivery to the Group. If the suppliers do not deliver the raw materials in a timely fashion, the entire order of the Group with the customers will be delayed. Late delivery of orders to the customers will result in additional charges from air shipment of finished products borne by the Group. The Group may be able to agree with suppliers for a settlement proposal and recoup some of the additional charges from or reduce payment of compensation to the customers due to late delivery on a case-by-case basis.

Yarn

The major raw materials used for the production of knitwear products are yarn, which are mainly blended with different materials such as cotton, wool, lycra, etc. The Group purchases yarn from suppliers all over the world. During the Track Record Period, the Group purchased approximately 1.8 million pounds, 1.8 million pounds, 1.9 million pounds and 0.4 million pounds of yarn at an average cost of approximately HK$61.4, HK$50.3, HK$53.5 and HK$61.8 per pound respectively. The credit terms offered to the Group by its suppliers range from cash on delivery to 45 days.

Based on the orders received from the customers, the Group normally orders the raw materials with the suppliers by purchase order setting out the pricing and the quantity of yarn. During the Track Record Period, the purchase of yarn accounted for approximately 87.1%, 78.7%, 77.8% and 82.0% respectively of its total cost of procurement.

During the Track Record Period, the top five yarn suppliers collectively accounted for approximately 53.1%, 46.1%, 45.3% and 52.7% respectively of the total procurement cost of the Group. The largest yarn supplier accounted for approximately 17.1%, 15.5%, 20.8% and 19.1% respectively of the total procurement cost of the Group respectively for the Track Record Period.

In view of the large number of yarn suppliers having established stable and strong relationships with the Group, during the Track Record Period, the Group has not encountered any difficulties in the procurement of yarn from suppliers in Italy and the PRC. The Directors also do not foresee that the Group will encounter any difficulty in the sourcing of the raw materials in future.

As the raw materials of yarn such as cotton and wool fluctuate in price and supply throughout the years of operations of the Group, the Directors consider that it is not flexible to enter into any long-term contract with the suppliers in respect of the yarn procurement, which is in line with the industry practice.

Others

Apart from yarn, the Group also requires other raw materials including buttons, zippers, packing materials, labels and other accessories for its production. These raw materials accounted for approximately 12.9%, 21.3%, 22.2% and 18.0% of the total procurement cost of the Group respectively for the Track Record Period.

Total procurement cost

For Track Record Period, the largest supplier of the Group accounted for approximately 17.1%, 15.5%, 20.8% and 19.1% of its total procurement cost respectively. During the Track Record Period, the five largest suppliers of yarn and other raw materials including buttons, zippers, packing materials, labels and other accessories purchased by the Group accounted for approximately 53.1%, 49.2%, 45.8% and 52.7% of the Group's total procurement cost respectively.

The Directors confirmed that, none of the Directors, their respective associates or Shareholder who owns more than 5% of the entire issued share capital of the Company immediately following the completion of the Share Offer and Capitalisation Issue, had any interest in any of the five largest suppliers of the Group for the three years ended 31 December 2010.

During the Track Record Period, approximately 63.4%, 80.1%, 83.6% and 85.6% of the procurement cost of the Group were paid in U.S. dollars, approximately 32.9%, 15.4%, 13.2% and 11.6% of that were paid in HK dollars, and approximately 0.3%, 1.3%, 2.5% and 1.0% of that were paid in Renminbi. During the Track Record Period, the Group did not engage in any hedging activities with respect to possible fluctuations in the raw materials prices because over 95% of the procurement cost of the Group were paid in either U.S. dollar or HK dollar. During the same periods, all the procurement cost of the Group were settled by cash on delivery to 45 days and no purchase rebate was given by its suppliers.

The yarn section of the purchasing department will communicate regularly with the yarn suppliers in respect of the specifications for each order especially when the design and development department of the Group devises specific composition of yarn for the new collection of knitwear products. This section works closely with the yarn suppliers to develop such new types of yarn for its production and also devises pre-set specifications and delivery schedules for the suppliers to comply with and carries out quality assurance check of yarn including size, degree of tenacity and degree of shrinkage after washing and steaming.

The Group selects the suppliers based on a number of criteria including but not limited to the capacity of the suppliers, the delivery lead time and pricing of raw materials. The Group may return the whole bulk of raw materials if the defective products reach 5%. During the Track Record Period, the Group did not experience any material return of defective products.

During the Track Record Period, the Group did not encounter any material shortage in the supply of the required raw materials from its suppliers. In view of the stable working relationships with numerous suppliers and the availability of the raw materials, the Directors do not consider that any change or intervention in the Group's business relationships with a particular supplier will have any material adverse impact on the Group's business. During the Track Record Period, the Group did not enter into any long-term contracts with any of its suppliers.

INVENTORY CONTROL

In light of the price fluctuations of the raw materials used for the Group's production, the Group adopts cost-saving inventory control policy in the warehouses of raw materials in both FC Factory and the Processing Factory to avoid excessive procurement, wastage and remains of yarn and to maintain the flexibility to adapt to the changes in the price of raw materials.

As each customer may specify its own preference of yarn to be used for their knitwear products, the Group, in most cases, sources the raw materials and the accessories from the suppliers for production after the customers confirm their orders and their specifications in respect of the blending of yarn, the types of accessories, the labels and hangtags.

All the raw materials including yarn and accessories are monitored by the yarn department and accessories department from time to time so as to assure enough supply of raw materials for the production. Leveraging on the inventory record, the Group is capable of retrieving the raw materials from the warehouses accordingly. The inventory control policy adopted by the Group mainly focus on pre-production inventory, which requires its sample department and yarn section of the purchasing department to ensure the accuracy of the amount of yarn required for the production of the knitwear products per order. Under the inventory control policy, the yarn section of the purchasing department has to check the type and amount of yarn remaining in the warehouse before making any procurement order to the suppliers, and the suppliers are also required to deliver the exact amount of yarn required for production. If the excessive yarn provided by the suppliers is more than 3% or any other percentage as determined on a case by case basis, the procurement department has a discretion right to return the excessive yarn to the suppliers so as to reduce the excessive yarn remaining in the warehouse after the production.

The Group also adopts strict control procedures in respect of the use of raw materials, in particular the use of yarn. The Group encourages the production planning department to estimate the amount of yarn to be used for a particular order. If the production planning department found that the existing production or changes of order would result in an excessive amount of yarn, it would inform the sales and merchandising department to secure more sales orders using up the excessive yarn or sell such remaining yarn to yarn traders and/or knitwear manufacturers.

The production planning department also informs the management whenever excessive yarn remains after finishing the customers' orders.

The Directors believe that inventory control policy can facilitate adequate and efficient application of the working capital and reduce the risk of excessive inventory obsolescence. The yarn division of the Group is responsible for monitoring the inventory levels of the Group.

The Group generally places purchase orders of raw materials after the customer's order is confirmed. The specifications of raw materials are designated by the customers in the purchase order. Generally, raw materials are purchased with an average lead time of approximately 4 to 8 weeks. As at the Latest Practicable Date, raw materials were largely related to yarn purchased with confirmed customers' orders.

During the Track Record Period, no provision for obsolete or slow-moving inventories were made.

COMPETITION

As disclosed in the section headed "Industry Overview" in this prospectus, there are a large number of local and overseas market players in the fashion and apparel industry. As the entry barriers of the apparel market is relatively low in terms of the low initial capital commitment and no requirement of advanced technology, the competition in the apparel industry is keen and there are a large number of competitors of different scales of production scattering in the market. However, as the Group positions itself as a knitwear manufacturer mainly targeting at international apparel brand owners with their products sold around the world, the Group does not have to face competition from the small-scale manufacturers which mainly focus on the small-to-medium sized apparel makers or brand owners. In addition, as the Group has established a very strong, loyal and long-term relationship with some of the premium apparel brand owners and the quality standard adopted by such premium apparel brand owners is relatively higher than other apparel owners, it is relatively difficult for other manufacturers to compete with the Group for the customers of such positioning in the apparel market.

The Directors believe that the Group not only competes favourably with its competitors in terms of its product quality, timely delivery and competitive market price, but also competes favorably with its competitors by its design and development capability and the value-added services including the market research, yarn sourcing, design brainstorming, production budgeting, etc. Accordingly, the Directors believe that the Group has established a strong market presence in the apparel industry in USA and the European countries.

INTERNAL CONTROL

Tax compliance

In order to ensure the compliance with all relevant tax rules and regulations in jurisdictions where it operates, Hong Kong and the PRC, the Group has implemented strict internal control measures with reference to all relevant tax and regulations of Hong Kong and the PRC.

The Group has appointed tax representative or consultant to handle its tax matters in Hong Kong and PRC. In addition, the Chief Finance Officer of the Group is responsible for monitoring compliance with the relevant tax rules and regulations, reviewing the tax filings prior to the submission to the relevant government authorities in Hong Kong and PRC and reviewing the latest rules and regulations from the website of the relevant tax authorities regularly as well as advice from the tax representative/ consultant. If there are any relevant amendments and updates, the Chief Financial Officer will also provide a briefing to responsible staff for their better understanding thereof.

Compliance with all relevant rules and regulations

In order to ensure the Group's ongoing compliance with all relevant rules and regulations of Hong Kong and the PRC, the Group has appointed independent professional advisers including certified public accountants, tax consultants and legal advisers on a case by case basis. In addition, the Group also engaged Mr. Kwok Wai Kwong as the compliance officer of the Group. Mr. Kwok has more than 10 years experience in handling compliance issues and is also responsible for liasing with customers in respect of periodic compliance audits and any enquiries that may be raised by the potential and existing customers relating to compliance matters. He is now responsible for (i) managing daily compliance matters relating to customers' compliance requirements as set out in the compliance agreements and periodic compliance audits; and (ii) liasing with the PRC government bureaux including, but not limited to, labour bureau, custom and environmental bureau for periodic reporting and compliance in accordance with the direction of the Board and the advice of the independent professional advisers. Other compliance issues relating to the Group including, but not limited to, tax compliance, financial reporting to government departments and company secretarial matters are handled by Mr. Lee Sze Wai, the chief financial officer and the company secretary of the Group in accordance with the direction of the Board and advice of the independent professional advisers. If there are any relevant amendments and updates on latest rules and regulations, the chief financial officer and the compliance officer will provide a briefing to responsible department and staff for their better understanding thereof. The Group also requests its directors, senior management and staff to attend various seminars and training classes on relevant rules and regulations organised by the government bureau and professional organisations notwithstanding that the Group does not provide in-house regular training for its employees.

Compliance with the code of conduct

To ensure compliance with the code of conduct as set out in the compliance agreements entered into between the key customers and the Group relating to, among other things, environmental, labour, health, safety and confidentially aspects and selling, transferring or disposal of goods manufactured for the customers on an ongoing basis:

(i) the Group's staff are required to sign on the declaration of the understanding of the Group's code of conduct on the commencement date of employment and are required to follow the rules set out in the employee handbook which sets out code of conduct relating to environmental, labour, health, safety and confidentiality aspects;

(ii) the department head would monitor the performance of each staff, and may impose penalty or terminate the employment if the staff breach the code of conduct;

(iii) the Group has established environmental and work safety policies in accordance with the requirements of the key customers and the relevant rules and regulations of the PRC to ensure the working environment and production flow of the Group complied with the aforesaid requirements. Foremen have been appointed to monitor the daily production and logistic arrangements between the Processing Factory and the subcontractors for goods manufactured for the customers;

(iv) the Group has established relevant policies and internal control procedures to safeguard the confidential and propriety information of the customers. Labels and tags of the customers are kept by the Group and the label sewing procedures would only take place at the Processing Factory;

(v) Mr. Kwok Wai Kwong, as the compliance officer of the Group, will manage matters relating to customers' compliance requirements as set out in compliance agreements; and

(vi) all the staff including the chief financial officer and compliance officer are encouraged to attend the seminars organised by the government departments or professional organisations in relation to the updated rules and regulations in the textile industry.

INSURANCE

The Group maintains insurance coverage for its stocks stored within its premises, stocks (including raw materials and WIPs) in transit within Hong Kong and Guangdong Province, the PRC. It also maintains insurance policies against loss or damage to its office, business interruption; and for employees compensation and medical insurance for its staff in Hong Kong. The Group maintains insurance coverage against risk of loss or damage to the assets in the PRC, including but not limited to FC Factory, the Processing Factory, machinery and equipments installed at FC Factory and the Processing Factory. The Group has contributed to the social insurance policies which cover medical expenses and compensation arising from work-related injuries as referred above.

In addition, pursuant to the insurance policy taken out by Fung Ching with Ping An of China Property Insurance Company, Fung Ching maintains insurance coverage from 22 October 2010 to 21 October 2011 for its 140 sets of computerised knitting machines with the appraised value and the assured value of approximately RMB32.1 million which is in line with the industry practice.

The Directors consider that the coverage of these insurance policies is adequate and is in line with the industry practice.

ENVIRONMENTAL PROTECTION

During the Track Record Period, the cost of compliance with applicable environmental laws and regulations were approximately HK$199,000, HK$197,000, HK$201,000 and HK$178,000 respectively which was mainly attributable to the cost of waste disposal. The Group expects such cost going forward would be around the same range as that incurred during the Track Record Period.

As confirmed by the confirmation letter issued by 東莞市環境保護局常市分局 (Changping Branch of Dongguan Environmental Protection Department*) on 25 February 2011, the operation of Fung Ching has complied with the rules and regulations relating to environmental protection. Fung Ching has not experienced any environmental protection incidents during the Track Record Period.

As confirmed by the confirmation letter issued by 東莞市環境保護局大朗分局 (Dalang Branch of Dongguan Environmental Protection Department*) on 3 March 2011, the operation of Processing Factory has complied with the rules and regulations relating to environment. The Processing Factory has not experienced any complaints relating to environment protection incidents during the Track Record Period.

SAFETY MATTERS

The Group has established procedures to provide its workers with a safe and healthy working environment by setting out work safety rules in the staff manual of the Processing Factory and the FC Factory for the production staff to follow. To prevent the occurrence of accidents, the staff manual stipulated that, among other things, the production staff (i) shall wear suitable clothing for work; (ii) shall operate the production machines according to the machine manuals; (iii) shall follow detailed procedures as set out for each of the production procedures; (iv) shall not smoke or drink or eat in the production premises; (v) shall not place the production chemicals recklessly; (vi) shall not operate the production machines without supervisor's approval or use fire control equipment; and (vii) shall not keep any leftover materials or flawed end-products. Relevant supervisors in each key production procedure are responsible for monitoring the performance of the production staff and their compliance with relevant work safety rules as set out above. During the Track Record Period and up to the Latest Practicable Date, there was no material breach of work safety rules by the production staff of the Processing Factory or the FC Factory.

The Group had no significant incidents and accidents in relation to workers' safety and non-compliance with the applicable laws and regulations relevant to the working safety and health issues during the Track Record Period.

INTELLECTUAL PROPERTY RIGHTS

The Group has registered **www.fornton.com** as its domain name, details of which are set out in the paragraph headed "Intellectual property rights" in Appendix V to this prospectus.

The Group has not registered any trademark as at the Latest Practicable Date.

PRODUCT LIABILITY

During the Track Record Period, all of the Group's knitwear products were sold to overseas market including the apparel markets in the USA and Europe. The knitwear products manufactured by the Group is subject to compliance with the USA and EU regulatory standards including but not limited to product safety controls. In addition, certain compliance agreements entered into between the Group and its customers also contain provisions requiring the Group and its subcontractors to comply with all applicable product safety laws, rules and regulations and with all product safety standards and to hold such customers harmless against claims for damages of third parties arising from the nature of the knitwear products manufactured by the Group.

Having considered (i) the general practice in the apparel manufacturing industry and the insurance products available for the USA and the EU markets; and (ii) it is not mandatory for the Group's products to maintain any product liability insurance in the overseas markets, the Group currently does not maintain any product liability insurance. As confirmed by the PRC legal advisers, there is no mandatory requirement under the PRC laws for the Group to maintain any product liability insurance for the products under the Processing Agreements.

The Directors confirm that there was no claim or payment relating to product liability or any product recall during the Track Record Period and up to the Latest Practicable Date.

TAXATION

Hong Kong

The Group is carrying on its business in Hong Kong and is subject to Hong Kong Profits Tax in respect of its profits arising in or derived from its business in Hong Kong. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for the Track Record Period.

During the Track Record Period, the Group conducted part of its garment manufacturing business by entering into the Processing Agreements with the PRC Processing Party and the Processing Factory in the PRC. Pursuant to the Departmental Interpretation and Practice Note No. 21 ("DIPN 21") issued by the Inland Revenue Department of Hong Kong ("IRD"), the IRD usually accepts that, in case where a Hong Kong manufacturing business enters into a processing arrangement with a PRC entity where the production process is carried out at the processing factory established by the Hong Kong manufacturing business situated in the PRC, profits from the sale of goods that were manufactured by the aforementioned processing factory can be apportioned on a 50:50 basis and 50% of the chargeable profits so apportioned can be treated as non-taxable in Hong Kong.

Pursuant to the criteria laid down in the DIPN 21 and the application pursuant to section 70A of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) that covered the Track Record Period, Nice Regent applied to revise the prior year's tax assessments. After the appointment of Tax Consultant for the tax review of the Group on 4 November 2010, the Tax Consultant recommended the Group to claim for the apportionment of profits on a 50 : 50 basis since the year of assessment 1995/1996. In March 2011, Nice Regent has submitted an application to the IRD to claim for the apportionment of profits on a 50:50 basis for the years of assessment from 1995/96 to 2009/10 and lodged an application to revise the tax loss notifications for the years of assessment from 1995/96 to

2004/05. The IRD was still in the process of reviewing the application as at the Latest Practicable Date and issued an enquiry letter requesting for additional information on 28 July 2011. Pending the outcome and review of the application, full provision of Hong Kong profits tax and tax payments on a without 50:50 basis had been made in the Accountants' Report and to the IRD respectively.

The Directors consider the Processing Agreements signed by Nice Regent comply with the requirements of the DIPN 21 for the tax assessments of Nice Regent and thus Nice Regent should be eligible to claim for an apportionment of its profits on a 50:50 basis because (i) the Processing Agreements under 來料加工安排 (the contract processing arrangement*) had obtained the necessary governmental approvals; and (ii) the operation model of Nice Regent complies with the requirements as stipulated in the DIPN 21. Based on the above, the Sponsor, the Tax Consultant and the Reporting Accountants concur with the Directors' view in this regard.

As confirmed by the Directors, each of Fornton Holdings, Fornton Knitting and Nice Regent has made proper tax reporting to the IRD for the relevant years of assessment 2007/2008, 2008/2009 and 2009/2010 as appropriate.

PRC

As confirmed by the PRC Legal Advisers, the Group is subject to PRC taxation in respect of its garment manufacturing business conducted through Fung Ching but it is not subject to any PRC taxation in respect of the processing and assembling arrangement with the Processing Factory.

Fung Ching

According to 國務院關於實施企業所得稅過渡優惠政策的通知 (Circular of the State Council on Implementation of the Transitional Preferential Policies on Enterprise Income Tax*) (Guo Fa [2007] No. 39) promulgated by the State Council of the PRC on 26 December 2007, with effect from 1 January 2008, enterprises enjoying "2-year exemption and 3-year half payment", "5-year exemption and 5-year half payment" of enterprise income tax and other preferential treatments in the form of periodic tax reduction and exemptions may, after the implementation of the EIT Law, continue to enjoy the relevant preferential treatments under the preferential measures and the time period granted under the previous tax regulations, administrative regulations and relevant documents until the expiration of the said time period. However, the preferential time period shall be counted from 2008 if such an enterprise has not enjoyed the preferential treatments yet because of its failure to make profits.

According to 關於東莞豐正針織有限公司的涉稅情況說明 (Clarification in respect of the taxation involvement of Dongguan Fung Ching Knitting Company Limited*) issued by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 25 February 2011, Fung Ching is not subject to the EIT for the years 2008 and 2009 and is subject to half payment of the EIT at 12.5% for the years from 2010 to 2012.

According to 出口貨物退(免)稅管理辦法(試行) (Measures Governing Tax Refund (Exemption) of Exported Goods (For Trial Implementation)*) promulgated by 國家稅務總局 (the State Administration of Taxation*) on 16 March 2005, for the goods exported by an exporter on its own or by entrustment, the exporter may, after the declaration of goods to customs for export and the financial settlement for sales, make a report to the local state taxation bureau for the approval of refund or exemption of its value-added tax (VAT) or consumption tax upon production of relevant certificates. The exporter shall complete the Declaration Form of Tax Refund (Exemption) of Exported Goods and apply to the local state taxation bureau for going through the formalities for tax refund (exemption) of exported goods.

東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) has on 27 August 2007 issued the Declaration Form of Tax Refund (Exemption) of Exported Goods and Exporting Enterprise Tax Refund Registration Certificate to Fung Ching.

According to the 關於東莞豐正針織有限公司納稅及有關稅務情況的證明 (Certificate in respect of the Tax Payments and related matters of Dongguan Fung Ching Knitting Company Limited*) issued by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 25 February 2011, Fung Ching has settled all tax payments in a timely manner and there is no outstanding, accrued or failure to settle any tax payments as at 31 December 2010. There is no finding by 東莞市國家稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal State Tax Bureau) that there is any material breach involving taxation by Fung Ching.

According to the 納稅證明 (Certificate in respect of the Tax Payments*) (Dong Di Shui Chang Zheng Zi [2011] No. 005) issued by 東莞市地方稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal Local Tax Bureau) on 25 February 2011, Fung Ching was fined (i) RMB2,000 on 23 October 2006, (ii) RMB40 on 19 March 2008 and (iii) RMB80 on 20 February 2009, all for late tax filings. The PRC Legal Advisers are of the view that (i) as Fung Ching has paid the penalty for its late tax filings as required by the competent tax bureau, there is no material adverse potential consequences on the Group as a result of the late tax filings by Fung Ching; and (ii) 東莞市地方稅務局常平稅務分局 (Changping branch of Dongguan Local Tax Bureau*) and 東莞市國家稅務局常平稅務分局 (Changping branch of Dongguan Municipal State Tax Bureau*) which are the appropriate and competent authorities relating to tax payment of Fung Ching, issued confirmations regarding Fung Ching's compliance with relevant tax regulations. Save as mentioned herein, there is no finding by 東莞市地方稅務局常平稅務分局 (Changping Sub-Branch of the Dongguan Municipal Local Tax Bureau*) that there is any material breach involving taxation by Fung Ching during the period from 1 April 2006 to 31 January 2011.

Processing Factory

According to the 關於東莞大朗巷尾豐臨針織廠納稅及有關稅務情況的證明 (Certificate in respect of the Tax Payments and related matters of Dongguan Da Lang Xiang Wei Fornton Knitting Factory*) issued by 東莞市國家稅務局大朗稅務分局 (Da Lang Sub-Branch of the Dongguan Municipal State Tax Bureau*) on 1 March 2011, Processing Factory has completed all tax filings in a timely manner and there is no finding of any material breach. All tax payments payable by Processing Factory have been fully settled as at 31 December 2010.

According to the 東莞市地方稅務局涉稅證明 (Certificate in respect of the Tax Payments of Dongguan Municipal Local Tax Bureau*) (Dong Di Shui Zheng Zi No. 2011000009) issued by 東莞市地方稅務局大朗稅務分局 (Da Lang Sub-Branch of the Dongguan Municipal Local Tax Bureau) on 2 March 2011, Processing Factory is not involved in any material breach involving taxation as at 2 March 2011.

LEGAL COMPLIANCES

The Directors confirm that, as at the Latest Practicable Date and save as disclosed in the paragraphs headed "Non-compliances with relevant rules and regulations by Fung Ching in respect of the FC Factory" and "Non-compliances with relevant rules and regulations by the Processing Factory" under this section, the Group has complied with all applicable laws and regulations in the jurisdiction in which it operates and has obtained all the necessary permits, certificates and licences for its operations during the Track Record Period.

LITIGATION

In February 2007, a writ was issued against Fornton Knitting claiming for an aggregate amount of approximately HK$1,118,000 being the costs of yarn sold and delivered to Fornton Knitting together with interest thereon, of which approximately HK$851,000 representing the amount of trade receivable claimed by the plaintiff has already been included in the Group's trade payables. No provision was made for the potential liability of approximately HK$267,000 representing the amount of interest claimed by the plaintiff as the case is still pending judgment being handed down and only the worst case scenario will require the Group to pay such additional claim. Fornton Knitting filed a defence and counterclaim to the said writ that Fornton Knitting is not liable to pay the costs claimed as the yarn delivered was defective and that the plaintiff had refused to amend such defects. Fornton Knitting further claimed for an unliquidated amount of loss and damages arising from the defective yarn supplied by the plaintiff. As at the Latest Practicable Date, trial had already taken place and the case is currently pending judgment being handed down.

Save as disclosed above, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.