HINGTEX HOLDINGS LIMITED 興 紡 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 1968

SHARE OFFER

Sole Sponsor and Sole Global Coordinator



Shenwan Hongyuan Capital (H.K.) Limited 申萬宏源融資(香港)有限公司

Joint Bookrunners and Joint Lead Managers







IMPORTANT

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

HINGTEX HOLDINGS LIMITED

興 紡 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

SHARE OFFER

Number of Offer Shares under: 160,000,000 Shares (subject to the Over-

the Share Offer allotment Option)

Number of Public Offer Shares : 16,000,000 Shares (subject to reallocation)

Number of Placing Shares: 144,000,000 Shares (subject to reallocation and

the Over-allotment Option)

Offer Price: Not more than HK\$1.40 per Offer Share

(payable in full on application in

Hong Kong dollars, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and expected to be not less than

HK\$1.10 per Offer Share

Nominal Value: HK\$0.01 per Share

Stock Code: 1968

Sole Sponsor and Sole Global Coordinator



Shenwan Hongyuan Capital (H.K.) Limited 申萬宏源融資(香港)有限公司

Joint Bookrunners and Joint Lead Managers



Shenwan Hongyuan Capital (H.K.) Limited 申萬宏源融資(香港)有限公司





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

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

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 5 July 2018 and, in any event, not later than Monday, 9 July 2018. The Offer Price will be not more than HK\$1.40 and is currently expected to be not less than HK\$1.10 unless otherwise announced. Applicants for Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.40 for each Share together with a brokerage fee of 1 %, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% subject to refund if the Offer Price as finally determined should be lower than HK\$1.40. If, for any reason, the Offer Price is not agreed by Monday, 9 July 2018 between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse.

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

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with our consent, reduce the number of Offer Shares in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$1.10 to HK\$1.40 per Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offering. In such a case, notices of the reduction in the number of Offer Shares in the Share Offer and/or the indicative Offer Price range will be published in The Standard (in English) and Hong Kong Economic Journal (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offering. Further details are set forth in the sections headed "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Public Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Please see the section "Underwriting — Underwriting Arrangements and Expenses — Public Offering — Grounds for Termination". It is important that you refer to that section for further details.

$\overline{\text{EXPECTED TIMETABLE}^{(1)}}$

If there is any change in the following expected timetable of the Public Offering, we will issue an announcement in Hong Kong to be published in English in The Standard and in Chinese in Hong Kong Economic Journal and on the websites of the Stock Exchange at www.hwexnews.hk and our Company at www.hwtextiles.com.hk.

	ic Offering commences and WHITE and YELLOW Application Forms ailable from 9:00 a.m. on Thursday, 28 June 2018
App	ication lists of the Public Offering open ⁽²⁾
Late	st time to lodge WHITE and YELLOW Application Forms
Late	st time to give electronic application instructions to HKSCC ⁽³⁾
App	ication lists of the Public Offering close
Expe	ected Price Determination Date ⁽⁴⁾
(1)	Announcement of:
	• the Offer Price;
	• an indication of the level of interest in the Placing;
	• the level of applications in the Public Offering; and
	• the basis of allocation of the Public Offer Shares
	to be published in The Standard (in English) and Hong Kong Economic Journal (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.hwtextiles.com.hk on or before www.hwtextiles.com.hk or or white www.hwtextiles.com.hk or white <a href="https://www.hwtext</td></tr><tr><td>(2)</td><td>Announcement of results of allocations in the Public Offering (including successful applicants' identification document numbers, where appropriate) to be available through a variety of channels including the websites of the Stock Exchange at www.hkexnews.hk and our Company's website at www.hwtextiles.com.hk (see the section headed "How to Apply for Public Offer Shares — 10. Publication of results in this prospectus") from
	III ulis prospectus 7 froili

EXPECTED TIMETABLE⁽¹⁾

(3) A full announcement of the Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk(6) and our Company's website at www.hwtextiles.com.hk(7) from ... Friday, 13 July 2018

Results of allocations for the Public Offering will be available at www.tricor.com.hk/ipo/result with a "search by ID" function ... Friday, 13 July 2018

Despatch/collection of Share certificates in respect of wholly or partially successful applications pursuant to the Public Offering on or before (6) ... Friday, 13 July 2018

Despatch/collection of refund cheques in respect of wholly or partially unsuccessful application pursuant to the Public Offer on or before (8) ... Friday, 13 July 2018

Dealings in Shares on the Stock Exchange to commence on ... Monday, 16 July 2018

Notes:

- (1) All times and dates refer to Hong Kong local time and date, except as otherwise stated.
- (2) If there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 July 2018, the application lists will not open on that day. See the section headed "How to Apply for Public Offer Shares 9. Effect of bad weather on the opening of application lists" in this prospectus.
- (3) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares 5. Applying by giving electronic application instructions to HKSCC via CCASS" in this prospectus.
- (4) The Price Determination Date is expected to be on or around Thursday, 5 July 2018 and, in any event, not later than Monday, 9 July 2018. If, for any reason, the Offer Price is not agreed between the Sole Global Coordinator (on behalf of the Underwriters) and our Company by Monday, 9 July 2018, the Share Offer will not proceed and will lapse.
- (5) Share certificates are expected to be issued on Friday, 13 July 2018 but will only become valid provided that the Share Offer has become unconditional in all respects and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is scheduled to be at around 8:00 a.m. on Monday, 16 July 2018. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates and before they become valid do so entirely of their own risk.
- (6) The announcement will be available for viewing on the "Main Board Allotment of Results" page on the Stock Exchange's website <u>www.hkexnews.hk</u> and our Company's website at Friday, 13 July 2018.
- (7) None of the website or any of the information contained on the website forms part of this prospectus.
- (8) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of wholly or partially successful applications if the Offer Price is less than the price per Offer Share payable on application.

You should read carefully "Underwriting", "Structure and Conditions of the Share Offer" and "How to Apply for Public Offer Shares" for details relating to the structure of the Share Offer, procedures on the applications for Public Offer Shares and the expected timetable, including conditions, effect of bad weather and the despatch of refund cheques and Share certificates.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Public Offer Shares offered by this prospectus pursuant to the Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions, and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer.

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

OVERVIEW

Founded in 1981, we are a long-established denim fabric manufacturer that supplies denim fabrics primarily for the production of denim garment of certain reputable U.S. apparel brands. According to Frost & Sullivan, U.S. is the largest denim garment market in the world in terms of retail volume that accounted for 29.5% of the global market sales in 2017. We have leveraged on our know-how on weaving to develop our business in the design, manufacture and sales of denim fabrics, targeting the middle- to high-end market segment. According to Frost & Sullivan, we ranked seventh and second in the middle- to high-end denim fabric manufacturing industry in China and South China (which includes Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region), respectively in terms of production value in 2017, with a market share of approximately 1.9% and 5.4%, respectively.

With our long history and rich experience in manufacturing a variety of denim fabrics, we possess the know-how in producing non-stretchable, stretchable cotton and stretchable blended denim fabrics. We pride ourselves on our capability in (i) applying yarns with different physical properties, such as thickness and stretchability; and (ii) mixing different indigo dyes coupled with specifically designed and well-controlled dyeing and finishing processes, to supply a variety of stretchable denim fabrics for producing denim garments of unique indigo tones and appearances, such as vintage, worn or fading colour as well as various degree of stretchability.

We adopt a proactive approach in developing and producing denim fabrics with the aim of creating new market trends for denim garments. To visualise the actual application of our denim fabrics with different functionality and washing effects, we present our denim fabrics in the form of garment end-products, such as denim jeans, jackets and skirts, to apparel brands to provide them with ideas as to how they can use our Group's denim fabrics to design their end-products. In the past years, our product design and developments have been recognised by apparel brands and we received the innovative award in 2016 from AEO, one of the largest U.S. denim jeans brands whose most popular products are denim jeans targeting college students.

During the Track Record Period, we had business relationships with over 30 apparel brands and our business relationships with the top five apparel brands during the Track Record Period range from five to 10 years. During the same period, most of our sales are originated from business concluded with apparel brands in the U.S., which in aggregate accounted for 87.9%, 88.3% and 84.4% of our revenue.

For FY2015, FY2016 and FY2017, our revenue amounted to HK\$400.6 million, HK\$475.0 million and HK\$648.2 million, respectively, which was mainly contributed by the increase in sales volume during the same period. For FY2015, FY2016 and FY2017, our profit before tax amounted to HK\$115.0 million, HK\$109.0 million and HK\$151.7 million, respectively. Excluding the gain on disposal of investment properties and property, plant and equipment for FY2015 in the sum of HK\$48.3 million, profit before tax for FY2015 was HK\$66.7 million. The increase in profit before tax throughout the years was mainly attributable to the increase in revenue and the sales of stretchable blended denim fabrics which yield higher gross profit margins.

Set out below is our revenue, sales volume, average selling price and gross profit margin by product types during the Track Record Period:

	2015			Revenue HK\$	Year ended 3 201 Sales volume million		Gross profit margin	Revenue HK\$	201 Sales volume million	7 Average selling price HK\$ per	Gross profit margin	
	million	yards	yard	%	million	yards	yard	%	million	yards	yard	%
Stretchable cotton denim fabrics Stretchable blended	139.6	5.9	23.8	26.0	110.6	4.8	23.3	25.1	88.4	3.7	23.9	24.8
denim fabrics Non-stretchable denim	192.6	7.8	24.6	28.4	308.9	12.8	24.2	34.4	519.3	21.9	23.7	34.9
fabrics Others ^{Note}	67.7 0.7	3.0	22.7 N/A	23.0 2.0	55.2	2.4 —	22.6 N/A	23.9 2.0	38.9 1.6	1.7 —	23.0 N/A	24.0 13.3
	400.6	16.7	=	26.6	475.0	20.0	=	31.0	648.2	27.3	:	32.8

Note: Includes subcontracting income and income from sales of yarns.

OUR BUSINESS MODEL

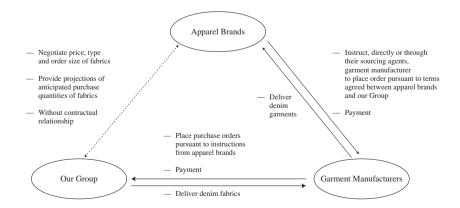
We focus on supplying our denim fabrics to reputable apparel brands, which procure our denim fabrics for the manufacture of jeans and other denim garments.

The following diagram summarises the typical operation flow of our Group:



SALES, CUSTOMERS AND MARKETING

During the Track Record Period, we sold our denim fabrics to over 120 customers, which include mainly garment manufacturers designated by apparel brands. To the best knowledge of our Directors after having made all reasonable enquiries, our denim fabrics are used to produce denim garments of apparel brands and in particular, certain reputable U.S. apparel brands. Set out below is the typical business relationship among our Group, apparel brands and their designated garment manufacturers:



Our customers are primarily (i) garment manufacturers designated and instructed by apparel brands to procure our denim fabrics on the terms concluded directly between our Group and the apparel brands for the production of denim garments, which accounted for 87.9%, 88.3% and 84.4% of our revenue in FY2015, FY2016 and FY2017, respectively, and (ii) garment manufacturers that use our denim fabrics to produce denim garments for their own business needs and conclude contractual terms with us directly, which accounted for 3.3%, 3.4% and 11.3% of our revenue in FY2015, FY2016 and FY2017, respectively. The remaining 8.8%, 8.3% and 4.2% of our revenue during the same period, respectively, was derived from sales to Kurabo Industries, our joint venture partner which, to the best knowledge of our Directors, procures and on sells our denim fabrics which are manufactured to their required specifications and standards.

For FY2015, FY2016 and FY2017, sales to our five largest customers amounted to HK\$231.4 million, HK\$236.2 million and HK\$361.8 million, representing 57.9%, 49.7% and 55.7% of our revenue, respectively. Sales to our largest customer were HK\$122.2 million, HK\$67.0 million and HK\$124.7 million, representing 30.5%, 14.1% and 19.2% of our revenue, respectively. Our five largest customers during the Track Record Period are located in Hong Kong, Japan, Taiwan, Vietnam and the PRC.

The following table sets out a breakdown of our revenue by apparel brands during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
AEO	227,931	56.9	298,429	62.8	422,163	65.1
Brand A	1,332	0.3	2,613	0.6	33,807	5.2
Brand B	9,918	2.5	5,532	1.2	21,284	3.3
Silver Jeans	9,000	2.2	10,569	2.2	9,852	1.5
Brand C	1,502	0.4	_	0.0	7,899	1.2
Brand D	18,340	4.6	18,177	3.8	7,431	1.1
Brand E	13,500	3.4	14,922	3.1	6,003	0.9
Brand F	16,908	4.2	16,480	3.5	5,570	0.9
Others	102,125	25.5	108,317	22.8	134,210	20.8
Total	400,556	100.0	475,039	100.0	648,219	100.0

In view of our business expansion plans, we endeavour to commit more financial and human resources into our sales and marketing activities for the purposes of (i) furthering our business with reputable U.S. apparel brands; and (ii) developing our business with reputable apparel brands and garment manufacturers in Europe and the PRC.

RAW MATERIALS, PROCUREMENT AND SUPPLIERS

We use various raw materials throughout our production process. Our principal raw materials include (i) yarns of different types such as pure cotton, stretchable cotton and stretchable synthetic; (ii) colour dyes; (iii) other chemicals, such as enzymes and catalysts applied in the dyeing process; and (iv) packaging materials.

We procure yarns mainly from suppliers based in the PRC, Pakistan, Thailand, Taiwan and Japan. Dyes and other chemicals are primarily procured from Japan, Germany and the PRC. Our purchases were primarily denominated in USD and RMB.

Our major suppliers were producers of raw materials including yarns, dyes and other chemicals used in the production process. For FY2015, FY2016 and FY2017, purchases from our five largest suppliers were HK\$156.7 million, HK\$231.4 million and HK\$298.3 million, representing 88.5%, 90.7%

and 93.9% of our total purchases, respectively. Purchases from our largest supplier during the Track Record Period were HK\$54.4 million, HK\$100.8 million and HK\$126.7 million, representing 30.7%, 39.5% and 39.9% of our total purchases, respectively.

PRODUCTION PROCESSES AND SUBCONTRACTING

The production processes of our production facilities mainly comprise dyeing, weaving and finishing (desizing and shrinking). Since the commencement of the Track Record Period and up to July 2017, we operated one production facility in Zhongshan, Guangdong Province, the PRC, which is owned by us for the weaving process. In July 2017, we acquired one more production facility in Zhongshan through the acquisition of Hing Shing. Hing Shing was indirectly owned as to 43% by our Controlling Shareholders and 57% by Independent Third Parties prior to the acquisition; and became our indirect wholly-owned subsidiary pursuant to the Reorganisation. We relied on both Hing Shing and other third party subcontractors to handle the dyeing and finishing processes. As for the weaving process, our inhouse machinery had been running close to its maximum capacity such that we needed to engage third party subcontractors to handle almost half of the production volume during the Track Record Period. This is the primary reason that we intend to allocate over 90% of our net proceeds of the Share Offer to purchase machinery and equipment to increase our own dyeing, weaving and finishing capacity. Since the allocation of capacity of Hing Shing has been managed by our Controlling Shareholders throughout the Track Record Period, for the purpose of illustrating our capacity utilisation, we consider Hing Shing's production capacity as ours in the following table.

		Average ut Year end		
Key processes	Туре	2015 %	2016 %	2017 %
Dyeing	Slasher dyeing Rope dyeing	60.2 23.0	58.0 30.7	91.8 29.1
Weaving	Weaving	100.0	99.7	98.7
Finishing	Desizing Shrinking	51.7 56.6	62.2 60.9	82.5 77.8

For details of our capacity utilisation and subcontractors, please see "Business — Production — Production capacity and utilisation rate" and "Business — Subcontractors" on page 102 and 113 in this prospectus, respectively.

MARKET AND COMPETITION

According to Frost & Sullivan, the competitive landscape of middle-to high-end denim fabric manufacturing industry in the PRC and South China are fragmented, with (i) approximately 400 and 100 market players, respectively; and (ii) the top 10 PRC market players accounted for 21.4% market share in the country whilst the top five market players in South China accounted for 21.6% market share in the region in terms of production value, in 2017. We ranked seventh and second with a market share of approximately 1.9% and 5.4% in the PRC and South China in terms of production value in 2017, respectively.

As compared to other commonly used garment fabrics, due to the unique combination of dyes and yarns, and the fabric treatment applied in the production process of denim fabrics, it is considerably difficult for another manufacturer to replicate denim fabrics produced by a particular denim fabric manufacturer. Hence, once an apparel brand has selected a denim fabric item produced by a denim fabric manufacturer for the manufacture of its specific denim garments, it is highly likely that such apparel

brand will designate its garment manufacturers to place reorder for the denim fabrics. As a result, well established denim fabric manufacturers in general do not need to adopt any discount pricing strategy to gain reorder of their products thereby allowing them to maintain a stable profit margin.

OUR COMPETITIVE STRENGTHS

We believe we possess the following competitive strengths:

- We have long history with a proven track record in the denim fabric manufacturing industry.
- Our ability in producing high quality stretchable denim fabric which is a fashion trend for denim garments.
- We have established long-term collaborative relationships with reputable U.S. apparel brands and garment manufacturers.
- We have strong product design and development capability and quick response to market trends.
- We provide high and consistent quality denim fabrics through the adoption of stringent quality control measures.

OUR BUSINESS STRATEGIES

Our key business strategies are to:

- Broaden our customer base by expanding into new markets.
- Increase our production capacity and efficiency and enhance our product development capability by procuring new production machinery and equipment.
- Further develop new denim fabric items to expand our product portfolio.

HIGHLIGHTS OF RISK FACTORS

Our business is subject to a number of risks, including but not limited to risks relating to our business and the denim fabric manufacturing industry, the PRC and the Share Offer. You should read the entire section headed "Risk Factors" on pages 26 to 44 in this prospectus carefully. The major risks relating to the business of our Group include:

- Our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future.
- Our sales are primarily originated from business concluded with a number of apparel brands.
 In particular, we derive a significant portion of our revenue from business concluded with
 AEO. Any significant decrease in demand for our denim fabrics from these apparel brands
 could have a material adverse effect on our financial conditions, results of operations and
 growth prospects.
- Our business, results of operations and financial conditions could be adversely affected by the global economic downturn and adverse market and macroeconomic conditions, especially if there is a downturn in the fashion industry.

- Our imputed interest income derived from amounts due from related companies during the Track Record Period and our gain on disposal of properties during FY2015 are non-recurring in nature and we may not be able to record similar income or gain, which may materially and adversely affect our financial results.
- We have not entered into long-term agreements with our customers and cannot assure our sales volumes will remain consistent. Therefore, a significant decrease in orders from any of them could adversely affect our business, results of operations and financial condition.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

Selected combined statements of total comprehensive income data

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Revenue	400,556	475,039	648,219	
Gross profit	106,445	147,348	212,817	
Profit before tax	114,970	108,956	151,695	
Profit for the year	103,962	91,850	126,478	
Non-HKFRS adjusted profit (note)	41,428	71,146	109,534	

Note: The Non-HKFRS adjusted profit for the year has been arrived at by deducting (i) imputed interest income on amounts due from related companies, (ii) gross rental income from investment properties, (iii) gain on disposal of investment properties, and (iv) gain on disposal of property, plant and equipment from; and adding back Listing expenses to the profit for the year as presented in accordance with HKFRS. Adjusted profit for the year is not a measure required by, or presented in accordance with HKFRS. The use of adjusted profit has limitation as an analytical tool, and prospective investors should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS. For details, please see "Financial Information — Non-HKFRS Measure".

The following table sets out the reconciliation between the profit for the year as presented in accordance with HKFRS and the non-HKFRS adjusted profit for the year:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Profit and total comprehensive income for the year as per the Accountants' report in Appendix I to this prospectus	103,962	91,850	126,478	
Adjusted for:				
Imputed interest income on amounts due				
from related companies	(13,602)	(20,169)	(20,383)	
Gross rental income from investment				
properties	(639)	_	_	
Gain on disposal of investment properties	(14,654)	_	_	
Gain on disposal of property, plant and				
equipment	(33,639)	(535)	(1,876)	
Listing expenses			5,315	
Non-HKFRS adjusted profit	41,428	71,146	109,534	

Our revenue increased by 18.6% from HK\$400.6 million in FY2015 to HK\$475.0 million in FY2016, and further increased by 36.5% to HK\$648.2 million in FY2017 as a result of our significant growth in sales volume (FY2015: 16.7 million yards; FY2016: 20.0 million yards; FY2017: 27.3 million yards). Surge in demand for stretchable blended denim fabrics, which enables denim jeans made of such fabrics more form-fitting, contributed to our success during the Track Record Period. As stretchable

blended denim fabrics were with higher gross profit margin owing to their lower raw material costs, increase in sales of those enabled us to achieve a stronger growth in gross profit of 38.4% in FY2016 and 44.4% in FY2017.

After excluding extraordinary gains and losses (as further explained in "Financial Information — Non-HKFRS Measure" in this prospectus), our non-HKFRS adjusted profit for the year shows a steady rise from HK41.4 million for FY2015 to HK\$71.1 million for FY2016, then to HK\$109.5 million for FY2017, which are in line with the growth in our gross profit.

Selected combined statements of financial position data

The following table sets out a summary of our combined statements of financial position as at the dates indicated:

	As at 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Non-current assets	326,045	346,221	150,381	
Current assets	277,476	331,668	453,666	
Current liabilities	217,138	221,036	305,241	
Net current assets	60,338	110,632	148,425	
Non-current liabilities	3,128	2,131	8,319	
Net assets	383,255	454,722	290,487	

We recorded net assets of HK\$383.3 million, HK\$454.7 million and HK\$290.5 million as at 31 December 2015, 2016 and 2017, respectively. The decrease in net assets to HK\$290.5 million as at 31 December 2017 was mainly attributable to the interim dividend of HK\$300.0 million declared by HWT, partially offset by (i) the profit for the year of HK\$126.5 million; and (ii) the deemed contribution from shareholders of HK\$9.3 million arising from the acquisition of 43% equity interest of Kingshine Investments from Controlling Shareholders.

Selected combined statements of cash flows

The following table sets out a summary of our combined statements of cash flows for the years indicated:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Operating cash flows before working				
capital changes	62,078	95,091	140,145	
Net cash flows from operating activities Net cash flows from/(used in) investing	100,133	37,060	72,573	
activities	14,066	(28,220)	(54,483)	
Net cash flows from/(used in) financing activities	(65,918)	(23,228)	23,741	

During the Track Record Period, we generated net cash flows from operating activities and mostly utilised such cash flows for purchase of property, plant and equipment, acquisition of Kingshine Investments and other investing and financing activities.

Key financial ratios⁽¹⁾

	Year ended/as at 31 December		
	2015	2016	2017
Profitability:			
Gross profit margin	26.6%	31.0%	32.8%
Net profit margin	26.0%	19.3%	19.5%
Return on assets	17.2%	13.5%	20.9%
Return on equity	27.1%	20.2%	43.5%
Liquidity:			
Current ratio	1.3 times	1.5 times	1.5 times
Quick ratio	0.8 times	0.8 times	0.8 times
Solvency:			
Interest coverage ratio	144.7 times	171.5 times	120.3 times
Net debt to equity ratio	Net cash	Net cash	Net cash
Gearing ratio ⁽²⁾	0.1 times	0.1 times	0.3 times
For illustrative purpose:			
Non-HKFRS adjusted net profit margin ⁽³⁾	10.3%	15.0%	16.9%
Non-HKFRS adjusted return on assets (4)	6.9%	10.5%	18.1%
Non-HKFRS adjusted return on equity ⁽⁵⁾	10.8%	15.6%	37.7%

Notes:

- (1) Please refer to the paragraph headed "Financial Information Financial Ratios" on pages 212 to 214 in this prospectus for further details.
- (2) Gearing ratio = total debts (i.e. bank borrowings + obligations under finance leases) ÷ total equity x 100%.
- (3) Non-HKFRS adjusted net profit margin = Non-HKFRS adjusted profit for the year ÷ revenue x 100%.
- (4) Non-HKFRS adjusted return on assets = Non-HKFRS adjusted profit for the year ÷ total assets x 100%.
- (5) Non-HKFRS adjusted return on equity = Non-HKFRS adjusted profit for the year ÷ total equity x 100%.

LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25, (being the mid-point of the stated range of the Offer Price between HK\$1.10 and HK\$1.40), the total expenses for the Listing (including underwriting fees and commission payable by us) are estimated to be approximately HK\$33.0 million, of which approximately HK\$13.3 million is directly attributable to the issue of the Offer Shares in the Share Offer and to be accounted for as a deduction from equity (none had been accounted for as at 31 December 2017) and approximately HK\$14.4 million is to be charged as administrative expenses to our consolidated statements of comprehensive income for the year ending 31 December 2018 in which the expenses are incurred (HK\$5.3 million had been charged for FY2017). The above total Listing expenses are the latest practicable estimates for reference only, and the final amount to be recognised may differ from these estimates. **Prospective investors should note that our financial results for FY2018 will be adversely affected by the non-recurring Listing expenses described above, and may not be comparable to the financial performance of our Group in the past.**

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

Our business model has remained unchanged since 31 December 2017. Based on our unaudited financial information currently available to us, our sales volume and average selling prices for denim fabrics for 4M2018 remained stable as compared to 4M2017.

As part of our business strategy to broaden our customer base in Europe, we appointed a sales agent based in Italy in January 2018 to solicit purchase orders in the European Union. We have also entered into an agency agreement with our sales agent in the U.S. in April 2018 to assist us to procure purchase orders and business from luxury apparel brands in the U.S.. For details, please see "Business — Sales and Marketing" on pages 116 to 119 in this prospectus.

In light of the recent threats of Sino-U.S. trade war, our business may be adversely affected by trade restrictions implemented by the U.S. and the PRC government if any of the trade restrictions to be imposed involves our denim fabric products or the raw materials imported from the U.S. directly or indirectly. To the best knowledge of our Directors after making reasonable enquiries, the recent Sino-U.S. trade tensions up to the Latest Practicable Date did not have any material adverse impact on our financial conditions, results of operations and growth prospects because of the following reasons, namely (i) no trade restriction has been announced by the U.S. government to be imposed on our denim fabric products; (ii) cotton yarns made of U.S. cotton have not been the major types of yarns procured by us; and (iii) the business strategies that have been adopted by our Group to diversify customer base by expanding business in new markets such as the PRC and Europe.

Please also see "Risk Factors — Trade restrictions could materially and adversely affect our business, financial condition and results of operations." on pages 28 to 29 of this prospectus.

We shall incur administrative expenses after the Listing for regulatory compliance, such as professional fees and financial reporting costs. Furthermore, since our amounts due from related companies were fully settled by the end of FY2017, we would not record any imputed interest income in FY2018. Please see note 25 of the Accountants' Report in Appendix I to this prospectus for further details. Our Directors anticipate that the abovementioned additional administrative expenses together with the general increase in our administrative headcounts after listing, and the absence of imputed interest income, would adversely impact our financial results for FY2018 and also lead to a decrease in our net profit margin (before Listing expenses) for FY2018 against the same for FY2017, assuming the revenue for FY2018 remains the same as FY2017.

Our Directors confirm that there had been no material adverse change in our financial or trading position or prospects since 31 December 2017 and up to the date of this prospectus, and that there has been no event since 31 December 2017 which would materially affect the information shown in the Accountants' Report, the text of which as set out in Appendix I to this prospectus. Our Directors also confirm that there has not been any material change in our indebtedness and contingent liabilities since 31 December 2017.

As far as our Directors are aware, save as disclosed above, there was no material change in the general conditions in the denim fabric manufacturing industry or in the markets that our Group operates since 31 December 2017 which has affected or would affect our business operations or financial conditions materially and adversely.

USE OF PROCEEDS

Based on the Offer Price of HK\$1.25 per Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the net proceeds of the Share Offer, after deduction of underwriting fees and estimated expenses payable by us in connection with the Share Offer, are estimated to be approximately HK\$167.0 million. Our Company currently intends to use the net proceeds from the Share Offer as follows:

Use of Proceeds	Amount of net proceeds (HK\$ million)	% of total net proceeds (%)
To purchase production machinery and equipment including (i) weaving, slasher dyeing and shrinking lines for increasing our production capacity and efficiency; and (ii) ozone bleaching and washing machineries for enhancing our product development		
capability To attend overseas and PRC fabric exhibitions for enhancing our market penetration and expanding	159.1	95.3
our customer base For general working capital and other general corporate	3.7	2.2
purposes	4.2	2.5

For details, please see "Future Plans and Use of Proceeds" beginning on page 221 in this prospectus.

STATISTICS OF THE SHARE OFFER

	Based on the indicative Offer Price of HK\$1.10 per Offer Share	Based on the indicative Offer Price of HK\$1.40 per Offer Share
Market capitalisation of the Shares expected to be in issue following the completion of the Share Offer and the Capitalisation Issue Note 1	HK\$704 million	HK\$896 million
Unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share Notes 2, 3	HK\$0.68	HK\$0.75

Notes:

- 1. The calculation of the market capitalisation is based on 640,000,000 Shares expected to be in issue following the completion of the Share Offer and the Capitalisation Issue.
- 2. The unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share has been arrived at after making the adjustments referred to in "Appendix II Unaudited Pro Forma Financial Information" and on the basis of 640,000,000 Shares in issue assuming that the Share Offer and the Capitalisation Issue have been completed on 31 December 2017 but takes no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandate and the Repurchase Mandate.
- 3. Our Group declared a special dividend of HK\$100 million in early May 2018. Had such special dividend been taken into account, on the basis as set out in notes 1 and 2 above, the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company would have been HK\$333,220,000 and HK\$379,300,000, respectively, and the unaudited pro forma adjusted combined net tangible assets of our Group attributable to owners of our Company per Share would have been HK\$0.52 and HK\$0.59, respectively, based on Offer Price of HK\$1.10 per Share and HK\$1.40 per Share, respectively.

OUR SHAREHOLDERS

Immediately upon the completion of the Share Offer and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised and without taking into account Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Manford Investment will control 75% of the issued share capital of our Company. As at the Latest Practicable Date, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung. On 9 March 2018, in preparation for the Listing, among others, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung executed the Deed of Concert Parties, whereby they have confirmed their acting in concert arrangement in the past, as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group until the Deed of Concert Parties is terminated by them in writing. As such, Manford Investment, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung will together form a group of Controlling Shareholders within the meaning of the Listing Rules.

For details, please see "Relationship with Controlling Shareholders" beginning on page 146 and "Substantial Shareholders" on page 153 in this prospectus.

DIVIDEND POLICY

Our Company was incorporated on 3 November 2017 and no dividend was paid or declared by our Company since its incorporation. During the year ended 31 December 2017, an interim dividend of HK\$300 million was declared by HWT to its then shareholders.

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare dividends of no less than 45% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. Our Board will review dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors our Board may deem relevant in determining whether dividends are to be declared and paid.

Any declaration and payment as well as the amount of dividends will be subject to the Articles and Cayman Companies Law. No dividend shall be declared or paid except out of our distributable profit and funds that are lawfully available for distribution under the Cayman Companies Law.

Our Group further declared a special dividend of HK\$100 million in early May 2018, which was settled by our internal resources by end of the same month.

NON-COMPLIANT INCIDENTS

Our non-compliance with PRC laws and regulations during the Track Record Period includes (i) failure to make adequate social insurance contributions for our employees; (ii) failure to open housing provident fund accounts and make housing provident fund contributions for our employees; and (iii) receiving administrative fines for emission of exhaust gas from our coal power generators.

For further details of our non-compliance incidents, please see "Business — Legal Compliance".

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

"4M2017" the four months ended 30 April 2017

"4M2018" the four months ended 30 April 2018

"AEO" AMERICAN EAGLE OUTFITTERS, INC., a company

incorporated under the laws of U.S.

"Application Form(s)" WHITE and YELLOW Application Form(s) or, where the

context so requires, any of them

"Articles" or "Articles of

Association"

the articles of association of our Company conditionally adopted on 19 June 2018 and will come into effect upon Listing, as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix III to this prospectus

"associate(s)" has the meaning ascribed thereto under the Listing Rules

"Board of Directors" or "Board" the board of Directors of our Company

"Business Day" a day (other than a Saturday, Sunday or public holiday) on which

banks in Hong Kong are generally open for business

"BVI" British Virgin Islands

"Capitalisation Issue" the issue of Shares to be made upon capitalisation of certain sum

standing to the credit of the share premium account of our Company as referred to in a History, Corporate Structure and Reorganisation — Capitalisation Issue and Share Offer —

Capitalisation Issue"

"Cayman Companies Law" or

"Companies Law"

the Companies Law (as revised) of the Cayman Islands, as

amended, consolidated or supplemented from time to time

"CBRC" China Banking Regulatory Commission (中國銀行業監督管理委

員會)

"CCASS" the Central Clearing and Settlement System established and

operated by HKSCC

"CCASS Clearing Participant" a person admitted to participate in CCASS as a direct clearing

participant or general clearing participant

"CCASS Custodian Participant" a person admitted to participate in CCASS as a custodian

participant

"CCASS Investor Participant" a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation "CCASS Participant" a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant "Chairman" Mr. TH Tung, the chairman of our Board "China" or "PRC" the People's Republic of China, which for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, the Macau Special Administrative Region and Taiwan "close associate(s)" has the meaning ascribed thereto under the Listing Rules "Companies Ordinance" or "CO" the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time "Companies (Winding Up and Companies (Winding Up and Miscellaneous Provisions) Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, Ordinance" supplemented or modified from time to time "Company" or "our Company" HINGTEX HOLDINGS LIMITED (興紡控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 3 November 2017 "connected person(s)" has the meaning ascribed thereto under the Listing Rules "connected transaction(s)" has the meaning ascribed thereto under the Listing Rules "Controlling Shareholder(s)" has the meaning ascribed thereto under the Listing Rules and for the purpose of this prospectus only, refers to the group of controlling shareholders of our Company, namely Manford Investment, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung "core connected person(s)" has the meaning ascribed thereto under the Listing Rules "Deed of Concert Parties" a deed of confirmation dated 9 March 2018 executed by Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung to confirm, agree and acknowledge, among other things, that they have been parties acting in concert in relation to our Group since they became shareholders and/or beneficial owners of any companies that comprise the Group, details of which are set out in the section

Controlling Shareholders"

headed "Relationship with Controlling Shareholders — Our

"Deed of Indemnity" the deed of indemnity dated 19 June 2018 and executed by our Controlling Shareholders in favour of our Company to provide certain indemnities, particulars of which are set forth in the paragraph headed "E. Other Information — 1. Tax and other indemnity" in Appendix IV to this prospectus "Deed of Non-competition" the deed of non-competition dated 19 June 2018 and executed by our Controlling Shareholders in favour of our Company, particulars of which are set forth in the section headed "Relationship with Controlling Shareholders — Non-Competition Undertaking" in this prospectus "Director(s)" the director(s) of our Company "EIT" enterprise income tax (企業所得税) "EIT Implementation Rules" the Implementation Rules of the Enterprise Income Tax Law of PRC (中華人民共和國企業所得税法實施條例) the Enterprise Income Tax Law of the PRC (中華人民共和國企業 "EIT Law" 所得税法) "electronic application Instruction given by a CCASS Participant electronically via CCASS to HKSCC, being one of the methods to apply for the instruction(s)" Public Offer Shares "EUR" or "Euro" Euro, the lawful currency adopted by certain member states of the European Union "Frost & Sullivan" Frost & Sullivan Limited, an independent market research and consulting company "Frost & Sullivan Report" an industry report commissioned by our Company and prepared by Frost & Sullivan for the purpose of this prospectus "FY2015" the financial year ended 31 December 2015 "FY2016" the financial year ended 31 December 2016 "FY2017" the financial year ended 31 December 2017 "FY2018" the financial year ending 31 December 2018 "GDP" an acronym for gross domestic product

"Group", "our Group", "we", our Company and our subsidiaries or, where the context so "our" or "us" requires, with respect to the period before which our Company became the holding company of our current subsidiaries, our Company's current subsidiaries or the businesses operated by such subsidiaries or their predecessors (as the case may be) "Hing Shing" Zhongshan Hing Shing Finishing and Dyeing Limited* (中山市興 盛獎染整理有限公司), a wholly foreign-owned enterprise established in the PRC on 30 September 2001 and an indirectly wholly-owned subsidiary of our Company "Hing Tak" Zhongshan Hing Tak Weaving and Dyeing Limited* (中山興德紡 織獎染有限公司), a wholly foreign-owned enterprise established in the PRC on 25 November 2011 and an indirectly wholly-owned subsidiary of our Company HING TAK WEAVING FACTORY LIMITED (興德織布廠有限 "Hing Tak (HK)" 公司), a company incorporated under the laws of Hong Kong with limited liability on 30 November 1993, which is owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung, and is a connected person of our Group upon Listing "Hingtex Group" HINGTEX GROUP LIMITED (興紡集團有限公司), a company incorporated under the laws of the BVI with limited liability on 24 October 2017, a directly wholly-owned subsidiary of our Company "HKFRS" the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, as in effect from time to time "HKSCC" Hong Kong Securities Clearing Company Limited "HKSCC Nominees" HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC "Hong Kong" or "HK" the Hong Kong Special Administrative Region of the PRC "Hong Kong dollars" or "HK\$" Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong "Hong Kong Branch Share Tricor Investor Services Limited Registrar"

H.W. TEXTILES HOLDINGS LIMITED (興威紡織控股有限公 "HW Holdings" 司), a company incorporated under the laws of the BVI with limited liability on 27 October 2017, an indirectly wholly-owned subsidiary of our Company "HWT" H. W. TEXTILES COMPANY LIMITED (興威紡織有限公司), a company incorporated under the laws of Hong Kong with limited liability on 16 January 1981, an indirectly wholly-owned subsidiary of our Company upon completion of the Reorganisation "Independent Third Party(ies)" individual(s) or company(ies) not connected with (within the meaning of the Listing Rules) any director, chief executive or Substantial Shareholder of our Company or any of its subsidiaries or any of their respective associates "Inland Revenue Ordinance" or the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong "IRO" Kong), as amended supplemented or modified from time to time "Joint Bookrunners" or Sole Global Coordinator, SPDB International Capital Limited and "Joint Lead Managers" I Win Securities Limited KURABO DENIM INTERNATIONAL LIMITED (倉紡紡織國際 "KDIL" 有限公司), formerly known as HAWKS INTERNATIONAL LIMITED, a company incorporated under the laws of Hong Kong with limited liability on 8 April 2013, which is owned as to 51% by HWT, our wholly-owned subsidiary, and as to 49% by Kurabo Industries "KDIL Agreements" the KDIL First Agreement, the KDIL Supplemental Agreement and the KDIL Renewal Agreement "KDIL First Agreement" a joint venture agreement, together with the operative agreements that signed in conjunction with the joint venture agreement on the same day, entered into among others, HWT, Kurabo Industries and KDIL, and dated 27 May 2013 in relation to the collaboration for the distribution and sales of denim fabrics through the operation of KDIL "KDIL Renewal Agreement" a renewal agreement entered into among others, HWT, Kurabo Industries and KDIL, and dated 19 January 2018 in relation to the renewal of the terms and conditions under the KDIL First Agreement as amended by the KDIL Supplemental Agreement "KDIL Supplemental Agreement" a supplemental agreement entered into among others, HWT, Kurabo Industries and KDIL, and dated 29 July 2016 in relation to certain amendments to the terms and conditions under the

KDIL First Agreement

"Kingshine Group"	KINGSHINE INVESTMENT GROUP LIMITED (興耀投資集團有限公司), a company incorporated under the laws of the BVI with limited liability on 20 June 2017, an indirectly whollyowned subsidiary of our Company
"Kingshine Investments"	KINGSHINE INVESTMENTS LIMITED (興耀投資有限公司), a company incorporated under the laws of Hong Kong with limited liability on 6 June 2001, an indirectly wholly-owned subsidiary of our Company
"Kingstead Group"	KINGSTEAD INVESTMENT GROUP LIMITED (興駿投資集團有限公司), a company incorporated with limited liability under the laws of the BVI on 27 October 2017, an indirectly whollyowned subsidiary of our Company
"Kingstead Industrial"	KINGSTEAD INDUSTRIAL LIMITED (興駿實業有限公司), formerly known as KINGSTEAD LIMITED (興峻有限公司) and KINGSTEAD LIMITED (興後有限公司), a company incorporated under the laws of Hong Kong with limited liability on 5 December 1995, an indirectly wholly-owned subsidiary of our Company
"Kurabo Industries"	KURABO INDUSTRIES LIMITED, a company incorporated under the laws of Japan with limited liability on 9 March 1888
"Latest Practicable Date"	20 June 2018, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
"Listing"	the listing of our Shares on the Main Board of the Stock Exchange
"Listing Committee"	the listing sub-committee of the board of directors of the Stock Exchange
"Listing Date"	the date on which dealings in our Shares on the Main Board commences
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Main Board"	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

"Manford Investment" MANFORD INVESTMENT HOLDINGS LIMITED (萬豐投資控 股有限公司), a company incorporated under the laws of the BVI with limited liability on 24 October 2017, one of our Controlling Shareholders "Memorandum of Association" or the memorandum of association of our Company, adopted on 19 "Memorandum" June 2018 and as amended, supplemented or otherwise modified from time to time, a summary of which is set forth in Appendix III to this prospectus "Mr. Stanley Tung" Mr. Tung Cheuk Ming Stanley (董卓明), an executive Director, the sales director of our Group and one of our Controlling Shareholders. He is also the son of Mr. TH Tung and Mrs. Tung and brother of Mr. Stephen Tung, Ms. Barbara Tung and Ms. Mabel Tung "Mr. Stephen Tung" Mr. Tung Wai Ting Stephen (董韋霆), formerly known as Mr. Tung Hak Ming (董克明), an executive Director, the chief executive officer of our Group and one of our Controlling Shareholders. He is also the son of Mr. TH Tung and Mrs. Tung and brother of Mr. Stanley Tung, Ms. Barbara Tung and Ms. Mabel Tung "Mr. TH Tung" Mr. Tung Tsun Hong (董信康), our founder, Chairman, an executive Director and one of our Controlling Shareholders. He is also the spouse of Mrs. Tung and the father of Mr. Stanley Tung, Mr. Stephen Tung, Ms. Barbara Tung and Ms. Mabel Tung Ms. Lau Chung Chau (劉中秋), one of our Controlling "Mrs. Tung" Shareholders. She is also the spouse of Mr. TH Tung and mother of Mr. Stanley Tung, Mr. Stephen Tung, Ms. Barbara Tung and Ms. Mabel Tung Ms. Tung Wei Ling Barbara (董慧玲), one of our Controlling "Ms. Barbara Tung"

Shareholders. She is also the daughter of Mr. TH Tung and Mrs. Tung and sister of Mr. Stanley Tung, Mr. Stephen Tung and Ms. Mabel Tung

Ms. Tung Wai Lai Mabel (董慧麗), one of our Controlling Shareholders. She is also the daughter of Mr. TH Tung and Mrs. Tung and sister of Mr. Stanley Tung, Mr. Stephen Tung and Ms. Barbara Tung

"Ms. Mabel Tung"

"Offer Price" the final price for each Offer Share (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee payable thereon) of not more than HK\$1.40 per Offer Share and is expected to be not less than HK\$1.10 per Offer Share at which the Offer Shares are to be offered for subscription pursuant to the Share Offer "Offer Share(s)" the Public Offer Shares and the Placing Shares together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option "Over-allotment Option" the option to be granted by us to the Sole Global Coordinator, exercisable by it on behalf of the Placing Underwriters pursuant to the Placing Underwriting Agreement "PBOC" the People's Bank of China (中國人民銀行), the central bank of the PRC "Placing" the conditional placing of the Placing Shares by the Placing Underwriters for and on behalf of our Company together with, where relevant, any additional Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option for cash at the Offer Price subject to the terms and conditions as described in "Structure and Conditions of the Share Offer" in this prospectus "Placing Shares" 144,000,000 new Shares initially offered by us for subscription at the Offer Price pursuant to the Placing, together with, where relevant, any additional new Shares which may be issued pursuant to the exercise of the Over-allotment Adjustment Option, subject to the terms and conditions as described in "Structure and Conditions of the Share Offer" in this prospectus "Placing Underwriters" the underwriters of the Placing that is expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares "Placing Underwriting Agreement" the underwriting agreement expected to be entered into on or about the Price Determination Date by, among others, our Company, our executive Directors, our Controlling Shareholders, the Sole Global Coordinator and the Placing Underwriters in respect of the Placing, particulars of which are set forth in the section headed "Underwriting — Underwriting arrangements and

the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them

expenses — The Placing" in this prospectus

"PRC Government"

King & Wood Mallesons, legal adviser to our Company as to

"PRC Legal Adviser"

PRC law "Predecessor Companies the Companies Ordinance (Chapter 32 of the laws of Hong Kong) Ordinance" or "PCO" as in force from time to time before 3 March 2014 "Price Determination Date" the date on which the final Offer Price is to be determined by our Company and the Sole Global Coordinator (for itself and on behalf of the other Underwriters), which is expected to be on or about Thursday, 5 July 2018 and in any event not later than Monday, 9 July 2018 "Public Offering" the issue and offer of the Public Offer Shares for subscription in Hong Kong at the Offer Price on and subject to the terms and conditions described in this prospectus and the Application Forms "Public Offer Shares" 16,000,000 new Shares (subject to reallocation) initially offered by our Company for subscription in the Public Offering, as described in the section headed "Structure and Conditions of the Share Offer" in this prospectus "Public Offer Underwriters" the underwriters of the Public Offering listed in the section headed "Underwriting - Public Offer Underwriters" in this prospectus "Public Offer Underwriting the underwriting agreement dated 27 June 2018 entered into Agreement" between, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Global Coordinator and the Public Offer Underwriters in respect of the Public Offering, particulars of which are set forth in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offering" in this prospectus "Regulation S" Regulation S under the U.S. Securities Act "Reorganisation" the corporate reorganisation of our Group in preparation for the Listing as described in the section headed "History, Corporate Structure and Reorganisation - Reorganisation" in this prospectus "Repurchase Mandate" the general unconditional mandate to repurchase Shares given to the Directors by our Shareholders, further details of which are contained in the paragraph headed "A. Further Information About Our Group — 4. Written resolution of our sole Shareholder passed on 19 June 2018" in Appendix IV to this prospectus "RMB" or "Renminbi" Renminbi, the lawful currency of the PRC

"SAFE" the State Administration of Foreign Exchange of the PRC (中華人

民共和國國家外匯管理局)

"SFC" the Securities and Futures Commission of Hong Kong

"SFO" the Securities and Futures Ordinance (Chapter 571 of the Laws of

Hong Kong), as amended, supplemented or otherwise modified

from time to time

"Share(s)" share(s) of HK\$0.01 each in the share capital of our Company

"Shareholder(s)" holder(s) of Shares

"Share Offer" the Public Offering and the Placing

"Share Option Scheme" the share option scheme conditionally adopted by our Company

on 19 June 2018, a summary of the principal terms of which is set forth in the paragraph headed "D. Share Option Scheme" in

Appendix IV to this prospectus

"Sole Sponsor" or

"Sole Global Coordinator" or

"Stabilising Manager"

Shenwan Hongyuan Capital (H.K.) Limited, a licenced corporation licenced to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate

finance) regulated activities under the SFO

"Star Alliance" STAR ALLIANCE HOLDINGS LIMITED (滙星集團有限公司),

a company incorporated in Hong Kong with limited liability on 8 November 2012, which is owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel

Tung, and a connected person of our Group upon Listing

"Stock Borrowing Agreement" the stock borrowing agreement expected to be entered into

between the Stabilising Manager and Manford Investment pursuant to which the Stabilising Manager may borrow up to 24,000,000 Shares to cover any over-allocations under the Placing

"Stock Exchange" The Stock Exchange of Hong Kong Limited

"subsidiary(ies)" has the meaning ascribed thereto under the Listing Rules

"Substantial Shareholder(s)" has the meaning ascribed thereto under the Listing Rules

"TML Tower, which is located at No. 3 Hoi Shing Road, Tsuen

Wan, Hong Kong

"Track Record Period" FY2015, FY2016 and FY2017

"Underwriters" the Public Offer Underwriters and the Placing Underwriters

"Underwriting Agreements" the Public Offer Underwriting Agreement and the Placing

Underwriting Agreement

the United States of America, its territories, its possessions and "United States" or "U.S." all areas subject to its jurisdiction "USD" or "US\$" United States dollars, the lawful currency of the United States "U.S. Securities Act" the United States Securities Act of 1933, as amended, and the rules and regulations as promulgated thereunder "WHITE Application Form(s)" the application form(s) for use by the public who require such Public Offer Shares to be issued in the applicants' own names "YELLOW Application Form(s)" the application form(s) for use by the public who require such Public Offer Shares to be deposited directly in CCASS "%" per cent

Unless expressly stated or the context requires otherwise:

- amounts and percentage figures, including share ownership and operating data in this
 prospectus, may have been subject to rounding adjustments. Accordingly, totals of rows or
 columns of numbers in tables may not be equal to the apparent total of the individual items;
- all data in this prospectus is as at the date of this prospectus; and
- all references to any shareholdings in our Company assume no exercise of the Over-allotment Option unless otherwise specified.

For ease of reference, the names of the PRC established companies, entities, laws and regulations have been included in this prospectus in both Chinese and English. The name in Chinese is the official name of each such company, entity, law or regulation (as the case may be), while that in English is only an unofficial translation and are included for identification purpose only (as indicated by a "*" next to such name) In the event of any inconsistency, the Chinese name shall prevail.

GLOSSARY OF TECHNICAL TERMS

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

"CAGR" compound annual growth rate, a method of assessing the average

growth of a value over time

"CIF" acronym of cost, insurance and freight, a contractual term that

requires the seller to arrange for the carriage of goods by sea to a port of destination and to procure marine insurance against the

risk of loss or damage to the goods during the transit

"CNF" acronym of cost and freight, a contractual term that requires the

seller to arrange for the carriage of goods by sea to a port of destination; however the seller does not have to procure marine insurance against the risk of loss or damage to the goods during

the transit

"core" the interior layer of the weft yarn

"FOB" acronym for free (freight) on board, a contractual term that

requires the seller to pay for transportation of the goods to the

port of shipment, plus loading costs

"Four-Point System" a visual examination of fabric, whereby defects in fabric are

assigned points according to the size and significance of the defect. If the total defect points for a fabric exceeds a certain

number it will be rejected

"ISO" International Organisation for Standardisation, a non-government

organisation based in Geneva, Switzerland, for assessing the

quality systems of business organisations

"ISO 14001" a framework and systematic approach set by ISO to assist

companies to continually improve their ability to efficiently identify, minimise, prevent and manage environmental impacts

"ISO 9001" a framework and systematic approach set by ISO to manage

business processes to produce a product/service that conforms to

customer expectations

"LIBOR" London Inter-bank Offered Rate

"stretchable denim fabrics" stretchable cotton denim fabrics and stretchable blended denim

fabrics

"warp yarn" a bundle of yarn arranged lengthways on a loom, forming the

threads through which the weft yarns are woven

GLOSSARY OF TECHNICAL TERMS

a method of textile production in which two distinct sets of yarns or threads are interlaced at right angles to form a fabric or cloth "weft yarn" a yarn which runs crosswise during the knitting process in the manufacturing of woven fabric

"wider denim fabric" denim fabric manufactured with our new weaving machines purchased in 2016 and 2017 with a maximum width of 224 cm pre-shrinkage, as opposed to the maximum width of 198 cm preshrinkage for ones manufactured with the old weaving machines

"wrap" the ulterior layer of the weft yarn

"weaving"

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. The forward-looking statements are contained principally in the sections headed "Summary", "Risk Factors", "Industry Overview", "Business", "Financial Information" and "Future Plans and Use of Proceeds" in this prospectus. These statements relate to events that involve known and unknown risks, uncertainties and other factors, including those listed under the section headed "Risk Factors" in this prospectus, which may cause our actual results, performance or achievements to be materially different from performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- our business strategies and plan to achieve these strategies;
- our tenancy agreements on hand;
- our future debt levels and capital needs;
- the regulatory environment of the denim fabric manufacturing industry in general;
- our financial conditions and performance;
- the nature of, and potential for, future development of our business;
- future development in the denim fabric manufacturing industry; and
- our dividend policy.

The words "aim", "anticipate", "believe", "can", "could", "estimate", "expect", "intend", "may", "might", "plan", "project", "seek", "will", "would" and the negative of these terms and other similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These forward-looking statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of uncertainties and factors, including but not limited to the risk factors described in the section headed "Risk Factors" in this prospectus. One or more of these risks or uncertainties may materialise.

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

You should carefully consider all of the information set forth in this prospectus, including the risks and uncertainties described below before making an investment in the Offer Shares. You should pay particular attention to the fact that we are incorporated in the Cayman Islands and that substantially all of our Group's operations are conducted in the PRC. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND THE DENIM FABRIC MANUFACTURING INDUSTRY

Our historical results may not be reflective of our future performance and we may not be able to maintain similar rates of growth in the future.

For each of the FY2015, FY2016 and FY2017, our revenue amounted to HK\$400.6 million, HK\$475.0 million and HK\$648.2 million, respectively, and our gross profit amounted to HK\$106.4 million, HK\$147.3 million and HK\$212.8 million during the same periods, respectively. Our business is susceptible to various market and economic changes and we are highly dependent on the demand from the fashion industry. We cannot assure you that our business will continue to grow at the same rate as we have experienced during the Track Record Period and our historical results may not be reflective of our future performance.

Our sales are primarily originated from business concluded with a number of apparel brands. In particular, we derive a significant portion of our revenue from business concluded with AEO. Any significant decrease in demand for our denim fabrics from these apparel brands could have a material adverse effect on our financial conditions, results of operations and growth prospects.

During the Track Record Period, we generally sell our denim fabrics to the designated garment manufacturers of various reputable U.S. apparel brands. We derived 56.9%, 62.8% and 65.1% of our revenue during the Track Record Period, respectively, for sales of denim fabrics to the designated garment manufacturers of AEO. Accordingly, our business relies significantly on the demand for our denim fabrics by AEO. For FY2015, FY2016 and FY2017, the revenue we derived from our top five apparel brands accounted for 71.6%, 75.4% and 76.3% of our revenue, respectively. We have maintained a long and stable business relationship with our top five apparel brands ranging from five to 10 years of relationship and we have maintained business relationship with AEO for seven years. Despite the long and stable relationship we have had with AEO and our cooperating apparel brands, we cannot assure you that future demand for our denim fabrics from AEO and these apparel brands will continue to grow or even maintain at the existing level. Failure to maintain good relationships with AEO and these apparel brands would significantly reduce their demand for our denim fabrics and adversely affect our financial conditions, results of operations and growth prospects.

Our business, results of operations and financial conditions could be adversely affected by the global economic downturn and adverse market and macroeconomic conditions, especially if there is a downturn in the fashion industry.

We are principally engaged in the manufacturing of denim fabric and we supply our denim fabrics mainly to garment manufacturers for manufacturing apparels of reputable U.S. apparel brands. Accordingly, the demand for our denim fabrics is largely dependent on the demand from the fashion industry. The performance and growth of the fashion industry depend, to a certain extent, on the global economic and market conditions. Unfavourable economic conditions, such as the 2007–2008 global economic downturn, uncertainties in financial markets over the decision by the United Kingdom to exit the European Union and China's economic slowdown, may lead to a drop in business activities and reduce consumer spending in major countries. As such, adverse present and future economic conditions may affect the demand for our denim fabrics from downstream customers and we may not be able to grow at the pace we anticipated or at all. If any unfavourable economic conditions occur, our business, financial condition and results of operations may be materially and adversely affected.

In addition, a global economic downturn may adversely affect our customers, suppliers and business partners in obtaining finance and credit for purchases, working capital and capital expenditures for their businesses. This may result in a decline or cancellation of orders from our customers or the inability of our suppliers to fulfil our purchase orders due to production limitations. Furthermore, uncertain market and macroeconomic conditions may cause difficulties for our customers to project their purchasing plans accurately, which may also adversely affect our production planning. In this regard, if the market in which we operate experiences a downturn as a result of global economic factors, our business, results of operations and financial conditions could be materially and adversely affected.

Our imputed interest income derived from amounts due from related companies during the Track Record Period and our gain on disposal of properties during FY2015 are non-recurring in nature and we may not be able to record similar income or gain, which may materially and adversely affect our financial results.

For FY2015, FY2016 and FY2017, our imputed interest income due from related companies was approximately HK\$13.6 million, HK\$20.2 million, and HK\$20.4 million, respectively. Such imputed interest income was derived from non-current amounts due from related companies which were settled in full during FY2017. Please see "Financial Information — Other income" for further details. As such, there will be no such imputed interest income on amount due from related companies following the Listing. In addition, our Group disposed of certain land and buildings in FY2015 resulting in a gain on disposal of properties of approximately HK\$42.6 million in aggregate during the year. Please see "Financial Information — Other gains (losses)" for further details. The abovementioned income or gain is non-recurring in nature and we may not be able to record similar gain or income in the future, which may materially and adversely affect our financial results.

We have not entered into long-term agreements with our customers and cannot assure our sales volumes will remain consistent. Therefore, a significant decrease in orders from any of them could adversely affect our business, results of operations and financial condition.

We have not entered into any long-term agreements with our customers and our sales are generally concluded on an order-by-order basis. As such, our customers may change their suppliers or cease to place order with us at any time and the volume of our customers' purchase orders and our product mix may vary significantly from period to period. We cannot assure you that our customers will continue to place purchase orders with us in the future at the same level as in the current or prior periods, or at all. If we are unable to replace any lost orders from existing customers with new ones, our business, financial conditions and results of operations may be materially and adversely affected.

We generally do not enter into any long-term agreements with our suppliers and procure a significant portion of raw materials from a few suppliers, which exposes us to uncertainty and potential volatility with respect to adequacy and stability in supply as well as cost of our raw materials.

Yarn is our major raw material for the production of our denim fabric. We rely on our suppliers to provide us with stable and adequate supply of yarns for our production operation. Purchases from our five largest suppliers were HK\$156.7 million, HK\$231.4 million and HK\$298.3 million, representing 88.5%, 90.7% and 93.9% of our total purchases for each of the FY2015, FY2016 and FY2017, respectively. Purchases from our largest supplier amounted to HK\$54.4 million, HK\$100.8 million and HK\$126.7 million, representing 30.7%, 39.5% and 39.9% of our total purchases for each of the FY2015, FY2016 and FY2017, respectively. All of such suppliers are supplying yarns to us. For further details about our suppliers of raw materials, please see "Business — Raw Materials, Procurement and Our Suppliers".

During the Track Record Period, we in general did not enter into any long-term agreements with our suppliers and will negotiate prices with our suppliers on a case-by-case basis. If any of our key suppliers are unable to satisfy our order requirements or significantly increase the price of raw materials and in particular, yarns, we may experience an interruption, reduction or termination of raw material supplies and will be required to seek alternative suppliers. We cannot assure you that we will be able to find suitable suppliers that can provide raw materials at the same quality and prices or at all. Should this situation arise, we may be exposed to (i) an increase in raw material costs, which we may not be able to pass on to our customers, (ii) a reduction in the quality of our raw materials, or (iii) a shortage of raw materials supply, which may result in an increase in our cost of sales or impair the quality of our denim fabrics. As such, our business, financial condition and results of our operations may be adversely impacted.

Trade restrictions could materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, most of our revenue was derived from the sale of our denim fabrics to the designated garment manufacturers of various reputable U.S. apparel brands, while we also occasionally procure cotton yarns made of U.S. cotton from PRC yarn suppliers upon request from our customers. In light of the recent threats of Sino-U.S. trade war, our business may be adversely affected by trade restrictions implemented by the U.S. and the PRC government.

As at the Latest Practicable Date, responding to the U.S. proposed 25% levy on more than 1,300 imported products in the PRC's machinery, electronics, aerospace and robotics sectors, the Ministry of Commerce of the PRC announced 25% levy on 106 imported U.S. products, which include cotton linters and uncombed cotton. The effective dates of the proposed U.S. tariffs on imported Chinese products and the PRC tariffs on imported U.S. products have not been announced. Although we mainly procure cotton varns from countries outside the U.S. during the Track Record Period, some of our customers request for sourcing cotton yarns made of U.S. cotton for the manufacture of denim fabrics. If the proposed tariffs become effective, our cost for procuring cotton varns made of U.S. cotton through PRC varn suppliers will increase, which will in turn increase our cost of raw materials. If we are not able to pass such additional costs on to our customers, our profit margins could be adversely affected. In addition, if the trade war intensifies and involves PRC garments made of our products, the U.S. apparel brands may instruct new garment manufacturers outside the PRC to place order with us. In such circumstance, our Directors believe that it may initially take approximately three to four weeks for such garment manufacturers outside the PRC to confirm it can produce the denim garments as required by the apparel brands involved by using our denim fabric products. For instance, these garment manufacturers may need to place sample orders with us before placing purchase orders. As a result, there may be a transitional adverse disruption on the purchase orders made by these garment manufacturers should the apparel brands need to engage new garment manufacturers outside the PRC due to trade restrictions. Further, if the trade restrictions were further extended to involve our denim fabric products, the U.S. apparel brands may even shift to source denim fabrics outside the PRC instead from us. The uncertainty on the trade restriction policies resulting from the Sino-U.S. trade war may cause difficulties for our customers and the apparel brands to project their purchasing plans and may cause them to reduce their orders from us, which could materially and adversely affect our financial position, business or results of operations.

Our production and procurement plans are determined based on the confirmed purchase orders and procurement plans provided by our customers, our historical sales trends and management experience. Any material shortfall in our actual sales volume could materially and adversely affect our business and financial conditions.

To ensure that we can meet our customer demand on a timely manner, we formulate our production and procurement plans after taking into consideration, among other things, the confirmed purchase orders and procurement plans provided by our customers, our historical sales trends and management experience. If our customers fail to honour their purchase orders or substantially downsize their purchase volume as compared to their procurement plans, we may misallocate resources, resulting in, among others, excessive ordering of raw materials, which may affect our financial condition and increase the risk of stock obsolescence. In addition, if our anticipated order levels do not materialise, our production plan including expansion of our production capability may result in over-capacity and increase our fixed production costs significantly. If the foregoing unfavourable situations materialise, our business, financial conditions and results of operations could be materially and adversely affected.

We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity.

Our inventory consists of raw materials, work in progress and finished goods. As at 31 December 2015, 2016 and 2017, the balances of our inventories amounted to HK\$94.7 million, HK\$163.3 million and HK\$212.5 million, accounting for 34.1%, 49.2%, and 46.8% of our total current assets as at the

corresponding dates, respectively. Our inventories turnover days increased from 129.3 days in 2015 to 143.7 days in 2016, and further increased to 157.5 days in 2017, primarily due to the increase in finished goods for the increasing demand for our denim fabrics. Please see "Financial Information — Inventories" for further details. If our customers fail to honour their confirmed purchase orders or substantially downsize their purchase volume as compared to their procurement plans provided to us, these inventories may become obsolete and be impaired should we fail to adjust our production or sales plans to consume or sell them before their shelf lives expire.

If we cannot manage our inventory level effectively or if our actual output is significantly more than our expected sales volume, we may not achieve an optimal level of inventory resulting in overstocking of raw materials, work in progress or finished goods, and we may need to either sell off such inventory at a lower price or write off such inventory. In such circumstances, our financial condition and results of operations may be materially and adversely affected.

Our results of operations are subject to the seasonality of the fashion industry.

Our sales are subject to seasonality. Based on our sales trends during the Track Record Period, we generally experience higher sales during January to April and lower sales in the third and fourth quarters of the year. Such seasonal pattern is mainly caused by the peak season for denim garment sales in the third and fourth quarters of the year and the lead time of about four to six months from our receipt of yarns for our production of denim fabrics to delivery of denim garments by garment manufacturers to brand owners. The sales of denim garments in peak seasons are mostly driven by higher consumer spending during summer holidays, the commencement of the new school year from June to August and during the festive season from October to December. As such, any comparison of our operating results between different periods within a financial year, or between different periods in different financial years may not be meaningful.

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

We believe that our success in the denim fabric manufacturing industry and our loyal customer base are built on our high product quality. However, we cannot assure you that we can fully eliminate the risk of having defects in our denim fabrics or not conforming with our customers' product specifications. Such quality or performance issues may occur due to many reasons, including but not limited to (i) manufacturing and design errors; (ii) malfunctioning of machinery; (iii) human errors or malfeasance by our production and quality control staff; (iv) raw material quality problems; and (v) deliberate tampering by third parties.

Failure to detect defective or sub-standard products may give rise to customer complaints and the customers so affected may cease their business relationship with us. In addition, serious defects could lead to product recalls, withdrawals, regulatory fines or other adverse consequences that could materially affect our business reputation, financial conditions and results of operations.

In addition, safety and quality standards, laws and regulations are subject to modification and amendments. We cannot assure you that existing or new denim fabrics produced by us presently or in the future can meet or continue to meet the required safety and quality requirements. Should we fail to meet such requirements, we may be unable to serve our customers who may then switch suppliers causing our business reputation and financial performance to deteriorate.

We depend on subcontractors to manufacture a notable portion of our products.

During the Track Record Period, we engaged subcontractors to process a notable portion of our denim fabrics. We engaged subcontractors, which are third party factories, to perform weaving, dyeing and finishing processes. We conduct quality control inspection on the semi-finished products processed by the subcontractors according to our quality control procedure to ensure the semi-finished products comply with our customers' specifications and our internal quality standards. Please see "Business — Subcontractors" for further details on the subcontracting arrangements of our Group. For FY2015, FY2016 and FY2017, the subcontracting costs amounted to approximately HK\$81.4 million, HK\$88.0 million and HK\$97.3 million, amounting to approximately 27.7%, 26.9%, and 22.3% of our total cost of sales, respectively.

However, there is no assurance that these subcontractors will continue their business relationships with us nor the subcontractors will continue to be able to provide processing services to us at our desired quality standards or in a timely manner or on commercially acceptable terms. In the event of termination of the business relationships with these subcontractors or if there is any change to the current arrangement, our Group may not be able to locate comparable alternatives which provide processing services complying our quality requirement and delivery schedule or on commercially acceptable terms.

Our business operations and financial conditions may be adversely affected upon termination of our joint venture with Kurabo Industries under the KDIL Agreements or by any negative publicity in relation to the licenced trademark.

The major terms of our joint venture with Kurabo Industries, among other things, include our right to use the trademark "Kurabo Denim" on the denim fabrics produced and sold by us. During the Track Record Period, while we applied our Group's brandname and trademark in our sales and marketing campaigns and relevant materials, including on the fabric sample cards we presented to our clients, we also applied the "Kurabo Denim" trademark on our finished denim fabrics. Our customers may have knowledge of our joint venture with Kurabo Industries and hence, if the joint venture is terminated in the future, the perception of our customers in our Group and our business volume with our customers may be adversely affected.

We allowed Kurabo Industries to sell denim fabrics to some U.S. luxury apparel brands which we have business relationships with. As our primary niche are middle-to high-end apparel brands, these luxury apparel brands in aggregate accounted for an insignificant portion of our revenue during the Track Record Period. In the event that these luxury apparel brands prefer the denim fabrics supplied by Kurabo Industries over our denim fabrics and we fail to expand our business with other existing or new apparel brands, our business operations and financial conditions may be adversely affected.

Further, in the event that there is any negative publicity in relation to the licenced trademark or any litigation claims that may be brought by or against Kurabo Industries, being the licensor and proprietor of the trademark, our image and reputation may be adversely affected. In addition, if Kurabo Industries fails to implement effective measures in preventing any infringement of the licenced trademark or if a third party successfully brings an action to strike off any of the licenced trademark from registration with the relevant bureau, this will affect our right to continue to use this licenced trademark and our operations may be adversely affected.

We are subject to certain risks relating to the delivery of our products including delivery delays and the possibility of damaged goods during the transportation process.

We employ the services of third party logistics service providers to deliver our denim fabrics to our customers. We cannot assure that our denim fabrics can be delivered according to our customers' delivery schedules if unforeseen events outside of our control occur, such as adverse weather conditions, natural disasters or labour strikes, causing transportation and delivery services to be suspended or interrupted. In addition, our denim fabrics may be damaged during the delivery process if they are improperly handled by third party logistics service providers. We may be required to replace such damaged denim fabrics to our customers. In either of such situations, we may be liable to our customers for claims or compensations and may materially and adversely affect our business relationship, our reputation and financial performance.

We are exposed to risks posed by fluctuations in the price of raw materials.

Our cost of raw materials is the major component of our cost of sales and fluctuations in raw material prices may significantly affect our operations and profitability. For each of the FY2015, FY2016 and FY2017, our cost of raw materials amounted to HK\$197.0 million, HK\$224.2 million and HK\$309.3 million, respectively, representing 67.0%, 68.4% and 71.0% of our total cost of sales, respectively. Please see "Financial Information — Factors affecting our results of operations and financial condition cost of sales" for further details of price fluctuations of raw materials.

We cannot assure you that the price trends of raw materials will be favourable to our business in the future. If there is any substantial increase in the prices of such raw materials and we are unable to increase our selling prices accordingly in a timely manner or at all, our business and financial performance may be materially and adversely affected.

Our future capital expenditure for the purchase of new machinery may result in an increase in our depreciation expenses.

As part of our business strategies to expand our production capacity, we plan to purchase certain new production machinery. The total investment costs are estimated to be HK\$162.5 million resulting in an estimated increase in annual depreciation expenses of HK\$14.6 million. Please see "Business — Our Business Strategies", "Business — Our machinery purchase plan" and "Future Plans and Use of Proceeds" for further details.

As soon as they are put into operation, they will result in additional annual deprecation charges. The increase in depreciation will adversely affect our financial performance and operating results.

Any disruption to or shortage of supply of water and electricity may adversely affect our business operations and financial results.

Our production activities require a significant and constant supply of water and electricity. Our reliance on such supply will further increase as we expand our production capacity. Any disruption to or shortage of such supply may adversely affect our production process, and any increase in cost of water and electricity will increase our production costs which may adversely affect our business operations and financial results.

We are exposed to credit risks with respect to the settlement by our customers. Any significant delay in payment or defaults by our customers may materially and adversely affect our financial condition and results of operations.

We are subject to the credit risks of our customers and our profitability and cash flow are dependent on timely settlement of payments by our customers for the denim fabrics we provide to them. Our trade and other receivables amounted to approximately HK\$44.5 million, HK\$42.4 million and HK\$77.7 million as at 31 December 2015, 31 December 2016 and 31 December 2017, respectively. We generally grant credit period ranging from 30 days to 120 days to our customers and our trade and bills receivables turnover days were 32.0 days, 25.8 days and 21.2 days for each of the FY2015, FY2016 and FY2017, respectively.

We cannot assure you that we will be able to collect all or any of our trade receivables within the credit period that we granted to our customers. If any of our customers face unexpected situations, including but not limited to, financial difficulties caused by general economic downturn or fiscal constraints, we may not be able to receive payment of uncollected debts in full, or at all, from such customers and we may need to make provisions for trade receivables, which could in turn materially and adversely affect our financial condition and results of operations.

We may be subject to liability in connection with industrial accidents at our manufacturing facilities.

Our production processes are capital intensive, using tools, equipment and machinery that may be prone to industrial accidents, potentially causing physical injuries or even fatalities of our workers. There is no assurance that industrial accidents, whether caused by malfunctioning or misuse of equipment, tools or machinery, will not occur in the future. In such situations, we may be liable to claims brought against us by injured workers or their families in cases of fatalities. We may also be subject to fines or penalties for violations of applicable safety laws and regulations by government authorities as well as suspension of our operations for investigation after such incidents. As a result, we may also be required by local government authorities to amend and implement new safety requirements to prevent the reoccurrence of such incidents in the future. As such, the occurrence of industrial accidents may materially and adversely affect our business operations, reputation and financial condition.

Our production facilities are subject to environmental laws in the PRC and any failure to comply with environmental regulations would expose us to penalties, fines, suspensions or actions in other forms.

Our operations generate pollutants and wastes in our operation and various stages of the production process, including but not limited to the exhaust gas from coal power generator and effluents in the dyeing process. In this regard, our operations and production processes are subject to certain environmental laws and regulations in the PRC. Please see "Regulatory Overview — PRC Laws and Regulations — Laws and Regulations to Environmental Protection" for further details. Any failure to meet the standards as required under local laws and regulations could subject us to fines, warnings and/ or orders from relevant government authorities to rectify the problem within a specified period of time. In order to rectify such situations, we may be required to suspend our production temporarily or even permanently in cases of serious non-compliance. Should this situation arise, our business reputation, financial condition and results of operations may be materially and adversely affected. During the Track Record Period, we were not in strict compliance with certain environmental protection laws requirement. Please see "Business — Legal Compliance" in this prospectus for further details.

In addition, environmental laws and regulations may be amended from time to time as required by the PRC government and is not within our control. We cannot assure you that our existing environmental policies and equipment will be adequate to meet future environmental policies and requirements and we may be required to incur additional costs to comply with such future requirements, which may be more stringent than present laws and regulations. In such situation, our capital expenditure and cost of production will increase unexpectedly, which may materially and adversely affect our financial condition and business operation.

Our non-compliance with relevant social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties.

Pursuant to the relevant PRC laws and regulations, employers in the PRC are required to make social insurance and housing provident fund contributions for their employees, and entities failing to make such contributions may be ordered to settle the outstanding contributions within a prescribed time limit and subject to penalties or fines. During the Track Record Period, we were not in strict compliance with the requisite contribution requirements in relation to our PRC employees. Please see "Business — Legal Compliance" in this prospectus for further details.

There is no assurance that we will not be subject to penalties or fines imposed by the relevant PRC authorities as a result of such non-compliance incidents. There is also no assurance that there will not be any employee complaint against us in relation to our failure to make full social insurance and housing provident fund contributions. Any such penalties, orders or complaints may harm our corporate image and may have an adverse effect on our financial condition and results of operations.

Our plan to expand our production capacity could contribute to the fluctuations of our financial results as the new production facilities may not achieve timely profitability as anticipated, or at all.

We plan to expand our production capacity through, among other means, the acquisition of new production equipment. Please see "Business — Our Business Strategies" and "Future Plans and Use of Proceeds" for further details. There is no assurance that we will be able to materialise such expansion plan or at costs comparable to what we have planned for.

Other than financing difficulties, our plan to expand the production capacity and operate the new facilities may be adversely impacted by various factors, many of which are beyond our control, including, but not limited to, (i) delay in delivery of major equipment or failure of equipment and machinery to perform according to specifications or our expectations; (ii) the failure of or delay in obtaining or renewing the required licences, permits and approvals for our growth and expansion plans, if any; (iii) unforeseen adversities that could substantially delay our planned expansion, such as adverse weather conditions and equipment and machinery malfunctions; (iv) our new denim fabrics having weaker market reception than we expected; and (v) difficulty in recruiting sufficient qualified workers. In addition, the operating results generated at the new production facilities may not be comparable to the operating results generated at any of our existing production facilities and may even operate at a loss. We cannot assure you that our future production facilities will achieve the level of profitability of our existing production facilities, if at all. Any of the above situations, if materialise, could materially and adversely affect our business, financial condition and results of operations.

We may not be able to manage our growth and expansion effectively in the future.

Our future growth may depend on establishing new production facilities and expanding our production capacity, efficient operation of new production facilities, introducing new denim fabrics, expanding our customer base and entering new markets. Our ability to achieve growth will be subject to a range of factors, including adapting to changing industry and market trends; exercising effective quality control and maintaining high safety standards; strengthening our relationships with existing apparel brands and customers and attract new ones to match our increased production capacity; enhancing our product development capability; hiring and training qualified personnel; controlling our costs of operations; securing management and financial resources; executing our operational, financial and management controls systems in an efficient and effective manner; managing our various suppliers and leveraging our bulk purchasing power; and maintaining our competitive strengths over our competitors.

We intend to further expand the varieties of our denim fabrics and explore new target customers in certain geographical markets. Please see "Business — Our Business Strategies" and "Future Plan and Use of Proceeds" for further details. Expansion of varieties of our denim fabrics and our further business penetration in geographical markets, such as China and Europe, in which we may have limited operating experience and brand recognition, may present operating and marketing challenges that are different from those we have encountered. New product applications may have different competitive dynamics, consumer preferences and discretionary spending patterns compared to our existing product offering. As a result, the profitability of our new denim fabrics may be less comparable to that of the existing ones, which in turn could affect our overall profitability.

Additionally, our expansion plans and business growth could strain our managerial, operational and financial resources. Our ability to manage future growth will depend on our ability to continue to implement and improve operational, financial and management systems on a timely basis and to expand, train, motivate and manage our workforce. We cannot assure you that our human resources and various operation systems will be adequate to support our future growth. Failure to effectively manage our expansion may lead to increased costs and reduced profitability and may adversely affect our growth prospects. In addition, as we expand our operations, we may encounter regulatory, cultural and other difficulties that may also increase our costs of operations.

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

We may need additional capital to fund our capital expenditure associated with our expansion plans. We generally incur a material amount of capital expenditure to set up new production facilities, typically consisting of investments for construction and renovation of the property and acquisition of production equipment and machinery. Please see "Business — Production — Our machinery purchase plan" for further details of the expected capital expenditure. In addition, our investment costs could be affected by many factors, such as general economy, industry performance and machinery demand and supply condition. There is no assurance that we will generate sufficient cash flow from our operating activities for our intended expansion plans. In the event that we do not have sufficient operating cash flow, we will need to obtain alternative financing. There is no assurance that we will be able to obtain adequate financing on acceptable terms, or at all. Our ability to obtain additional capital on acceptable terms will be subject to a variety of uncertainties, including:

- investor perceptions of and appetite for securities of companies engaged in the industry in which we operate;
- conditions in the capital and financial markets in which we may seek to raise funds;
- our future cash flows, financial condition and results of operations; and
- economic, political and other conditions in the PRC, Hong Kong the United States and the rest of the world.

We may be required to scale down our planned capital expenditures, which may adversely affect our ability to achieve economies of scale and implement our planned growth strategy. If we raise additional funds by borrowing, our interest and debt repayment obligations will increase. The terms of any future debt facilities may also impose restrictive covenants that may restrict our business and operations; or result in dilution of shareholding of the Shareholders in the case of equity financing. Our inability to raise additional funds in a timely manner and on terms favourable to us, or at all, may have a material adverse effect on our financial condition, results of operations and prospects.

We may be subject to intellectual property rights disputes, which could adversely affect our business, results of operations and financial conditions.

Our business is built on our ability to develop denim fabrics that satisfy our customers' changing product specifications. We cannot assure you that the steps we have taken may be adequate to prevent the misappropriation of our brand, logo, licenced trademark and/or product design (whether duly registered with the relevant intellectual property office or not). Any unauthorised use or infringement of our intellectual property rights (including those unregistered or undergoing registration application) may have an adverse impact on our business. If we have to resort to litigation to enforce our intellectual property rights, we may incur significant costs. On the other hand, we cannot assure you that we will not be subject to infringement claims against us from third parties. Should such claims be brought against us, we may incur significant legal costs to defend our position and/or be required to pay substantial damages by the order of a judicial court or through mediation. This may materially and adversely affect our business reputation, financial conditions and results of operations.

We are dependent on our key management personnel.

Our future business performance and implementation of our expansion plans are dependent, to a substantial extent, on the continuous contributions of our executive Directors and senior management, in particular, Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung. We expect that our executive Directors and senior management team will continue to play an important role in the future growth and success of our business. However, there is no assurance that we will be able to continue to attract and retain the service of our business leaders. If any of our executive Directors or senior management terminates his or her service agreement with us and we are unable to find a suitable replacement in a timely manner, or at all, our business operations and implementation of our future plans may be adversely affected.

Our insurance may not sufficient to cover the losses and liabilities arising from our operations.

Our operations face a variety of risks in connection with our business. As at the Latest Practicable Date, while we maintained insurance policies covering (i) losses arising from fire, natural causes and accidents; (ii) our vehicles; and (iii) our employees, including social insurance and health insurance and compensation scheme for our workers, no product liability insurance was maintained for our denim fabrics. Please see "Business — Insurance" for further details.

In the event of a claim against us, we cannot assure you that the amount of insurance we have obtained is adequate to cover the entire value of such claims. Our insurance policies may not be adequate to cover all losses and liabilities incurred by us in the future. In particular, since we do not maintain product liability insurance for our denim fabrics, any product liability claim against us and any legal proceeding, arbitration or administrative sanctions or penalty arising therefrom, irrespective of the outcome or the merits of such claim could adversely affect our business, financial condition, results of operations as well as our corporate image and reputation. Even if we are able to defend any such claim successfully, we cannot assure you that our customers will not lose confidence in our denim fabrics as a result of such claim, which may in turn adversely affect our future business. There is no assurance that product liability claims or claims which would not be covered by our insurance policies will not be made against us in the future. In cases where we are held liable for uninsured losses, our business and financial results may be materially and adversely affected.

Competition from existing industry players and new entrants in our target markets may harm our financial performance.

We face competition from existing and new players both domestically in the PRC as well as on an international scale. In order to compete effectively and maintain our sales levels, we may be forced to, among other possible actions, reduce our prices, offer bulk purchase terms or provide other sales incentives to our customers. Should we be required to take such action, our business, profit margins, results of operations and prospect could be materially and adversely affected.

Extraordinary events such as health epidemics, natural disasters, adverse weather conditions, political unrest, terrorist attacks and other catastrophes could adversely affect our business, operations and financial performance.

We require our operations to be uninterrupted in order to meet our customer orders from time to time. However, our production facilities, our customers and our suppliers are located in areas that may be susceptible to risks beyond our control including, among others, health epidemics, natural disasters, adverse weather conditions, political unrest, terrorist attacks and other catastrophes which could materially and adversely affect our operations and financial performance. For example, in 2003, certain Asian countries and regions were affected by the outbreak of Severe Acute Respiratory Syndrome, or SARS, a form of atypical pneumonia. In recent years, the outbreak of the Ebola virus has caused many deaths in the Middle East and Africa; and in 2016, the outbreak of the Zika virus spread to South East Asian countries including Singapore and Malaysia. A serious outbreak of such health epidemics, especially in areas where our operations, our customers and our suppliers are located could cause material interruptions in our production, procurement and sales process as well as our logistics for transportation of raw materials and denim fabrics. We may not be able to meet our customers' demands or deliver our denim fabrics, which may materially and adversely affect our financial conditions and reputation.

In addition, other extraordinary events such as natural disasters, adverse weather conditions, political unrest and terrorist attacks could significantly affect our business if they occur close to our production facilities, our suppliers or our customers. If we are unable to react promptly to such incidents, we could incur casualties, loss of inventory, damage to our properties including our production facilities and interruptions to our production processes. Significant expenditure and time may also be required to rectify the damage caused to our business and there is no assurance that the insurance policies maintained by us will adequately cover all such losses to our business. On a macro level, such events are also likely to cause a degree of damage to the regional or national economy, which may affect the demand for our denim fabrics if our customers and their downstream markets are affected. As such, our business operations and financial performance may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our business operations may be materially and adversely affected by any change in the political, economic and social policies and conditions of the PRC.

Our business and results of operations are subject to the political, economic and social policies and conditions of the PRC, as our manufacturing activities are conducted in the PRC. The economy of the PRC differs from the economics of most developed countries in many respects, including, among others, the degree of government involvement, the level of development, the growth rate, the control of foreign exchange and the resource allocation. Given that the economy of the PRC has been undergoing a transition from a planned economy to a market-oriented economy, the PRC Government has adopted various measures emphasising the utilisation of market forces for economic reforms, the reduction of state ownership of productive assets, and the establishment of sound corporate governance in business enterprises. There is no assurance that the PRC Government will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect

our prospects and results of operations. While the PRC Government has undergone various economic reforms in the last few decades, many of such reforms are of an experimental nature and are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our results of operations and financial condition.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our Group.

Our business and operations are primarily conducted in the PRC and our PRC subsidiaries are governed by PRC laws, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but do not have binding precedential effect and have little weight as precedents. Accordingly, the outcome of dispute resolutions may not be consistent or predictable. Although efforts have been made by the PRC Government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system.

Newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. As a result, we may not be aware of our violations of certain policies or rules in a timely manner.

The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC. In addition, the application, interpretation and enforcement of the PRC laws and regulations may be subject to the political condition and changes in social policies in the PRC. Different regulatory authorities may have different interpretation on certain laws and regulations and may adopt different approach in enforcing such laws and regulations. As a result, companies may be required to comply with the requirements or standards set by the relevant authorities from time to time or obtain approvals and complete filings in accordance with the interpretation and enforcement of such laws and regulations by the relevant authorities. Uncertainty in the application, interpretation and enforcement of the PRC laws and regulations may require us to incur additional cost and effort in complying the requirements or standards imposed by the PRC regulatory authorities, which may materially and adversely affect our business, results of operations and financial condition.

Rules and regulations in the PRC on investment and loans by offshore holding companies to PRC subsidiaries may delay or prevent us from using the proceeds from the Share Offer to make additional capital contributions or loans to our PRC subsidiaries, which could harm our liquidity and our ability to expand our business.

We, as an offshore holding company, may make additional capital contributions or loans to our PRC subsidiaries, including from the proceeds of the Share Offer. Any loan to our PRC subsidiaries is subject to PRC laws and regulations. For example, loans from us to our wholly-owned PRC subsidiaries,

which are foreign-invested enterprises, to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local branches. We may also decide to finance our wholly-owned PRC subsidiaries by means of capital contributions. These capital contributions must be approved by or filed with MOFCOM or its local branches.

There is no assurance that, in relation to all future loans or capital contributions by us to our PRC subsidiaries, we will be able to complete all required government registrations or obtain all necessary approvals in a timely manner or at all. If we fail to complete such registrations or obtain such approvals, our ability to use the proceeds of the Share Offer may be affected, which may in turn materially and adversely affect our liquidity and our ability to fund and expand our business.

Pursuant to the Notice of the State Administration of Foreign Exchange on Reforming the Administration of Foreign Exchange Settlement of Capital of Foreign-invested Enterprise SAFE Circular on Reforming the Management Approach Regarding the Foreign Exchange Capital Settlement of Foreign-invested Enterprises (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (the "SAFE Circular 19"), which became effective on 1 June 2015, foreign-invested enterprises shall be allowed to settle foreign exchange capital on a discretionary basis. Furthermore, where foreign-invested enterprises are engaged in equity investment in the PRC, they shall comply with the regulations on reinvestment in the PRC. While SAFE Circular 19 unlocks the restrictions on foreign exchange capital settlement, it is uncertain how the PRC authorities will interpret, apply and enforce SAFE Circular 19 and whether SAFE Circular 19 will be effective in unlocking the restrictions on foreign exchange capital settlement.

The PRC Government's control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively.

Some of our revenue is denominated in Renminbi. The PRC Government has imposed controls on the conversion between Renminbi and foreign currencies and, in certain cases, the remittance of foreign currencies into and out of the PRC. Pursuant to the existing PRC foreign exchange regulations, payments of current account items, such as dividend distributions and interest payments, can be made in foreign currencies without prior approval from the SAFE, but subject to certain procedural requirements. However, approval from or registration with the SAFE is required where Renminbi is to be converted into other foreign currencies and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies.

We cannot assure you that the PRC regulatory authorities will not impose restrictions on foreign exchange transactions for current account items in the future. Any shortage in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividend or make other payments to their holding companies or our Company, or otherwise satisfy their obligations that are required to be settled in foreign currency. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividend in foreign currencies to our Shareholders. In addition, since some of our future cash flow derived from our operations will be denominated in Renminbi, any existing and future restriction on currency exchange may limit our ability to purchase or obtain goods and services in countries outside of the PRC, or otherwise limit or impair our business activities that are conducted in foreign currencies.

It may be difficult to effect service of process in relation to disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us in the PRC.

Most of our major assets are located in the PRC. There is no assurance that you will be able to effect service of process in connection with disputes brought in courts outside the PRC on, or to enforce judgments obtained from non-PRC courts against, us in the PRC. Furthermore, the PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments awarded by courts with most western countries. It may therefore be difficult or even impossible to enforce against us any judgment obtained from non-PRC courts.

Dividend payable by us to our non-PRC Shareholders or gain realised on the transfer of our Shares may be subject to PRC income tax under PRC tax laws.

Pursuant to the EIT Law and the EIT Implementation Rules, subject to any applicable tax treaty or arrangement between the PRC and your jurisdiction of residence that provides a different income tax arrangement, the payment of dividend by a PRC resident enterprise to investors that are non-PRC resident enterprises (including enterprises that do not have an establishment or place of business in the PRC and enterprises that have an establishment or place of business but their income is not effectively connected with the establishment or place of business) or any gain realised on the transfer of shares by such investors is generally subject to PRC income tax at a rate of 10.0%, to the extent such dividend has its source in the PRC or such gain is regarded as income derived from sources within the PRC. Under the PRC Individual Income Tax Law (《中華人民共和國個人所得稅法》) and its implementation rules (《中華人民共和國個人所得稅法實施條例》), dividend from sources within the PRC paid to foreign individual investors who are not PRC residents and gains from PRC sources realised by such investors on the transfer of shares are generally subject to a PRC income tax at a rate of 20.0%, subject to any reduction or exemption set out in applicable tax treaties and PRC laws.

It is uncertain whether we will be considered as a PRC resident enterprise. If we are regarded as a PRC resident enterprise, dividend payable by us with respect to our Shares, or any gain realised from the transfer of our Shares, may be treated as income derived from sources within the PRC and may be subject to PRC income tax, subject to the interpretation, application and enforcement of the EIT Law and the EIT Implementation Rules by the relevant tax authorities. If we are required under the EIT Law to withhold PRC income tax on dividend payable to our non-resident Shareholders, or if you are required to pay PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

Dividend payable by our PRC subsidiaries to our Hong Kong subsidiaries may not qualify for the reduced PRC withholding tax rate.

Pursuant to the EIT Law and the EIT Implementation Rules, the payment of dividend by a PRC resident enterprise to investors that are non-resident enterprises is subject to PRC withholding tax at a rate of 10.0%. Under the Agreement between the Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), the withholding tax rate will be reduced to 5.0% if the PRC enterprise distributing dividend is owned as to 25.0% or more by a Hong Kong resident enterprise. However, according to the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》) issued by the State Administration of Taxation on 20 February 2009, if the

main purpose of a transaction or an arrangement is to obtain preferential tax treatment, the PRC tax authorities will have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that we will enjoy the 5.0% reduced withholding tax rate in relation to dividend payable by our PRC subsidiaries to our Hong Kong subsidiaries.

RISKS RELATING TO THE SHARE OFFER

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

Prior to the Share Offer, there has not been a public market for our Shares. We have applied for the listing of and dealing in our Shares on the Stock Exchange. However, even if approved, we cannot assure you that an active and liquid public trading market for our Shares will develop following the Share Offer, or, if it does develop, it will be sustained. The financial market in Hong Kong and other countries have in the past experienced significant price and volume fluctuations. Volatility in the price of our Shares may be caused by various factors, some of which are outside our control and may be unrelated or disproportionate to our operating results. We cannot assure you that the liquidity and market price of our Shares will not fluctuate. The Offer Price and the Offer Price range for our Shares were the results of negotiations among us and the Sole Global Coordinator (for itself and on behalf of the Underwriters) and may not be indicative of prices that will prevail in the trading market after the Share Offer. Our Shareholders may therefore not be able to sell their Shares at or above the Offer Price.

You may experience immediate dilution and may experience further dilution if we issue additional Shares in the future.

If the final Offer Price of our Shares is higher than the net tangible assets of our Group attributable to owners of our Group per Share immediately prior to the Share Offer, subscribers and purchasers of our Offer Shares will experience an immediate dilution in the pro forma adjusted combined net tangible assets of our Group.

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

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

Immediately following the Share Offer, our Controlling Shareholders will own 75% of our issued share capital, without taking into account of the Shares which may be issued upon the exercise of the Over-allotment Option. Therefore, it will be able to exercise significant influence over all matters requiring Shareholders' approval, including the appointment of Directors and the approval of significant corporate transactions. They will also have veto power with respect to any shareholder action or approval requiring a majority vote except where they are required by relevant rules to abstain from voting. Such concentration of ownership also may have the effect of delaying, preventing or deterring transactions or matters that would otherwise benefit our Shareholders. The interests of our Controlling Shareholders may not always align with our Company or your best interests. If the interests of our Controlling Shareholders conflict with the interests of our Company or our other Shareholders, or if our

Controlling Shareholders causes our business to pursue strategic objectives that conflict with the interests of our Company or other Shareholders, our Company or other Shareholders, including you, may be disadvantaged as a result.

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

Based on our offer structure as outlined in "Structure and Conditions of the Share Offer" in this prospectus, there will be 640,000,000 Shares outstanding immediately following the Share Offer, assuming no exercise of the Over-allotment Option and not taking into account options which were granted under the Share Option Scheme. Our Controlling Shareholder agreed that any Shares held by them will be subject to a lock-up after the Listing. However, after the expiry of this lock-up period, subject to certain conditions, our Controlling Shareholder is free to dispose of its Shares at its own discretion and the sale or disposal of any substantial amounts of our Shares in the public market or the perception that such sales could occur, could have a material and adverse effect on the market price of our Shares. This may also consequently affect our future ability to raise capital through offering of our Shares.

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

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

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

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and the common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under the laws of the Cayman Islands are to a large extent governed by the Articles of Association, the Companies Law and the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the

Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For detailed information, see "Summary of the Constitution of our Company and the Cayman Islands Company Law" in Appendix III to this prospectus.

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

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

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

This prospectus contains certain statements that are "forward-looking" and uses forward looking terminology such as "anticipate", "estimate", "believe", "expect", "may", "plan", "consider", "should", "would" and "will". These statements include, among other things, the discussion of our growth strategy and the expectations of our future operations, liquidity and capital resources. Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our Company's plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set forth in this section. We do not intend to update these forward-looking statements in addition to our on-going disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purpose of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, which to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and conditions set forth herein and therein. No person has been authorised to give any information or make any representations other than those contained in this prospectus and the Application Forms and, if given or made, such information or representations must not be relied on as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their affiliates or any of their respective directors, officers, employees or agents or any other person or party involved in the Share Offer. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with our Shares shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information in this prospectus is correct as of any subsequent time.

Details of the structure of the Share Offer, including its conditions, are set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus, and the procedures for applying for the Public Offer Shares are set forth in the section headed "How to Apply for Public Offer Shares" in this prospectus and on the relevant Application Forms.

UNDERWRITING

This prospectus is published solely in connection with the Public Offering, which forms part of the Share Offer. For applicants in the Public Offering, this prospectus and the Application Forms set forth the terms and conditions of the Public Offering.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Public Offering is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement. The Placing Underwriting Agreement relating to the Placing is expected to be entered into on or around the Price Determination Date, subject to agreement on pricing of the Offer Shares between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and us. The Share Offer is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed, the Share Offer will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see "Underwriting" for further details.

RESTRICTIONS ON OFFER AND SALE OF SHARES

Each person acquiring the Public Offer Shares under the Public Offering will be required to confirm, and is deemed by his acquisition of Public Offer Shares to have confirmed, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered, any Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit an offering of the Public Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the securities laws of such jurisdiction pursuant to registration with or an authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered and sold, and will not be offered or sold, directly or indirectly in the PRC or the United States.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

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

All activities under CCASS are subject to the general rules of CCASS and CCASS operational procedures in effect from time to time.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of and permission to deal in our Shares in issue and to be issued pursuant to the Share Offer (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme.

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

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

HONG KONG SHARE REGISTER AND THE STAMP DUTY

All Shares issued by us pursuant to applications made in the Public Offering will be registered on our branch register of members to be maintained in Hong Kong. Our principal register of members will be maintained by Maples Fund Services (Cayman) Limited in the Cayman Islands.

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

Dealings in our Shares registered on our Hong Kong branch register will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Share Offer are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding, disposing of, dealing in or exercising any rights in relation to, our Shares. None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors or any other person or party involved in the Share Offer accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase, holding, disposition of, dealing in, or exercising any rights in relation to, our Shares.

STABILISATION AND OVER-ALLOTMENT

In connection with the Share Offer, the Stabilising Manager or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the Share Offer, we intend to grant to the Placing Underwriters the Overallotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the Placing Underwriters) within 30 days after the last day for lodging applications under the Public Offering. Pursuant to the Over-allotment Option, we may be required to issue and allot up to an aggregate of 24,000,000 Shares (in aggregate representing 15% of the total number of our Shares initially available under the Share Offer) at the Offer Price to cover over-allocation in the Placing.

Further details with respect to stabilisation and the Over-allotment Option are set forth in the sections headed "Structure and Conditions of the Share Offer — Over-allotment Option" and "Structure and Conditions of the Share Offer — Stabilisation" in this prospectus.

PROCEDURES FOR APPLICATION FOR PUBLIC OFFER SHARES

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

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including their respective conditions, and the Overallotment Option, are set forth in the section headed "Structure and Conditions of the Share Offer" in this prospectus.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of certain U.S. dollar amounts into Hong Kong dollars at specified rates. You should not construe these translations as representations that the U.S. dollar amounts could actually be, or have been, converted into Hong Kong dollar amounts at the rates indicated or at all. Unless we indicate otherwise, the translations of U.S. dollar amounts into Hong Kong dollars have been made at the rate of U.S.\$1.00 to HK\$7.80.

ROUNDINGS

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred or hundred thousand, respectively, unless otherwise indicated or the context requires otherwise. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Accordingly, totals of rows or columns of numbers in tables may not be equal to the apparent total of the individual items.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

WAIVERS FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions which will constitute non-exempt continuing connected transactions of our Company under the Listing Rules after the Listing. We have, pursuant to Rule 14A.105 of the Listing Rules, applied for and the Stock Exchange has granted a waiver from strict compliance with the relevant requirements under Chapter 14A of the Listing Rules in respect of the non-exempt continuing connected transactions. Please see "Continuing Connected Transactions" for further details.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr. Tung Tsun Hong (董信康先生)	Flat A, 32/F No. 1 Ho Man Tin Hill 1 Ho Man Tin Hill Road Kowloon Hong Kong	Chinese
Mr. Tung Wai Ting Stephen (董韋霆先生)	Flat A, 13/F No. 1 Ho Man Tin Hill 1 Ho Man Tin Hill Road Kowloon Hong Kong	Chinese
Mr. Tung Cheuk Ming Stanley (董卓明先生)	Flat B, 18/F, High Cliff 41D Stubbs Road The Peak Hong Kong	Chinese
Independent non-executive Directors		
Mr. Tsang Ling Biu Gilbert (曾令鏢先生)	Flat 2, 18/F, Block C, Beverly Hill 6 Broadwood Road Happy Valley Hong Kong	Australian
Mr. Cheung Che Kit Richard (張之傑先生)	Flat A, 17/F, The Summit 41C Stubbs Road Wanchai Hong Kong	Chinese
Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生)	No. 52, La Salle Road Kowloon Hong Kong	Chinese

For more information on our Directors and members of senior management, please see "Directors and Senior Management" for further details.

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED IN THE SHARE OFFER

Sole Sponsor and Sole Global

Coordinator

Shenwan Hongyuan Capital (H.K.) Limited

Level 19

28 Hennessy Road

Hong Kong

Joint Bookrunners and Joint Lead Managers Shenwan Hongyuan Capital (H.K.) Limited

Level 19

28 Hennessy Road

Hong Kong

SPDB International Capital Limited

Suite 3207–3212 One Pacific Place 88 Queensway Hong Kong

I Win Securities Limited

Room 1916

Hong Kong Plaza

188 Connaught Road West

Sai Wan Hong Kong

Legal Advisers to our Company

As to Hong Kong law

P. C. Woo & Co.

Room 1225

12/F, Prince's Building

10 Chater Road

Central Hong Kong

As to PRC law

King & Wood Mallesons

25th Floor

Guangzhou CTF Finance Centre

No. 6 Zhujiang East Road

Zhujiang New Town

Tianhe District

Guangzhou

PRC

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to Cayman Islands law

Maples and Calder (Hong Kong) LLP

53rd Floor The Center

99 Queen's Road Central

Hong Kong

Legal Advisers to the Sole Sponsor and the Underwriters

As to Hong Kong law

Deacons

5th Floor, Alexandra House

18 Chater Road Hong Kong

As to PRC law

AllBright Law Offices Room 02–07, Floor 33

Guangzhou International Financial Center

No. 5 Zhujiang West Road

Zhujiang New Town

Tianhe District, Guangzhou

510623 China

Auditors and Reporting Accountants

Deloitte Touche Tohmatsu

Certified Public Accountants
35th Floor, One Pacific Place

88 Queensway Hong Kong

Industry Consultant

Frost & Sullivan Limited

1706, One Exchange Square

8 Connaught Place

Central Hong Kong

Receiving banker

DBS Bank (Hong Kong) Limited

11th Floor, The Center 99 Queen's Road Central Central, Hong Kong

CORPORATE INFORMATION

Registered Office PO Box 309, Ugland House

Grand Cayman KY1-1104

Cayman Islands

Headquarters in the PRC Gaoping Industrial Area

Zhongshan, Guangdong Province

the PRC

Principal place of business in

Hong Kong

Unit A6, 31/F, TML Tower No. 3 Hoi Shing Road

Tsuen Wan, New Territories

Hong Kong

Company website http://www.hwtextiles.com.hk

(Note: information on this website does not form part of this

prospectus)

Company secretary Mr. Cheung Ka Chun (張家俊先生), (CPA)

Room 1807, Oi Chi-House, Yau Oi Estate, Tuen Mun, Hong Kong

Audit committee Mr. Tsang Ling Biu Gilbert (曾令鏢先生) (Chairman)

Mr. Cheung Che Kit Richard (張之傑先生)

Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生)

Remuneration committee Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生) (Chairman)

Mr. Cheung Che Kit Richard (張之傑先生) Mr. Tung Wai Ting Stephen (董韋霆先生)

Nomination committee Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生) (Chairman)

Mr. Cheung Che Kit Richard (張之傑先生) Mr. Tung Cheuk Ming Stanley (董卓明先生)

Authorised representatives Mr. Tung Wai Ting Stephen (董韋霆先生)

Flat A. 13/F

No. 1 Ho Man Tin Hill 1 Ho Man Tin Hill Road

Kowloon Hong Kong

Mr. Cheung Ka Chun (張家俊先生)

Room 1807, Oi Chi-House, Yau Oi Estate, Tuen Mun, Hong Kong

Compliance adviser Shenwan Hongyuan Capital (H.K.) Limited

Level 19

28 Hennessy Road

Hong Kong

CORPORATE INFORMATION

Principal bankers The Hongkong and Shanghai Banking Corporation

1 Queen's Road Central

Hong Kong

Principal share registrar and

transfer office in the Cayman Islands Maples Fund Services (Cayman) Limited

PO Box 1093

Boundary Hall, Cricket Square

Grand Cayman KY1-1102 Cayman Islands

Hong Kong Branch Share

Registrar and Transfer

Office

Tricor Investor Services Limited

Level 22

Hopewell Centre

183 Queen's Road East

Hong Kong

This section contains certain information which has been derived from the Frost & Sullivan Report, which our Directors believe to be reliable. References to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information extracted from the Frost & Sullivan Report are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information extracted from the Frost & Sullivan Report has not been independently verified by us, or any of our affiliates or advisers, nor by the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners or the Joint Lead Managers or any of their affiliates or advisers or any other party involved in the Share Offer (except Frost & Sullivan) and no representation is given as to its accuracy. Our Directors confirm that, after taking reasonable care, there has been no material adverse change in the market information since the date of the Frost & Sullivan Report which may qualify, contradict or have a material impact on the information in this section.

INTRODUCTION

Denim has a long history in the world of fashion. The first denim garment was born in the 1840s in the U.S. when it was used as work clothes for riflemen. It became a fashion symbol of rebellious youth in the 1950s and the mainstream attire produced in large quantities in the 1970s. Even today, denim garments remain popular and are favoured by all ages around the world due to its simple, versatile and enduring characteristics. According to Frost & Sullivan, the per capita denim garment consumption in the U.S. in 2017 is nine pieces. The retail value of denim garment market for the global and U.S. markets amounted to USD462.0 billion and USD126.2 billion, respectively in 2017. Many apparel brands have their denim series targeting different types of consumers. The rise of denim fashion leads to increase in demand of denim fabric, which is the main driver of the denim fabric manufacturing industry.

Benefited from its source of skilled labour force and proximity to a large pool of garment manufacturers located in China and the South East Asia, China has maintained strong competitiveness in the global denim fabric manufacturing industry. According to Frost & Sullivan, the annual output of denim fabric produced in China accounted for approximately 49.9% of global production in 2017.

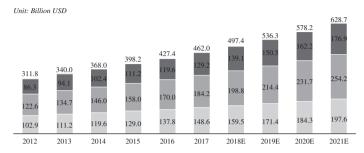
OVERVIEW OF THE DENIM GARMENT RETAIL MARKET INDUSTRY

According to Frost & Sullivan, denim garments are generally segmented into (i) luxury-fashion brands which are priced over USD200 per piece; (ii) middle-to high-end brands which are priced between USD50 and USD200 per piece; and (iii) mass market brands which are priced under USD50 per piece.

Market Size and Growth of the Denim Garment Retail Market

Global Market

Retail Value of Denim Garment Market in Global Market, 2012-2021E



Classification	12/17 CAGR	17/21E CAGR
Total	8.2%	8.0%
Luxury	8.4%	8.2%
Middle-to high-end	8.5%	8.4%
Mass market	7.6%	7.4%

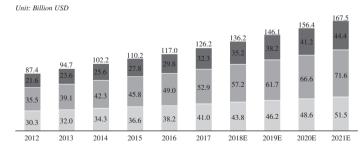
Source: Frost & Sullivan

The increase in denim fashion awareness has brought continuous growth in the retail value of global denim garment market. From 2012 to 2017, the retail value of global denim garment market increased at a CAGR of 8.2%, reaching a total size of USD462.0 billion in 2017. The retail value of global mass denim garment market increased from USD102.9 billion in 2012 to USD148.6 billion in 2017, representing a CAGR of 7.6%. The retail value of global middle-to high-end denim garment market increased from USD122.6 billion in 2012 to USD184.2 billion in 2017 with a CAGR of 8.5%. The retail value of global luxury denim garment market grew from USD86.3 billion in 2012 to USD129.2 billion in 2017, representing a CAGR of 8.4%.

According to Frost & Sullivan, thanks to the increasing popularity of casual wear, the introduction of new design styles and the development of functional denim fabrics, the retail value of global denim garment is estimated to reach USD628.7 billion in 2021 with a CAGR of 8.0% from 2017 to 2021.

US Market

Retail Value of Denim Garment Market in U.S., 2012-2021E



Classification	12/17 CAGR	17/21E CAGR
Total	7.6%	7.3%
Luxury	8.4%	8.3%
Middle-to high-end	8.3%	7.9%
Mass market	6.2%	5.9%

Source: Frost & Sullivan

The U.S., which has a population of 326.2 million, accounts for approximately 27.3% of the global denim garment market in 2017. From 2012 to 2017, the retail value of U.S. denim garment market increased steadily at a CAGR of 7.6%, reaching a total size of USD126.2 billion in 2017. The luxury brand segment had the highest CAGR of 8.4% among all segments in the market from 2012 to 2017, due

to the increasing fashion awareness for denim garments among luxury brand consumers. It is expected that the overall growth of U.S. denim garment market will maintain a stable momentum at a CAGR of 7.3% from 2017 to 2021, reaching a total size of USD167.5 billion in 2021.

Europe Market

Retail Value of Denim Garment Market in Europe, 2012-2021E

17/21E

7.3%

9.2%

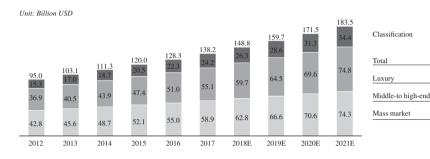
7.9%

12/17 CAGR

7.8%

8.3%

6.6%

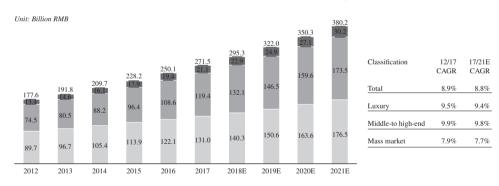


Source: Frost & Sullivan

Europe, with a total population of 510.0 million, which is the largest consumer of the global denim garment market, accounted for approximately 29.9% of the global market in terms of retail value in 2017. Similar to the U.S. market, the luxury brand segment in European market recorded the highest CAGR among all the segments for the period between 2012 and 2017 and is expected to have a CAGR of 9.2% from 2017 to 2021.

China Market

Retail Value of Denim Garment Market in China, 2012-2021E



Source: Frost & Sullivan

From 2012 to 2017, the overall denim garment retail market in China had witnessed a stable growth from RMB177.6 billion to RMB271.5 billion, representing a CAGR of 8.9% and accounting for 8.7% of the global market in 2017. The per capita spending on denim garments in China was equivalent to approximately 7.5% of per capita spending on denim garments in the U.S. in 2017. In China, the mass market segment accounted for the largest proportion of the total denim garment retail market, which reached RMB131.0 billion in 2017 and accounted for 48.3% of the retail value of denim garment market in China. The retail value of China middle-to high-end denim garment market increased from RMB74.5

billion in 2012 to RMB119.4 billion in 2017 with a CAGR of 9.9%. The retail value of China luxury denim garment market increased from RMB13.4 billion in 2012 to RMB21.1 billion in 2017, representing a CAGR of 9.5%.

Benefited from the continuous economic growth in China, the overall retail value of China denim garment market is estimated to reach RMB380.2 billion, with a CAGR of 8.8% from 2017 to 2021.

Market Trends of the Denim Garment Retail Market

Pursuit of Both Fashion and Functionality: Nowadays, a large number of denim garment brands are introducing new series and collections of denim garments with specific market positioning to stimulate sales. In recent years, with the increasing fashion awareness, customers tend to purchase denim garments with different styles. Moreover, the continuous performance improvement of stretchable denim fabric has given fashion designers more possibilities for upgrading the functionality of the garments, which is praised and welcomed by the consumers. Given the increasing demand of the garments with stretchable denim fabric, most denim garment brands intend to design and launch more denim garments with stretchable denim fabric, which causes greater demand for stretchable denim fabric.

Increasing Brand Awareness of Consumers: According to Frost & Sullivan, consumers are willing to pay a price premium on branded products as branded products usually represent good quality and trendy design. Increasing brand awareness of consumers further drives the development of the middle-to high-end denim garment retail market. In 2021, the retail value of the global middle-to high-end denim garment market is expected to reach USD254.2 billion. Increasing global demand for the middle-to high-end denim garments is expected to drive the demand for high quality denim fabric and thus provide good opportunities for denim fabric manufacturers in China.

According to Frost & Sullivan, the aforesaid market trend of the denim garment retail market will benefit those denim fabric manufacturers who possess capabilities of delivering high quality stretchable fabric as well as the strategy to enhance the customer stickiness with denim apparel brands.

OVERVIEW OF THE DENIM FABRIC MANUFACTURING INDUSTRY

Key Features of Denim Fabric

Denim fabric is a sturdy cotton warp-faced textile in which the weft passes under two or more warp threads. The most common denim is indigo denim, in which the wrap thread is dyed, while the weft thread is left white. As a result of the warp-faced twill weaving, one side of the textile is dominated by the blue warp threads and the other side is dominated by the white weft threads. Generally, the main category of denim fabric includes pure cotton denim and non-pure cotton denim.

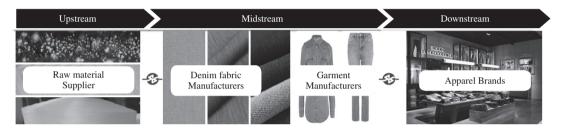
Pure cotton denim fabric is mainly composed of cotton, with key features of non-elastic, harder texture and non-versatile.

Non-pure cotton denim fabric is composed of cotton, polyester, spandex, lyocell, lycra and rayon and possesses elastic, soft and versatile characteristics.

Value Chain of Denim Fabric Manufacturing Industry

Raw material suppliers are the key upstream players of the denim fabric manufacturing industry. The principal raw materials of denim fabric manufacturing industry include cotton, rayon, polyesters, lycra, colour dyes, packaging materials and other chemicals.

Denim fabric manufacturers usually have close relationships with garment apparel brands. Some reputable denim fabric manufacturers cooperate with the apparel brands directly to participate in the design of denim garment. As the quality of raw materials is one of the key factors that affect the quality of denim fabric, luxury fashion brand, middle-to high-end apparel brands generally select qualified denim fabric manufacturers using high quality raw materials to be their long-term suppliers. Once cooperation is established with apparel brands, the denim fabric manufacturers would be shortlisted to be the nominated suppliers. Meanwhile, the denim garment manufacturers are instructed by apparel brands to purchase fabric from the shortlisted denim fabric manufacturers based on different requirements of various products.

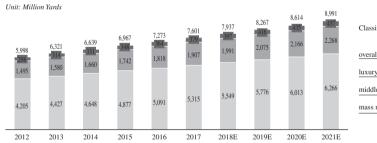


Source: Frost & Sullivan

Market Size and Growth of the Denim Fabric Manufacturing Industry

Global Market

Denim Fabric Production Output (Global), 2012–2021E



Classification	12/17 CAGR	17/21E CAGR
overall	4.9%	4.3%
luxury	4.9%	4.8%
middle-to high-end	5.0%	4.4%
mass market	4.8%	4.2%

Source: Frost & Sullivan

^{*} Note 1: The price of luxury denim fabric is defined as USD7.0 per yard or above.

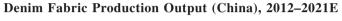
^{*} Note 2: The price of middle-to high-end denim fabric is defined as ranging from USD3.0-USD7.0 per yard.

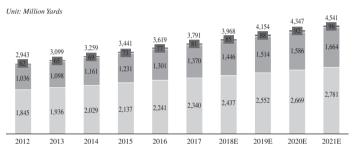
^{*} Note 3: The price of mass market denim fabric is defined as USD3.0 per yard or below.

Following the increasing demand in the downstream industry, the production output of global denim fabric manufacturing industry in mass market segment increased from 4,205 million yards in 2012 to 5,315 million yards in 2017, representing a CAGR of 4.8%. The production output of global denim fabric manufacturing industry in middle-to high-end segment increased from 1,495 million yard in 2012 to 1,907 million yards in 2017, representing a CAGR of 5.0%. The production output of global denim fabric manufacturing industry in luxury segment grew at a CAGR of 4.9% from 2012 to 2017.

From 2017 to 2021, the total global denim fabric production output is expected to grow at a CAGR of 4.3%, reaching 8,991 million yards in 2021.

China Market





 Classification
 12/17 CAGR
 17/21E CAGR

 overall
 5.2%
 4.6%

 luxury
 5.5%
 4.3%

 middle-to high-end
 5.7%
 5.0%

 mass market
 4.9%
 4.4%

Source: Frost & Sullivan

China is one of the main manufacturing bases of denim fabric, particularly the production output of middle-to high-end segment accounting for approximately 71.8% of the entire global production output of the same segment, whilst the mass market and the luxury represented 44.0% and 21.4% of the total output in 2017. The upward trend of the global denim garment retail market drives the growth of China denim fabric manufacturing industry in the period of 2012 to 2017. The production output of China denim fabric manufacturing industry in mass market segment increased from 1,845 million yards in 2012 to 2,340 million yards in 2017, representing a CAGR of 4.9%. The production output of middle-to highend segment increased from 1,036 million yards in 2012 to 1,370 million yards in 2017, representing a CAGR of 5.7%. The production output of China denim fabric manufacturing industry in luxury segment increased from 62 million yards in 2012 to 81 million yards in 2017, representing a CAGR of 5.5%.

According to Frost & Sullivan, the total China denim fabric production output is expected to grow at a CAGR of 4.6%, reaching 4,541 million yards in 2021.

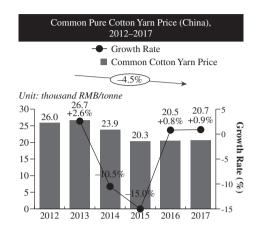
Future Opportunity of Denim Fabric Manufacturing Industry

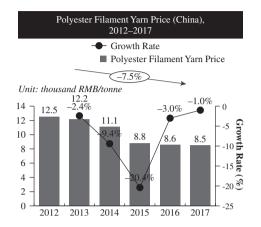
Enhanced Cooperation with International Apparel Brands: With the improvement in design capability and quality of denim fabric, some leading denim fabric manufacturers in China participate in the design of denim garment for international apparel brands. By the involvement of the design of denim garment, denim fabric manufacturers are able to maintain strong relationships with customers.

Favourable Trend for Stretchable Denim: Stretchable denim fabric makes denim garments more comfortable, flexible and wearable, which has been favoured by international apparel brands in recent years. According to Frost & Sullivan, the trend of stretchable denim will continue in the future. As the

manufacturing process of stretchable denim requires high technology knowhow, leading denim fabric manufactures who are already manufacturing stretchable denim will find themselves in a more advantageous position for competition.

RAW MATERIAL PRICE ANALYSIS





Source: Frost & Sullivan

Yarn is a long continuous length of interlocked fibres, suitable for use in the production of textiles, sewing, crocheting, knitting, weaving, embroidery, and rope making. Cotton yarn and polyester yarn are the two most important yarn material for denim fabric, and polyester yarn could make the denim fabric more stretchable.

From 2012 to 2017, China's common cotton yarn price decreased from RMB26,000 per tonne in 2012 to RMB20,700 per tonne in 2017, representing a CAGR of -4.5%.

From 2012 to 2017, China's polyester filament yarn price decreased from RMB12,500 per tonne in 2012 to RMB8,500 per tonne in 2017, representing a CAGR of -7.5%.

ENTRY BARRIERS ANALYSIS

Skilled and Experienced Labour Force: The denim fabric manufacturers require skilled and experienced labour to operate the machinery to produce quality denim fabric. As such, skilled and experienced labour is an important asset and key success factor for denim fabric manufacturers in the industry. Established manufacturers have the resources to train and retain skilled employees and management staff. For new entrants, the recruitment, training and retention of the skilled workers become a challenge for them.

Capital Investment: The establishment of a new denim fabric factory requires large-scale investment in fixed assets, raw materials, human resources and sufficient working capital for daily operation. Moreover, with the continuous demanding requirement of denim fabric quality and performance, denim fabric manufacturers strive to remain competitive that requires sustained capital investment in production machinery and equipment. For new entrants, the requirement on large capital investments is one of the key entry barriers.

Relationship with Suppliers and International Apparel Brands: Leading denim fabric manufacturers are able to achieve lower production cost and stable source of sales as they usually have larger production volume that helps to achieve higher degree of economies of scale through lowering per unit fixed overhead and bulk purchase discounts, as well as well-established relationships with international apparel brands. These denim fabric manufacturers are familiar with the requirements and sourcing processes of their customers. In addition, in order to maintain the quality and consistency of raw materials, customers usually choose suppliers with good reputation and track record and are unlikely to change their suppliers frequently. This poses a significant barrier to the new entrants.

THREATS AND CHALLENGES

Fluctuations of Exchange rate of RMB against USD: In China, a large quantity of denim fabric produced by local manufacturers are exported to other developed countries. As the U.S. has been consistently one of the largest export destinations for denim fabric made in China in recent years, the depreciation of the RMB will increase the competitiveness of China-based exporters that generate overseas income in the future. However, the PRC based denim fabric manufacturers or exporters may be adversely affected should RMB appreciate against USD.

Continuous increase in Labour Cost: The average monthly salary of labour in the China denim fabric manufacturing industry experienced a CAGR of 9.3% from 2012 to 2017. In 2017, the average monthly salary of labour in this industry reached RMB3,444.7. Due to the shortage and high turnover of skilled labour, the average monthly salary of labour in the China denim fabric manufacturing industry is projected to rise to RMB4,255.2 in 2021. As such, inflating labour cost in the China may pose a challenge to the China denim fabric manufacturing industry and reduce manufacturers' profit margins.

COMPETITIVE LANDSCAPE OF THE DENIM FABRIC MANUFACTURING INDUSTRY

Competitive landscape in China

Market Share of Leading Players in Terms of Production Value (China), 2017

Ranking	Company	Location	Market Share (%)
1	Company A	Jiangsu	3.0%
2	Company B	Guangdong	2.9%
3	Company C	Zhejiang	2.8%
4	Company D	Zhejiang	2.3%
5	Company E	Shandong	2.2%
6	Company F	Zhejiang	2.0%
7	Our Group	Guangdong	1.9%
8	Company G	Zhejiang	1.7%
9	Company H	Hebei	1.4%
10	Company I	Zhejiang	1.2%
Top 1	0 players in China		21.4%
	Others		78.6%

Production Value of Middle-to High-end Denim Fabric in China by 2017: RMB29.5 Billion

Source: Frost & Sullivan

At present, the competitive landscape of middle-to high-end denim fabric manufacturing industry in China is relatively fragmented, with top ten market players accounting for approximately 21.4% of the market share with the remaining 78.6% represented by approximately 400 manufacturing entities in 2017. Most denim fabric manufacturers establish the production bases in Guangdong, Zhejiang, Shandong and Jiangsu.

The production value of our Group in 2017 took a market share of 1.9% and ranked seventh in the China's middle-to high-end denim fabric manufacturing industry.

Competitive landscape in South China

Market Share of Leading Players in Terms of Production Value (South China), 2017

Ranking	Company	Market Share (%)
1	Company B	8.4%
2	Our Group	5.4%
3	Company J	3.5%
4	Company K	2.3%
5	Company L	2.0%
Top 5 pl	ayers in South China	21.6%
	Others	78.4%

Production Value of Middle-to High-end Denim Fabric in South China by 2017: RMB10.3 Billion

Note: South China includes Guangdong Province, Hainan Province and Guangxi Zhuang Autonomous Region.

Source: Frost & Sullivan

The South China's middle-to high-end denim fabric manufacturing industry is relatively fragmented, with the five largest market players accounting for around 21.6% of the market share and the remaining 78.4% was represented by approximately 100 manufacturing entities in 2017.

In 2017, our Group ranked second in terms of production value in the South China's middle-to high-end denim fabric manufacturing industry, with approximately 5.4% of the total production value of that market in 2017.

Competitive advantages of our Group

Our Directors believe that our competitive strengths have contributed to our success in the denim fabric manufacturing industry. Some of our competitive strengths include renowned reputation in the industry, establishment of long-term collaborative relationships with reputable U.S. apparel brands, strong product design and development capability, adoption of stringent quality control measures, and experienced management with strong knowhow. Please see "Business — Our Competitive Strengths" for further details.

SOURCES OF INFORMATION

Our Group has engaged Frost & Sullivan, an Independent Third Party, to conduct a study of the denim fabric manufacturing industry. We agreed to pay Frost & Sullivan a fee of HK\$750,000 for the preparation of the Frost & Sullivan Report, and our Directors consider that such fee reflects market rates.

Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practises advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has four offices in Hong Kong and the PRC and direct access to the most knowledgeable experts and market participants in the denim fabric manufacturing industry.

The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included secondary research and primary research. Secondary research involves information integration of data and publication from various resources, including company reports, independent research reports and data based on Frost & Sullivan's own research database. Primary research involves discussing the status of the industry with leading industry participants and industry experts.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) the PRC economy is likely to maintain steady growth in the next decade; and (ii) the PRC's social, economic and political environment is likely to remain stable in the forecast period.

REGULATORY OVERVIEW

OVERVIEW

Our business operations are subject to certain laws and regulations in Hong Kong and the PRC. Below is a summary of the laws and regulations which are material to our Group:

HONG KONG LAWS AND REGULATIONS

There are no specific statutory requirements for our Group to obtain any licences for carrying out our businesses in Hong Kong other than those applicable to all body corporate conducting business in Hong Kong, such as obtaining valid business registration certificate under the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong).

Set out below is a summary of the major laws and regulations applicable to our business in Hong Kong.

Business Registration

The Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) requires every person carrying on any business shall make application to the Commissioner of Inland Revenue in the prescribed manner for the registration of that business. Business registration application shall be made to the Commissioner of Inland Revenue as soon as practicable after the prescribed business registration fees are paid. Then business registration certificate or branch registration certificate for the relevant business or the relevant branch shall be issued as the case may be.

Taxation

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") imposes taxes on property, earnings and profits in Hong Kong. The Inland Revenue Ordinance provides, among others, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business.

Our profits arising in or derived from Hong Kong are subject to the profit tax regime under the Inland Revenue Ordinance. As at the Latest Practicable Date, the standard profits tax rate for corporations in Hong Kong is 16.5%.

In addition, pursuant to section 20(2) of the Inland Revenue Ordinance, a non-resident person shall be liable to Hong Kong profit tax where it carries on business with a closely connected resident person and such business arranged that it produces to the resident person either no profits which arise in or derive from Hong Kong or less than the ordinary profits which might be expected to arise in or derive from Hong Kong.

The Inland Revenue Department has outlined its views on transfer pricing issues by issuing a Departmental Interpretation and Practice Note 46 in December 2009 on Transfer Pricing Guidelines — Methodologies and Related Issues, which states that transfer pricing documentation is not mandatory under the Inland Revenue Ordinance and the taxpayers are not expressly required to create specific documents showing compliance with the arm's length principle.

REGULATORY OVERVIEW

Import and Export

Regulations 4 and 5 of the Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong) (the "IER") provide that every person who imports or exports any article other than an exempted article shall lodge an accurate and complete import or export declaration relating to such article using services provided by a specific body with the Commissioner of Customs and Excise within 14 days after the importation and exportation of the article.

Any person failing to declare within 14 days after the importation without reasonable excuse is liable to a fine of HK\$1,000 upon summary conviction and HK\$100 in respect of every day such declaration has not been lodged. Furthermore, the IER also provide that any person knowingly or recklessly lodges any declaration with the Commissioner that is inaccurate in any material particular shall be liable to a fine of HK\$10,000 upon summary conviction.

Occupational Safety and Health

The Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) provides for the safety and health protection to employees in workplaces, both industrial and non-industrial.

Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- (i) providing and maintaining plant and work systems that are safe and without risks to health;
- (ii) making arrangement for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- (iii) providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- (iv) providing and maintaining safe access to and egress from the workplaces; and
- (v) providing and maintaining a working environment that is safe and without risks to health.

Failure to comply with the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months.

The Commissioner for Labour may also issue improvement notices against non-compliance of this Ordinance, or suspension notices against activity of workplace which may create imminent hazard to the employees. Failure to comply with such notices constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000, respectively and imprisonment of up to one year.

Supply of goods

The sales of goods by our Group in Hong Kong is regulated by the Sales of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) (the "SOGO").

Section 15 of the SOGO provides that, in a contract for the sale of goods by description, there is an implied condition that the goods shall correspond with the description.

Section 16 of the SOGO provides that where a seller sells goods in the course of a business, there is an implied condition that the goods supplied under the contract are of merchantable quality, except that there is no such condition (i) as regards to defects specifically drawn to the buyer's attention before the contract is made; or (ii) if the buyer examines the goods before the contract is made, as regards defects which that examination ought to reveal; or (iii) if the contract is a contract by sample, as regards defects which would have been apparent on a reasonable examination of the sample.

Control of exemption clauses

The contracts that we enter into with our customers which are governed by the laws of Hong Kong are subject to the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong) (the "CECO") which aims to limit the extent to which civil liability for breach of contract, or for negligence or other breach of duty, can be avoided by means of contract terms and otherwise.

Under section 7 of the CECO, a person cannot by reference to any contract term or to a notice given to persons generally or to particular persons exclude or restrict his liability for death or personal injury resulting from negligence. Further, in the case of other loss or damage, a person cannot so exclude or restrict his liability for negligence except in so far as the term or notice satisfies the requirement of reasonableness.

Employees' Compensation Ordinance

The Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) (the "**ECO**") establishes a no-fault and non-contributory employee compensation system for work injuries and lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases. The ECO applies equally to full-time and part-time employees who are employed under service agreements or apprenticeships.

If an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is generally liable to pay compensation under the ECO even if the employee might have contributed to the accident occurred.

Pursuant to the ECO, all employers (including contractors and subcontractors) are obliged to take out insurance policies to cover their liabilities arising from the ECO and the common law as a result of injuries sustained by their employees in the course of their employments. Similarly, under section 32 of the ECO, an employee who suffers incapacity or dies arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents. Further, section 40 of the ECO provides that an employer is not permitted to employ any employee in any employment unless there is in force in relation to such employee a policy of insurance issued by an insurer for an amount not less than that specified in the ECO.

Mandatory Provident Fund

Under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPFSO"), employees who are aged between 18 to 65 must participate in a Mandatory Provident Fund, which is a defined contribution retirement plan administrated by authorised independent trustees. Pursuant to the MPFSO, the employer and its relevant employee, are each required to make contributions to the scheme at 5% of the relevant employees' relevant income, including any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance expressed in monetary terms, paid or payable by the employer to the relevant employee in consideration of his employment.

Minimum Wage

The prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee is govern by the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) (the "MWO"). Section 15 of the MWO provides that any provision of employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee under the MWO is void.

PRC LAWS AND REGULATIONS

Laws and Regulations Relating to Foreign Investment

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

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

Investment in the PRC conducted by foreign investors and foreign-owned enterprises shall comply with the Guidance Catalogue of Industries for Foreign Investment (《外商投資產業指導目錄》) (the "Catalogue"), which was jointly issued by the State Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation in 1995, and amended in 1997, 2002, 2004, 2007, 2011, 2015 and 2017. The current effective Catalogue was issued on 28 June

2017, and came into force on 28 July 2017. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign investment. Any industry not listed in the Catalogue is a permitted industry.

Pursuant to the Catalogue (amended in 2017), the manufacturing of denim fabrics do not fall into the "restricted" or "prohibited" categories. Thus, we are permitted to engage in the manufacture of denim fabrics in the PRC.

Laws and Regulations Relating to Product Liability

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

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

As we are a manufacturer of denim fabrics, we are obliged to comply with the aforesaid laws and regulations on product quality.

Laws and Regulations Relating to Importation and Exportation of Goods

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

Pursuant to the Administrative Provisions of the Customs of the PRC on the Registration of Customs Declaration Entities (《中華人民共和國海關報關單位註冊登記管理規定》) promulgated by the General Administration of Customs on 13 March 2014, and amended on 20 December 2017, and became effective on 1 February 2018, the consignees or consignors of imported and exported goods shall register with local customs in accordance with the laws.

Each of Hing Shing and Hing Tak has obtained the valid long-term Registration Certificate of the Customs for Declaration Entities.

Laws and Regulations Relating to Labour Protection

Labour Contract

Pursuant to the Labour Law of the PRC (《中華人民共和國勞動法》), as promulgated on 5 July 1994 and amended and effective on 27 August 2009, employers should enter into labour contracts with their employees. The policy of the wages shall be paid according to the performance, equal pay for equal work. Lowest wage protection and special labour protection for female workers and juvenile workers shall be implemented. Employers are also required to pay for their employees' social insurance premiums and housing providence funds. These payments are made to local administrative authorities and an employer who fails to contribute may be fined and be ordered to make up for the outstanding contributions.

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

Social Insurance and Housing Provident Fund

Social Insurance

Pursuant to the Social Insurance Laws of the PRC (《中華人民共和國社會保險法》) promulgated by the SCNPC on 28 October 2010 and effective on 1 July 2011; the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), which was promulgated by the State Council on 22 January 1999 and became effective on the same date, employers are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. Employers must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an employer does not pay the full amount of social insurance premiums as scheduled, the social insurance premium collection institution shall order it to make the payment or make up the difference within the stipulated time period and impose a daily fine equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the payment is not made within the stipulated period, the relevant administration department shall impost a fine from one to three times the amount of overdue payment.

The various laws and regulations that govern the employers' obligation to contribute to the social insurance funds include:

the Decision of the State Council on Establishing a Unified System of the Basic Pension Insurance for Enterprise Employees (《國務院關於建立統一的企業職工基本養老保險制度的决定》), which was promulgated and effective on 16 July 1997, and the Circular on Relevant Issues concerning the Improvement of the Basic Pension Insurance Policy for Urban Employees(《關於完善城鎮職工基本養老保險政策有關問題的通知》), which was promulgated and effective on 22 December 2001;

- the Regulation on Work-related Injury Insurance (《工傷保險條例》), which was promulgated by the State Council on 27 April 2003 and amended on 20 December 2010;
- the Regulation on Unemployment Insurance (《失業保險條例》), which was promulgated and effective on 22 January 1999;
- the Decision of the State Council on Establishing the Basic Medical Insurance System for Urban Employees (《國務院關於建立城鎮職工基本醫療保險制度的决定》), which was promulgated and effective on 14 December 1998; and the Circular on the Issuance of Provisions on the Administration of Basic Medical Insurance for Urban Employees (《勞動和社會保障部關於印發城鎮職工基本醫療保險管理規定的通知》), which was promulgated and effected 5 January 2000; and
- the Trial Measures on Maternity Insurance for Enterprise Employees (《企業職工生育保險試行辦法》), which was promulgated on 14 December 1994 and effective on 1 January 1995

Housing Provident Fund

According to the Regulation on Management of the Housing Provident Fund (《住房公積金管理條例》), which was promulgated and became effective on 3 April 1999 and was then amended on 24 March 2002, employers must register with the competent managing center for housing provident fund, and are required to contribute, on behalf of their employees, to housing provident funds. Any employer who fails to contribute may be ordered to make good the deficit within a stipulated time limit.

Safe Production

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

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

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

Laws and Regulations Relating to Environment Protection

General Laws

The Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) (the "Environmental Protection Law"), which was promulgated by the SCNPC on 26 December 1989, amended on 24 April 2014 and effective as of 1 January 2015, provides a regulatory framework to protect and improve the environment, prevent and reduce pollution and other public hazards, and safeguard human health. Enterprises and other manufacturers shall prevent and reduce environmental pollution and ecological damage as well as take the liabilities for the damages caused.

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

Prevention and Control of Various Pollutions

The Law on Prevention and Control of Water Pollution of the PRC (《中華人民共和國水污染防治法》), as promulgated on 11 May 1984 and effective from 1 November 1984, amended on 15 May 1996, 28 February 2008 and 27 June 2017, the Law on Prevention and Control of Atmospheric Pollution of the PRC (《中華人民共和國大氣污染防治法》), as promulgated on 5 September 1987, amended on 29 August 1995, 29 April 2000 and 29 August 2015, as well as the Law on Prevention and Control of Environmental Noise Pollution of the PRC (《中華人民共和國環境噪聲污染防治法》), which was promulgated on 29 October 1996 and became effective on 1 March 1997, prescribe the details for the prevention and control of water pollution, atmospheric pollution and noise pollution respectively.

According to the Administrative Measures for Pollutant Emission Permit (Trial) (《排污許可管理辦法(試行)》) ("Administrative Measures") on 10 January 2018 and the General Rules on the Specification of the Environmental Management Records and Compliance Reports of Pollutant Emission Permit (Trial) (《排污單位環境管理台賬及排污許可證執行報告技術規範總則(試行)》) ("General Rules") on 27 March 2018, all enterprises in the textile and dyeing industry are required to possess permits for pollutant emission, and shall prepare the environmental management records and the compliance reports in accordance with the pollutant permits and the specifications stated in Administrative Measures and the General Rules.

According to the Appraising of Environment Impacts Law of the PRC (《環境影響評價法》) promulgated by SCNPC on 28 October 2002, amended on 2 July 2016 and effective as of 1 September 2016, and the Management Regulations of Environmental Protection of Construction Project (《建設項目環境保護管理條例》), which was promulgated by the State Council and amended on 2017, the PRC practises a system for the evaluation of the environmental impact of a construction project. A construction entity shall, on or prior to commencement of construction or, during the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact report form or environmental impact registration form for approval.

Further, the construction entity shall, during the certain construction stage or upon the completion of the construction project, file an application with the relevant department of environmental protection administration that examined and approved the said construction project for inspection and acceptance.

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

Laws and Regulations Relating to Intellectual Property Rights

Trademark

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

Laws and Regulations Relating to Foreign Exchange

Foreign Currency Exchange

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

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

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

According to SAFE Circular 19 foreign-invested enterprises may choose to convert any amount of foreign exchange in their capital account into Renminbi according to their actual business needs. The converted Renminbi must be kept in a designated account and if a foreign-invested enterprise needs to make further payment from such account it still needs to provide supporting documents and go through the review process with the banks.

Notice of the State Administration of Foreign Exchange on Policies for Reforming and Regulating the Control over Foreign Exchange Settlement under the Capital Account (《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》) (the "SAFE Circular 16"), as promulgated and effective on 9 June 2016, unifies relevant policies previously released by SAFE on the "At-Will" approach for foreign exchange settlement under capital accounts, including policies on the settlement of foreign exchange registered capital, foreign exchange foreign debts, repatriated foreign exchange funds raised through overseas listing and foreign exchange in the funds pool operated by the multinational enterprises. SAFE Circular 16 enables all domestic institutions to choose the timing and amount to convert their foreign exchange funds under the capital accounts into RMB, at current stage, no limitation is set by SAFE, but SAFE shall be entitled to adjust the ration according to the then balance of international payment.

Circular No.37

According to the Notice on Issues Relating to the Administration of Foreign Exchange in Offshore Investment and Fund-raising and Reverse Investment Activities of Domestic Residents Conducted via Special Purpose Vehicles (《關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the "Circular No. 37") issued by SAFE in July 2014, domestic resident individuals, who directly established or indirectly controlled an offshore enterprise for the purposes of investment and financing with his lawful domestic enterprise assets or interests, or his lawful offshore assets or interests (the "SPV"), shall conduct offshore investment foreign exchange registration with SAFE prior to contributing capital to such SPV with domestic or offshore lawful assets or interests. The domestic resident individual may not conduct follow-up business until he finished relevant offshore investment foreign exchange registration. And the Circular No. 37 also stipulates that, where the registered SPV undergoes basic information changes, such as a change in shareholder, name, operation duration or a material event outside the PRC, including but not limited to a change in share capital, merger or acquisition, the domestic resident individual shall promptly register such changes with SAFE.

As each of our then ultimate shareholders is not PRC domestic resident individual or natural person, each of them is not subject to the requirement of foreign exchange registration stipulated in the Circular No. 37.

Dividend Distribution

The principal laws and regulations governing dividends distribution of foreign holding companies include the PRC Company Law, the FIE Law and its implementation rules. Under these laws and regulations, foreign-invested enterprises in the PRC may pay dividends only out of their after-tax profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, wholly foreign-owned enterprises in the PRC must allocate at least 10% of their profits into the statutory surplus reserve upon distribution of their after-tax profits of the current year unless the aggregate sum of the statutory surplus reserve is more than 50% of their registered capital. These reserves are not distributable as cash dividends.

Laws and Regulations Relating to M & A Rules in the PRC

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

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

Laws and Regulations Relating to Taxation in the PRC

Enterprise Income Tax

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

Withholding income tax and international tax treaties

Pursuant to the EIT Law and the EIT Law Implementation Rules, dividends generated after 1 January 2008 and payable by a foreign-invested enterprise in PRC to its foreign investors are subject to a 10% withholding tax, unless any such foreign investor's jurisdiction of registration and incorporation has entered into a tax agreement with PRC which provides a different withholding tax arrangement.

Pursuant to the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) promulgated by the SAT on 21 August 2006, the applicable withholding income tax rate for any dividends declared by a Chinese company is 5% for a shareholder being a Hong Kong resident holding at least 25% interest in its registered capital, or 10% for a shareholder being a Hong Kong resident holding less than 25% interest in its registered capital.

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

According to the Notice on Certain Issues with Respect to the Enforcement of Dividend Provisions in Tax Treaties (《關於執行税收協定股息條款有關問題的通知》) issued on 20 February 2009 by the SAT, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from such reduced income tax rate due to a structure or arrangement that is primarily tax-driven, such PRC tax authorities may adjust the preferential tax treatment. According to the Announcement of the State Administration of Taxation on Issues Relating to "Beneficial Owner" in Tax Treaties (《國家税務總局關 於税收協定中"受益所有人"有關問題的公告》) effective from 01 April 2018, a beneficial owner shall mean a person who has ownership and control over the income and the rights and property from which the income is derived. To determine the beneficial owner status of a resident of the treaty counterparty who needs to enjoy the tax treaty benefits (hereinafter referred to as the "applicant"), a comprehensive analysis shall be carried out, taking into account actual conditions of the specific case. Generally speaking, the following factors, among others, are not favourable for determination of beneficial owner status of the applicant: (1) the applicant is obligated to pay 50% or more of the income, within 12 months from receipt of the income, to a resident of a third country (region); "obligated" shall include agreed obligations and de facto payment even though there is no agreed obligation; (2) the business activities undertaken by the applicant do not constitute substantive business activities; (3) the treaty counterparty country (region) does not levy tax on the relevant income or exempts tax on the relevant income, or levies tax but the actual tax rate is very low, and etc.

Pursuant to the Announcement of the State Administration of Taxation on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), which was promulgated on 17 October 2017, and effective on 1 December 2017, the withholding agent shall, within seven days from occurrence of the withholding obligation, declare and turn over the withheld tax to the tax authorities in charge at the withholding agent's location. Where the income subject to withholding at source derived by a non-resident enterprise is equity investment income such as dividends and bonuses, the date of occurrence of withholding obligation for the relevant tax payable amount shall be the date of actual payment of equity investment income such as dividends and bonuses.

Value-added tax

Pursuant to the Interim Regulations on Value-Added Tax of the PRC (《中華人民共和國增值税暫行條例》), promulgated by the State Council on 13 December 1993, amended on 19 November 2017, Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates (《財政部、國家稅務總局關於調整增值稅稅率的通知》), promulgated on 4 April 2018, and became effective on 1 May 2018, and the Implementation Rules of the PRC Interim Regulations on Value-Added Tax (《中華人民共和國增值稅暫行條例實施細則》), promulgated by the Ministry of Finance on 25 December 1993, amended on 28 October 2011, and became effective on 1 November 2011, sale of goods, provision of processing, repair and replacement services and import and export of goods within the PRC are subject to value-added tax ("VAT"). VAT payable is calculated as output VAT minus Input VAT. The VAT rate is 16% or, in certain limited circumstances, 10%, depending on the products, excluding small-scale taxpayers as defined in the Interim Regulations on Value-Added Tax of the PRC.

Transfer Pricing

Pursuant to the EIT Law, the EIT Implementation Rules, the Announcement of the State Administration of Taxation on Matters Relating to Improved Administration of Related Party Declarations and Contemporaneous Documentation (《國家税務總局關於完善關聯申報和同期資料管理 有關事項的公告》), promulgated by the State Administration of Taxation on 29 June 2016 and became effective from 29 June 2016, and the Announcement of the State Administration of Taxation on Promulgation of the Administrative Measures on Special Tax Investigation, Adjustment and Mutual Agreement Procedure (國家税務總局關於發佈《特別納税調查調整及相互協商程序管理辦法》的公 告), promulgated by the State Administration of Taxation on 17 March 2017 and became effective from 1 May 2017, transactions in respect of the purchase, sale and transfer of products between, among others, enterprises under direct or indirect control by the same third party are regarded as related party transactions. Related party transactions should comply with the arm's length principles and if the related party transactions fail to comply with the arm's length principle, which results in the reduction of the enterprise's taxable income, the tax authority has the power to make special tax adjustments in accordance with certain procedures. An enterprise may propose the pricing principle and computation method for business dealings between the enterprise and its related parties to the tax authorities. Predetermined pricing arrangements shall be concluded after negotiation and confirmation between the tax authorities and the enterprise. Any enterprises entering into related party transactions shall submit an annual related party transactions report to the tax authorities when filing annual income tax returns, and shall also prepare the contemporaneous documentation for its related party transactions for the tax year in accordance with the tax authorities' requests.

Indirect Transfer of Properties by Non-Tax Resident Enterprises

According to the Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises (《國家稅務總局關於非居民企業間接轉 讓財產企業所得税若干問題的公告》) (the "Announcement No.7") promulgated by the SAT on 3 February 2015 and partly repealed by the Announcement of the SAT on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises (《國家税務總局關於非居民企業所得税源泉扣繳有關 問題的公告》) (the "Announcement No. 37") on 1 December 2017, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the EIT Law. Indirect transfer of Chinese taxable properties shall mean transactions of non-resident enterprises which are carried out through transfer of equity of enterprises abroad that directly or indirectly hold Chinese taxable properties (excluding the Chinese resident enterprises registered abroad, "enterprises abroad") and other similar equities ("equity") and cause the results same as or similar to that of direct transfer of Chinese taxable properties, including the circumstance that the restructuring of non-resident enterprises causes changes of shareholders of enterprises abroad. Non-resident enterprises that indirectly transfer Chinese taxable properties are referred to as equity transferor.

According to the Announcement No.7, indirect transfer of Chinese taxable properties that meets all of the following conditions shall be treated as having a reasonable commercial purpose: (1) the equity relationship of the parties involved in the transfer falls under one of the following circumstances: (i) equity transferor directly or indirectly owns 80% or more of the equity of the equity transferee; (ii) equity transferee directly or indirectly owns 80% or more of the equity of the equity transferor; or (iii) 80% or more of the equity of both equity transferor and equity transferee is owned, directly or indirectly, by the same party. If over 50% of the value of the equity of an enterprise abroad is directly or indirectly from the real estate in the territory of China, the shareholding ratio in items (i), (ii) and (iii) shall be 100%. The aforesaid equity indirectly held shall be calculated based on the product of the shareholding ratios of all enterprises in the shareholding chain; (2) the corporate income tax imposed on the gains derived from the subsequent offshore indirect equity transfer transactions arising after the said offshore indirect transfer will not be less than in such subsequent transactions as if without the occurrence of the said offshore indirect transfer; and (3) such offshore indirect transfer will be paid by the transferee with solely the equity interests (not including the listing shares) of such transferee or its subsidiaries.

HISTORY AND DEVELOPMENT

Overview

Our Group's history can be traced back to 1968 when Mr. TH Tung, one of our founders, Controlling Shareholders and executive Directors established a sole proprietorship for trading denim fabrics in Hong Kong. Subsequently in January 1981, Mr. TH Tung and his elder brother, Mr. Tung Yu Hong, established HWT with their own accumulated wealth to engage in the trading of denim fabrics in Hong Kong. In 1983, to expand our business to the manufacturing of denim fabrics, HWT established one production facility in Huizhou, the PRC to engage in the weaving process of denim fabric manufacturing. In 1992, Mr. Tung Yu Hong retired and disposed his interest in HWT to Mr. TH Tung, Mrs. Tung, Mr. Stephen Tung and Ms. Barbara Tung, who are his brother, sister-in-law, nephew and niece. In 1998, Mr. TH Tung transferred part of his interest in HWT to his son, Mr. Stanley Tung, and his daughter, Ms. Mabel Tung.

In 1996, Mr. TH Tung and Mr. Stephen Tung established a production facility in Hong Kong to handle the weaving process. From 1996 to 2001, the production facility in Huizhou and the production facility in Hong Kong engaged in the weaving process, while the dyeing and finishing processes were handled by subcontractors in Hong Kong.

To further develop our denim fabrics manufacturing business and to benefit from the central sewage treatment system provided by the PRC government, a production facility was setup in the Gaoping Industrial Area* (高平工業區) in Zhongshan, the PRC ("Gaoping Industrial Area") in 2001 by Hing Shing, a company established by Kingshine Investment, to handle the dyeing and finishing processes. In addition, to cope with the increasing demand for our denim fabrics, we engaged a subcontractor in the PRC to handle the weaving process together with our production facilities.

In order to streamline our manufacturing processes, we ceased our production operations in Huizhou and Hong Kong in 2003 and 2007, respectively. As a result, since 2007, our manufacturing processes have been handled by our production facilities and our subcontractor based in the PRC.

In early 2013, Kurabo Industries proposed to set up a joint venture with our Group mainly because, to the best knowledge of our Directors, it had ceased its manufacturing operations for denim fabrics in the PRC in the same year and intended to establish a stable relationship with a credible denim fabric manufacturer in the PRC. Consequently, our Group entered into the KDIL First Agreement with Kurabo Industries in May 2013 and established KDIL. For details of Kurabo Industries and the KDIL First Agreement, please see "Business — Raw Materials, Procurement and Our Suppliers — Relationship with our Japanese joint venture partner".

In November 2013, the production facility of Hing Tak located in the Gaoping Industrial Area commenced production and has since then been engaging in the weaving process, which further expanded our production capacity.

In July 2017, to strengthen our control over Hing Shing, Kingshine Group acquired Ms. A and Mr. B's interest in Kingshine Investments, being the holding company of Hing Shing. For details, please refer to the paragraph headed "Shareholding changes during the Track Record Period prior to the Reorganisation — Acquisition of 57% shareholdings in Kingshine Investments by our Controlling Shareholders" in this section.

For background of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, please see "Directors and Senior Management — Board of Directors and Senior Management — Executive Directors" for details.

Milestones

Year	Milestone event
1981	HWT was founded and engaged in trading of denim fabrics
1983	HWT started to engage in manufacturing and selling of denim fabrics
2001	Hing Shing was established for setting up a production facility in the Gaoping Industrial Area in the PRC
2003	The production facility of Hing Shing in the Gaoping Industrial Area commenced operation
2006	HWT started supplying denim fabrics to an American retailing company established in 1982 that focuses on selling upscale casual wear for young consumers with stores worldwide and a brand owner of at least two international brands
2010	HWT started business with AEO
2013	Entered into the KDIL First Agreement with Kurabo Industries and established KDIL
	The production facility of Hing Tak in the Gaoping Industrial Area commenced production for carrying out the weaving process of denim fabric manufacturing
2015	HWT actively promoted the sale of stretchable denim fabrics for men
2016	Installed weaving machines which are capable of manufacturing wide denim fabrics
2018	Expanding our presence in Europe by engaging a sales agent based in Italy to solicit orders in the European Union

OUR GROUP STRUCTURE AND CORPORATE HISTORY

Overview

As at the Latest Practicable Date, our Group consists of (i) our Company; (ii) four intermediate holding companies incorporated in the British Virgin Islands; (iii) four subsidiaries incorporated in Hong Kong; and (iv) two subsidiaries incorporated in the PRC.

Information on Material Subsidiaries of our Group

The table below sets forth certain details of our subsidiaries incorporated in Hong Kong and the PRC:

Name	Place and date of incorporation	Equity ownership as at 1 January 2015 (i.e. the beginning of the Track Record Period)	Equity ownership after completion of the Reorganisation	Principal Business Activities
HWT	Hong Kong/ 16 January 1981	30% by Mr. TH Tung ⁽¹⁾ 20% by Mr. Stephen Tung ⁽¹⁾ 20% by Mr. Stanley Tung ⁽¹⁾ 10% by Mrs. Tung ⁽¹⁾ 10% by Ms. Barbara Tung ⁽¹⁾ 10% by Ms. Mabel Tung ⁽¹⁾	100% by HW Holdings	Design and sales of denim fabrics
Kingstead Industrial	Hong Kong/ 5 December 1995	30% by Mr. TH Tung ⁽¹⁾ 20% by Mr. Stephen Tung ⁽¹⁾ 20% by Mr. Stanley Tung ⁽¹⁾ 10% by Mrs. Tung ⁽¹⁾ 10% by Ms. Barbara Tung ⁽¹⁾ 10% by Ms. Mabel Tung ⁽¹⁾	100% by Kingstead Group	Sales of denim fabrics
Kingshine Investments	Hong Kong/ 6 June 2001	32% by one Independent Third Party ("Mr. B") ⁽²⁾ 25% by one Independent Third Party ("Mr. A") ⁽³⁾ 16% by Mr. TH Tung ⁽¹⁾ 13.5% by Mr. Stephen Tung ⁽¹⁾ 13.5% by Mr. Stanley Tung ⁽¹⁾	100% by Kingshine Group	Investment holding
KDIL ⁽⁴⁾	Hong Kong/ 8 April 2013	51% by HWT 49% by Kurabo Industries	51% by HWT 49% by Kurabo Industries	Sales of textile products
Hing Shing	PRC/ 30 September 2001	100% by Kingshine Investments	100% by Kingshine Investments	Handling dyeing and finishing processes of denim fabric manufacturing
Hing Tak	PRC/ 25 November 2011	100% by Kingstead Industrial	100% by Kingstead Industrial	Handling weaving process of denim fabric manufacturing

Notes:

- 1. Mr. TH Tung and Mrs. Tung are spouse to each other and are the father and mother of Mr. Stephen Tung, Mr. Stanley Tung, Ms. Barbara Tung and Ms. Mabel Tung. Mr. Stephen Tung, Mr. Stanley Tung, Ms. Barbara Tung and Ms. Mabel Tung are the brothers and sisters of each other. In addition, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung are parties to the Deed of Concert Parties. For details, please refer to "Relationship with Controlling Shareholders".
- 2. To the best knowledge of the Directors, Mr. B has over 10 years of experience in the denim fabric manufacturing industry and, save for his former shareholding interest in Kingshine Investments and directorships in Kingshine Investments and Hing Shing, is an Independent Third Party.
- 3. To the best knowledge of the Directors, save for his (i) previous shareholding interest in Kingshine Investments and (ii) former directorships in Kingshine Investments and Hing Shing, Mr. A is an Independent Third Party.
- 4. KDIL is a joint venture between our Group and Kurabo Industries. For details, please see "Business Raw Materials, Procurement and Our Suppliers Relationship with our Japanese joint venture partner".

Shareholding changes during the Track Record Period prior to the Reorganisation

Issuance of redeemable shares by Kingstead Industrial

On 23 September 2015, Kingstead Industrial issued and allotted 90,000 preference shares to Gain Success International Limited, a company owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung at all material times. Such 90,000 preference shares were fully redeemed by Kingstead Industrial on 29 December 2017.

Gift of 32% shareholdings in Kingshine Investments by Mr. A to Ms. A

On 12 May 2016, Mr. A transferred his entire interest in Kingshine Investments to his spouse, ("Ms. A"), as a gift. Save for Mr. A and Ms. A's previous shareholding interest in Kingshine Investments and Mr. A's former directorships in Kingshine Investments and Hing Shing, Ms. A is an Independent Third Party. As a result of such transfer, Kingshine Investments was owned as to 32% by Mr. B, 25% by Ms. A, 16% by Mr. TH Tung, 13.5% by Mr. Stephen Tung and 13.5% by Mr. Stanley Tung.

Acquisition of 57% shareholdings in Kingshine Investments by our Controlling Shareholders

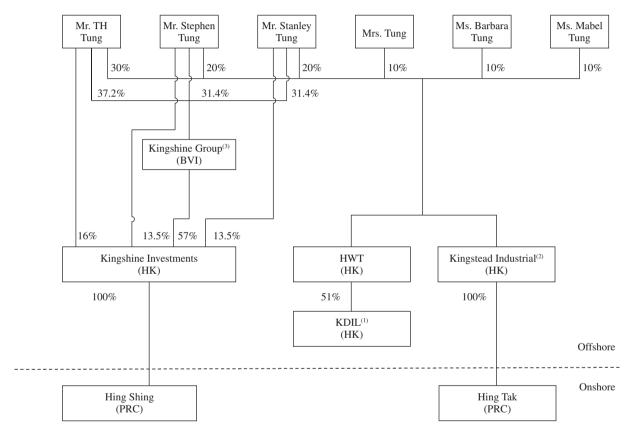
On 7 July 2017, with a view to obtain 100% control over Kingshine Investments by our Controlling Shareholder, Kingshine Group acquired Ms. A and Mr. B's entire interest in Kingshine Investments, being 25% and 32% interest in Kingshine Investments, at the consideration of HK\$13,359,375 and HK\$17,100,000, respectively, which was determined based on commercial decisions. The consideration for the acquisition from Ms. A was fully settled on 30 September 2017. The consideration for the acquisition from Mr. B is expected to be fully settled by 30 June 2018. As a result of the above acquisition, Kingshine Investments was owned as to 57% by Kingshine Group, 16% by Mr. TH Tung, 13.5% by Mr. Stephen Tung and 13.5% by Mr. Stanley Tung.

On 9 March 2018, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that 10%, 10% and 10% equity interest in Kingshine Investments are held on trust by Kingshine Group for Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively.

REORGANISATION

Corporate Structure immediately prior to the Reorganisation

The following chart sets forth the shareholding and corporate structure of our Group immediately prior to the Reorganisation:



Notes:

- The remaining 49% interest of KDIL is owned by Kurabo Industries, an Independent Third Party. Please see "Our Group Structure and Corporate History — Information on Material Subsidiaries of our Group" in this section for details.
- 2. In addition to the 10,000 ordinary shares issued and allotted to Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, immediately prior to the Reorganisation, there were 90,000 preference shares issued and allotted to Gain Success International Limited, a company then owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung at all material times. Such 90,000 preference shares were fully redeemed by Kingstead Industrial on 29 December 2017.

3. On 9 March 2018, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that 10%, 10% and 10% equity interest in Kingshine Investments are held on trust by Kingshine Group for Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively.

Major Reorganisation steps

In preparation for the Listing, we have carried out the Reorganisation which involved the following steps:

Step 1: Incorporation of Hingtex Group and Manford Investment

Hingtex Group was incorporated under the laws of the BVI with limited liability on 24 October 2017. On 26 October 2017, (i) 30 shares of Hingtex Group were issued and allotted to Mr. TH Tung; (ii) 20 shares were issued and allotted to each of Mr. Stanley Tung and Mr. Stephen Tung; and (iii) 10 shares were issued and allotted to each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung. As a result of the above allotments, Hingtex Group was owned as to 30% by Mr. TH Tung, 20% by Mr. Stanley Tung, 20% by Mr. Stephen Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.

Manford Investment was incorporated under the laws of the BVI with limited liability on 24 October 2017. On 26 October 2017, (i) 30 shares of Manford Investment were issued and allotted to Mr. TH Tung; (ii) 20 shares were issued and allotted to each of Mr. Stanley Tung and Mr. Stephen Tung; and (iii) 10 shares were issued and allotted to each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung. As a result of the above allotments, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stanley Tung, 20% by Mr. Stephen Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.

Step 2: Incorporation of HW Holdings and Kingstead Group

Both HW Holdings and Kingstead Group were incorporated under the laws of the BVI with limited liability on 27 October 2017. On 27 October 2017, 100 shares of HW Holdings and 100 shares of Kingstead Group were issued and allotted to Hingtex Group.

As a result of the above allotments, both HW Holdings and Kingstead Group became direct wholly-owned subsidiaries of Hingtex Group.

Step 3: Incorporation of our Company

Our Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability on 3 November 2017. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 Shares with a par value of HK\$0.01 each. Upon incorporation, one Share was issued and allotted to the initial subscriber, Mapcal Limited, which was in turn transferred to Manford Investment on the same day. On 16 November 2017, 99,999 Shares were issued and allotted to Manford Investment, and together with the one Share transferred from the initial subscriber, being a total of 100,000 Shares, represented 100% of the then entire issued shares in our Company.

As a result, our Company became a wholly-owned subsidiary of Manford Investment.

Step 4: Acquisition of Kingshine Group by Hingtex Group

On 8 March 2018, through a share swap agreement, Hingtex Group acquired 160 shares, 135 shares and 135 shares, representing 37.2%, 31.4% and 31.4% of all of the issued shares in Kingshine Group from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, respectively in consideration of and in exchange for the allotment and issue of (i) 30 shares in Hingtex Group to Mr. TH Tung credited as fully paid; (ii) 20 shares in Hingtex Group to Mr. Stephen Tung credited as fully paid; (iii) 20 shares in Hingtex Group to Mr. Stanley Tung credited as fully paid; (iv) 10 shares in Hingtex Group to Ms. Barbara Tung credited as fully paid; and (vi) 10 shares in Hingtex Group to Ms. Mabel Tung credited as fully paid.

Step 5: Acquisition of Hingtex Group by our Company

On 9 March 2018, through a share swap agreement, our Company acquired 60 shares, 40 shares, 40 shares, 20 shares and 20 shares, representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of all of the issued shares in Hingtex Group from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for the allotment and issue of 100,000 Shares in our Company to Manford Investment credited as fully paid.

As a result, each of Kingshine Group and Hingtex Group became a wholly-owned subsidiary of our Company.

Step 6: Acquisition of the remaining 43% of Kingshine Investments by Kingshine Group

On 23 March 2018, through a share swap agreement, Kingshine Group acquired 1,600,000 shares, 1,350,000 shares and 1,350,000 shares, representing 16.0%, 13.5% and 13.5% of the issued shares in Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, respectively in consideration of and in exchange for the allotment and issue of (i) 100 shares in Kingshine Group to Hingtex Group credited as fully paid; (ii) 100 shares in Hingtex Group to our Company credited as fully paid; and (iii) 100,000 Shares in our Company to Manford Investment credited as fully paid.

As a result, Kingshine Investments became a wholly-owned subsidiary of our Company.

Step 7: Acquisition of HWT by HW Holdings

On 23 March 2018, through a share swap agreement, HW Holdings acquired 45,000 shares, 30,000 shares, 30,000 shares, 15,000 shares, 15,000 shares and 15,000 shares, representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of all of the issued shares in HWT from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for the allotment and issue of (i) 100 shares in HW Holdings to Hingtex Group credited as fully paid; (ii) 100 shares in Hingtex Group to our Company credited as fully paid; and (iii) 100,000 Shares in our Company to Manford Investment credited as fully paid.

As a result, HWT became a wholly-owned subsidiary of our Company.

Step 8: Acquisition of Kingstead Industrial by Kingstead Group

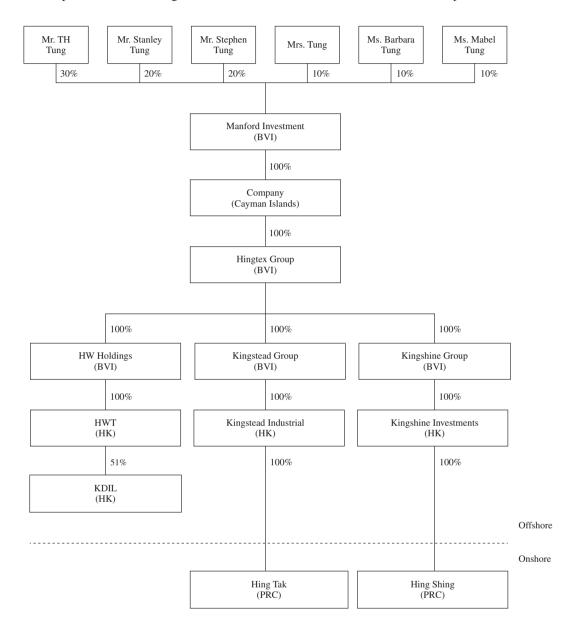
On 23 March 2018, through a share swap agreement, Kingstead Group acquired 3,000 shares, 2,000 shares, 2,000 shares, 1,000 shares and 1,000 shares, representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of all of the issued shares in Kingstead Industrial from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for the allotment and issue of (i) 100 shares in Kingstead Group to Hingtex Group credited as fully paid; (ii) 100 shares in Hingtex Group to our Company credited as fully paid; and (iii) 100,000 Shares in our Company to Manford Investment credited as fully paid.

As a result, Kingstead Industrial became a wholly-owned subsidiary of our Company.

All of the abovementioned transfers under the Reorganisation have been properly, legally, irrevocably settled and completed.

Corporate Structure immediately upon completion of the Reorganisation

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



CAPITALISATION ISSUE AND SHARE OFFER

Capitalisation Issue

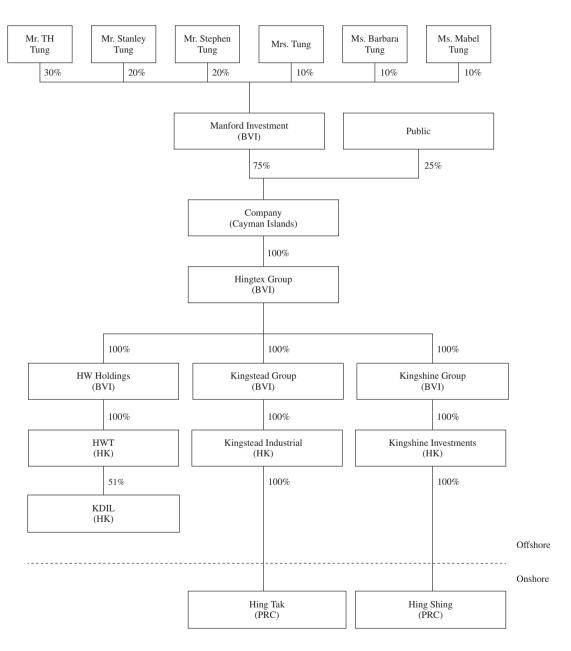
Pursuant to the resolutions of our sole Shareholder passed on 19 June 2018, our Directors are authorised to allot and issue a total of 479,500,000 Shares credited as fully paid at par to the holder of Shares on the register of members of our Company at the closing of business on 19 June 2018 in proportion to their shareholdings by way of capitalisation of the sum of HK\$4,795,000 standing to the credit of the share premium account of our Company.

Share Offer

Please see "Structure and Conditions of the Share Offer" for details.

Corporate Structure

The following chart sets forth our shareholding and corporate structure immediately after completion of the Capitalisation Issue and the Share Offer, taking no account of any Shares to be issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme:



PRC LEGAL COMPLIANCE

M&A Rules

According to the M&A Rules, an offshore special purpose vehicle established for listing purposes and controlled, directly or indirectly, by PRC companies or individuals shall be required to obtain approvals from the CSRC prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

Our PRC Legal Adviser has advised that the M&A Rules were not applicable to the Reorganisation undergone by our Group because all of our PRC subsidiaries were established as foreign-invested enterprises and beneficially controlled by Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung who are Hong Kong permanent residents.

SAFE Regulations

Pursuant to Circular No. 37 a PRC domestic resident legal person or a PRC domestic resident natural person is required to complete foreign exchange registration with the local foreign exchange bureau when such PRC domestic resident legal person or natural person uses its/his/her enterprise assets or interest in the PRC to establish or take control of an offshore special purpose company for investments and/or financing purposes.

As each of our then ultimate shareholders were not PRC domestic resident legal person or natural person, each of them was not subject to the requirement of foreign exchange registration stipulated in the Circular No. 37.

Our PRC Legal Adviser has confirmed that no requisite approvals, permits and registrations are required from the relevant PRC regulatory authorities in relation to the respective indirect share transfers of Hing Tak and Hing Shing by reason of the respective share transfers of Kingstead Industrial and Kingshine Investments as described under the paragraphed headed "Reorganisation" in this section.

OVERVIEW

Founded in 1981, we are a long-established denim fabric manufacturer that supplies denim fabrics primarily for the production of denim garment of certain reputable U.S. apparel brands. According to Frost & Sullivan, U.S. is the largest denim garment market in the world in terms of retail volume that accounted for 29.5% of the global market sales in 2017. We have leveraged on our know-how on weaving to develop our business in the design, manufacture and sales of denim fabrics, targeting the middle-to high-end market segment. According to Frost & Sullivan, we ranked seventh and second in the middle-to high-end denim fabric manufacturing industry in China and South China, respectively in terms of production value in 2017, with a market share of approximately 1.9% and 5.4%, respectively.

As compared to other commonly used garment fabrics, such as cotton fabrics, denim fabrics carry certain distinctive features, including: (i) while cotton can be dyed in all colours, denim fabrics are typically dyed in indigo and by going through well-designed and controlled dyeing processes, denim fabrics of different indigo tones can be produced; (ii) denim fabrics have to be adaptable to production processes common for jeans such as rinse-washing, enzyme-washing, bleach washing, sandblasting, sand-washing or dryprocessing to create fashionable appearances, such as worn or fading colours; and (iii) it is considerably difficult, if not impossible, to replicate the denim fabric produced by another manufacturer as a result of the unique combination of dyes and yarns, and the fabric treatment applied in the production process. Therefore, the production of denim fabric is notably different from, and more sophisticated than, that of other garment fabrics.

With our long history and rich experience in manufacturing a variety of denim fabrics, we possess the know-how in producing non-stretchable, stretchable cotton and stretchable blended denim fabrics. We pride ourselves on our capability in (i) applying yarns with different physical properties, such as thickness and stretchability; and (ii) mixing different indigo dyes coupled with specifically designed and well-controlled dyeing and finishing processes, to supply a variety of stretchable denim fabrics for producing denim garments of unique indigo tones and appearances, such as vintage, worn or fading colour as well as various degree of stretchability.

We adopt a proactive approach in developing and producing denim fabrics with the aim of creating new market trends for denim garments. To visualise the actual application of our denim fabrics with different functionality and washing effects, we present our denim fabrics in the form of garment end-products, such as denim jeans, jackets and skirts, to apparel brands to provide them with ideas as to how they can use our Group's denim fabrics to design their end-products. In the past years, our product design and developments have been recognised by apparel brands and we received the innovative award in 2016 from AEO, one of the largest U.S. denim jeans brands whose most popular products are denim jeans targeting college students.

During the Track Record Period, we had business relationships with over 30 apparel brands and our business relationships with the top five apparel brands during the Track Record Period range from five to 10 years. Many of these apparel brands have designated garment manufacturers to produce their denim garments. These garment manufacturers procure denim fabrics from denim fabric manufacturers such as our Group in accordance with the instructions from apparel brands. The denim garments produced, using our denim fabrics, are then delivered by garment manufacturers to the apparel brands. Thus, notwithstanding that purchase orders are placed with us by garment manufacturers, the key business terms such as the type and price of fabrics, are indeed concluded between apparel brands and

our Group. During the Track Record Period, most of our sales are originated from business concluded with apparel brands in the U.S., which in aggregate accounted for 87.9%, 88.3% and 84.4% of our revenue during the same period.

As at the Latest Practicable Date, we had two production facilities in Zhongshan, Guangdong Province, the PRC, with one production facility of gross floor area of approximately 21,480 sq.m. specialised in the dyeing and finishing processes, and the other production facility of a gross floor area of approximately 27,482 sq.m. specialised in the weaving and screening processes. Please see "Production — Production capacity and utilisation rate" in this section for further details on the designed production capacity of the production facilities of the Group.

For FY2015, FY2016 and FY2017, our revenue amounted to HK\$400.6 million, HK\$475.0 million and HK\$648.2 million, respectively, which was mainly contributed by the increase in sales volume during the same period. For FY2015, FY2016 and FY2017, our profit before tax amounted to HK\$115.0 million, HK\$109.0 million and HK\$151.7 million, respectively. Excluding the gain on disposal of investment properties and property, plant and equipment for FY2015 in the sum of HK\$48.3 million, profit before tax for FY2015 was HK\$66.7 million. The increase in profit before tax throughout the years was mainly attributable to the increase in revenue and the sales of stretchable blended denim fabrics which yield higher gross profit margins.

OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths are crucial to our success and essential for our future growth:

We have long history with a proven track record in the denim fabric manufacturing industry

With our long operating history in denim fabric manufacturing and sales, we have established two production facilities in Zhongshan, Guangdong Province, the PRC, which occupied an aggregate gross floor area of 48,962 sq.m., as at the Latest Practicable Date. Please see "Production — Production capacity and utilisation rate" in this section for further details on the designed production capacity of the Group. Throughout our years of operation, our ability to, among other things, produce functional denim fabrics of high and consistent quality, has enabled us to establish our reputation which is recognised by the reputable U.S. apparel brands that has maintained long-term collaborative relationships with us.

According to Frost & Sullivan, the retail value of the global middle-to high-end denim garment market increased from US\$122.6 billion in 2012 to US\$184.2 billion in 2017, representing a CAGR of 8.5% over the period. Such retail value is expected to reach US\$254.2 billion in 2021, representing a CAGR of 8.4% from 2017 to 2021. According to Frost & Sullivan, the retail volume of the global middle-to high-end market increased from 1,420.3 million pieces in 2012 to 1,811.8 million pieces in 2017, representing a CAGR of 5.0% over the period. It is anticipated that such retail volume will reach 2,162.6 million pieces in 2021, representing a CAGR of 4.5% from 2017 to 2021. As a textile manufacturer with a long history and established reputation in the manufacture of denim fabrics, we believe that we are well positioned to expand our market share in the growing denim fabric market.

Our ability in producing high quality stretchable denim fabric which is a fashion trend for denim garments

We are specialised in manufacturing stretchable denim fabrics with various properties such as yarn composition, weight, pattern, stretchability and indigo tones. We believe these properties make our denim fabrics unique and adaptable to a wide range of consumer preference. Our Directors believe that stretchable denim fabrics are more popular among consumers as compared to traditional non-stretchable ones due to their higher stretchability, comfortableness, functionality, aesthetic qualities and versatility in physical properties. Fashion designers, especially those of reputable apparel brands, apply the aforesaid qualities in their designs and expand the mix of their stretchable denim garments. The expanding product mix of apparel brands further boosts the popularity of stretchable denim garments. According to Frost and Sullivan, (i) stretchable denim garments for both genders are becoming more popular among different age groups in the world; (ii) the continuous development of stretchable denim fabrics will result in the increasing application of stretchable synthetic yarns, which are generally more diversified in terms of physical properties such as stretchability and less costly than traditional cotton yarns; and (iii) manufacturers that supply high quality stretchable denim fabrics, in particular those which are capable of applying stretchable synthetic yarns, are able to achieve a relatively higher profit margin because of the sophisticated process for producing stretchable denim fabrics. With our rich experience and established reputation in producing stretchable denim fabrics using pure cotton yarns, stretchable cotton yarns and stretchable synthetic yarns, we believe that we are able to ride on this fashion trend for the furtherance of our product mix and the expansion of our clientele.

We have established long-term collaborative relationships with reputable U.S. apparel brands and garment manufacturers

We have established business relationships with various reputable U.S. apparel brands and their manufacturing subcontractors. We present our product samples to and negotiate the key sales terms of our denim fabrics directly with the apparel brands, which then instruct their designated garment manufacturers to place purchase orders with us on the agreed terms. Accordingly, notwithstanding that we sell our denim fabrics to garment manufacturers and have no contractual relationship with the respective apparel brands, we established business relationships with both apparel brands and garment manufacturers. Occasionally, garment manufacturers also procure our denim fabrics for their other customers. During the Track Record Period, we had business relationships with over 30 apparel brands and our business relationships with the top five apparel brands during the Track Record Period range from five to 10 years. Since 2005, we have produced denim fabrics for AEO, one of the largest U.S. denim jeans brands whose most popular products are denim jeans targeting college students. For FY2015, FY2016 and FY2017, our revenue attributable to the sales of denim fabrics to AEO amounted to HK\$228.0 million, HK\$298.4 million and HK\$422.2 million, respectively.

Our Directors believe that the loyalty of apparel brands and our garment manufacturer customers was built on the high quality of our denim fabrics and services as well as our ability to satisfy their changing product specifications and designs from time to time. We also believe that our long-term collaborative relationship with various reputable U.S. apparel brands can attract more potential apparel brands to procure denim fabrics from us.

We have strong product design and development capability and quick response to market trends

Our success and growth largely depend on our effort and ability to develop new denim fabrics and improve our existing denim fabrics in a timely manner which meet the changing needs of apparel brands. As at the Latest Practicable Date, we had a product development team comprising 10 skilled technicians, most of whom have received training and education in textile related profession or had extensive past working experience in the textile industry. Capitalising on our thorough understanding of fashion trends, we proactively develop a wide variety of new denim fabrics in terms of yarn composition, weight, pattern, stretchability and indigo tones that cover a broad range of customer preference. We present our new denim fabrics in the form of garment end-products, such as denim jeans and skirts, to apparel brands such that they would have more ideas as to how our denim fabrics can be used in the design of their denim garments. During the Track Record Period we developed around 500 new denim fabric items.

In view of the market trend of increasing demand for stretchable denim jeans, our product development team focuses on the development of (i) stretchable denim fabrics using different kinds of yarns that result in various degree of stretchability; and (ii) new washing and finishing techniques for a broader spectrum of indigo shading and vintage effects. Our Directors consider our product development capability has contributed to the comprehensive coverage of our denim fabrics over a wide range of customer preference as well as our growing revenue and profitability driven by the increasing sales of our stretchable denim fabrics made from stretchable cotton and stretchable synthetic yarns.

We believe that our initiative in developing new denim fabrics, which assists the apparel brands in their ongoing product development, will be an additional driver for our revenue and profit growth. We also believe that our product development capability, along with our other competitive strengths such as high and consistent product quality, increase the stickiness of our customers.

We provide high and consistent quality denim fabrics through the adoption of stringent quality control measures

We believe that high product quality is crucial to our success in the denim fabric manufacturing industry and has helped us to build a loyal customer base. To maintain the high quality of our denim fabrics, we have established stringent quality control and operational measures to ensure the quality of our denim fabrics. We require our employees to adhere to a set of stringent standards set out in our internal quality manual which covers key stages of production from selection of qualified suppliers, inspection and testing of incoming raw materials, to manufacturing.

Our quality control personnel is also responsible for ensuring the quality standards of the raw materials, semi-finished products as well as finished products. Sample tests are conducted relating to, among other things, tensility, weaving designs, indigo shade band or width to ensure that our denim fabrics strictly comply with our customers' specifications and our internal quality standards. Our production staff also carry out quality assurance inspections at the production premises of our subcontractors which mainly perform dyeing, weaving and finishing procedures. In recognition of our quality management system, we have obtained the ISO 9001:2008, certification for our operations since April 2007.

During the Track Record Period and up to the Latest Practicable Date, we did not receive any material complaint from our customers on the quality of our denim fabrics. Our Directors believe that it was largely attributable to our ability to supply denim fabrics of high and consistent quality. We also believe that our ability to supply denim fabrics of high and consistent quality enables us to develop close and long-term business relationships with apparel brands and garment manufacturers. Please see "Quality Control" in this section for further details.

We have an experienced and dedicated management team with strong know-how and expertise

We have an experienced and dedicated management team with extensive operational expertise and in-depth understanding in the textile industry. Our Group is led by Mr. TH Tung (the founder of our Group, the Chairman and our executive Director), Mr. Stephen Tung (our executive Director and chief executive officer) and Mr. Stanley Tung (our executive Director and sales director), who have 59, 22 and 22 years of experience in the textile and apparel industry, respectively.

We believe that the vision, experience and entrepreneurial spirit of our management team have been pivotal to the success of our business and we will be able to keep exploring new business opportunities and strengthen our position in the market leveraging on the experience and dedication of our management team. Please see "Directors and Senior Management" for further details.

OUR BUSINESS STRATEGIES

Our goal is to maintain our market position in the denim fabric manufacturing industry and further develop our existing business by (i) broadening our customer base by expanding into new markets; (ii) increasing our production capacity and efficiency and enhancing our product development capability by procuring production machinery and equipment; and (iii) further developing new denim fabric items to expand our product portfolio.

In order to achieve the above, we have put the following strategies in place:

Broaden our customer base by expanding into new markets

We plan to place more efforts and resources to enhance our market penetration in the PRC and to expand into the European market. According to Frost & Sullivan, the retail value of the PRC middle-to high-end denim garment market increased from RMB74.5 billion in 2012 to RMB119.4 billion in 2017, representing a CAGR of 9.9% over the period. Such retail value is expected to reach RMB173.5 billion in 2021, representing a CAGR of 9.8% from 2017 to 2021. The retail value of the European middle-to high-end denim garment market increased from US\$36.9 billion in 2012 to US\$55.1 billion in 2017, representing a CAGR of 8.3% over the period. Such retail value is expected to reach US\$74.8 billion in 2021, representing a CAGR of 7.9% from 2017 to 2021.

In light of the growing demand for high quality denim garments in the PRC and Europe, we plan to (i) strengthen our presence and market share in the PRC by establishing sales office in Guangzhou in 2019 to coordinate purchase orders placed by PRC customers; and (ii) replicate our success in building business relationships with apparel brands in the U.S. to the European market by (a) appointing a sales agent in Italy in January 2018 to solicit purchase orders in the European Union; (b) promoting our denim fabrics to European apparel brands; and (c) attending international fabric shows (e.g. Kingpins Shows) to enhance our market presence in Europe.

We will continue to encourage our sales personnel to participate in trade shows and industry exhibitions, visit relevant industry participants such as apparel brands and garment manufacturers, and promote our Group and our denim fabrics through the websites or events of certain international and non-profit making organisations that, to the best knowledge of our Directors, aim at promoting high quality cotton products. Through these activities, we expect to enhance the awareness and reputation of our Group in the denim manufacturing industry and expand our sales to new apparel brands and garment manufacturers.

Increase our production capacity and efficiency and enhance our product development capability by procuring new production machinery and equipment

To maintain our continuous business growth, we plan to purchase certain types of new production machinery that will (i) expand our production capacity, (ii) enhance our production efficiency, and/or (iii) enhance our product development capability, which in turn allow us to reduce our outsourcing of dyeing, weaving and finishing processes to third-party subcontractors.

Therefore, we plan to purchase (i) two slasher dyeing machines; (ii) 80 weaving machines; (iii) one desizing machine; (iv) one shrinking machine; (v) two ozone bleaching machines; and (vi) two washing machines.

To this end, we intend to invest HK\$162.5 million, in aggregate, which will be financed with the net proceeds from the Share Offer and/or our internal resources. Please see "Production — Our machinery purchase plan" in this section and "Future Plans and Use of Proceeds" for further details.

Further develop new denim fabric items to expand our product portfolio

We will continue to develop new denim fabric items by, among other things, adjusting the raw materials composition and production process. We will also continue to leverage on our network with apparel brands to stay abreast of the current market trends and preferences of our target consumer groups in various markets. Our Directors anticipate that the continuous promotion of new denim fabric items will drive our revenue growth, solidify our business relationship with existing apparel brands by supporting their product development and support our market expansion plans.

BUSINESS MODEL

We are a long-established denim fabric manufacturer with a focus on supplying our denim fabrics to reputable apparel brands, which procure our denim fabrics for the manufacture of jeans and other denim garments.

The following diagram summarises the typical operation flow of our Group:



Collaboration with apparel brands

We collaborate with apparel brands in the design, development and production of our denim fabrics. On one hand, our sales personnel communicates with the apparel brands to understand their business plans and present to them our existing denim fabrics that match their requirements. On the other hand, we proactively develop and introduce our new denim fabrics to apparel brands from time to time to support their development of denim garments. We also supply denim fabrics customised to the specifications as required by the apparel brands. Upon acceptance of our product samples, we secure our business by negotiating and concluding our key sales terms directly with the apparel brands. Please see "Customers — Business relationship among our Group, apparel brands and garment manufacturers" in this section for further details.

Instructions by apparel brands to garment manufacturers

Apparel brands have their designated garment manufacturers to produce the garments in accordance with their design and specifications, as well as the source and price of raw materials. Apparel brands instruct their garment manufacturers to procure our denim fabrics on purchase terms as agreed with us. For details, please see "Customers — Business relationship among our Group, apparel brands and garment manufacturers" in this section.

Purchase order and sales confirmation

Pursuant to purchase orders placed by garment manufacturers as instructed by apparel brands, an invoice setting out the general sales terms such as payment and credit terms, delivery arrangement, quantity and price will be issued to the garment manufacturers. To the best knowledge of our Directors, notwithstanding that we conclude our business and sales terms with apparel brands, their designated garment manufacturers generally assume all the rights and obligations of the purchase orders.

Procurement and production

Our procurement department is responsible for the purchase of raw materials, including the negotiation of purchase terms with suppliers. This department can only procure from the qualified suppliers whose names appear on a list approved by our executive Directors.

Having considered the confirmed purchase orders and procurement plans provided by apparel brands, we normally keep stock for pure cotton yarns, one of our principal raw materials, at a level sufficient for two to three months' production. The suppliers are generally responsible for arranging delivery to our designated production facilities which generally take two to eight weeks from the date of order placement.

Depending mainly on the order size, our production lead time generally lasts from 35 to 75 days. Please see "Production — Production process of our principal products" in this section for further details of the production process of our principal products.

Packaging and product delivery

We arrange packaging and delivery of our finished products to garment manufacturers according to the agreed terms. We generally engage third party logistics service providers to deliver our goods to the customers' required location. Please see "Customers — Delivery arrangement" in this section for further details.

The successful implementation of our business model hinges on, among other things, our capability in product design and development and stringent quality control measures, details of which are set out in "Product Development" and "Quality Control" in this section, respectively.

OUR PRODUCTS

Our denim fabrics are categorised into three types, namely (i) non-stretchable denim fabrics; (ii) stretchable cotton denim fabrics; and (iii) stretchable blended denim fabrics.

Non-stretchable denim fabrics are 100% made of pure cotton yarn. Stretchable cotton denim fabrics are made of at least 1% of stretchable cotton yarn (stretchable fibre wrapped with cotton) and the rest with pure cotton yarn. Stretchable blended denim fabrics are made of at least 1% of stretchable synthetic yarn (stretchable fibre wrapped with synthetic fibre) and the rest with pure cotton yarn.

The following table sets out our revenue by our product segments and their respective percentage contribution to our revenue during the Track Record Period:

	For the year ended 31 December					
	2015		2016		2017	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Non-stretchable denim fabrics	67,717	16.9	55,230	11.6	38,921	6.0
Stretchable cotton denim fabrics	139,629	34.9	110,577	23.3	88,387	13.6
Stretchable blended denim fabrics	192,553	48.1	308,856	65.0	519,326	80.1
Others ^{Note}	657	0.2	376	0.1	1,585	0.2
Total	400,556	100.0	475,039	100.0	648,219	100.0

Note: Include subcontracting income and income from sales of yarns.

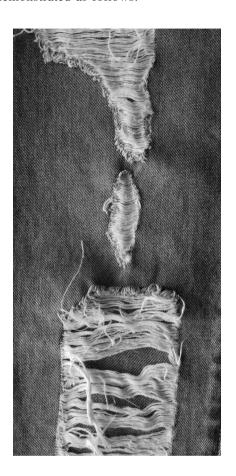
Our denim fabrics are generally purchased and used by garment manufacturers designated by and in accordance with the instructions from apparel brands to produce their denim garments such as jeans.

Avorago

The following table sets out a summary of our principal products:

Our principal product	Major composition of yarn materials	Key features	Average selling price range during the Track Record Period (HK\$ per yard)
Non-stretchable denim fabrics	Both warp yarn and weft yarn composed of pure cotton without stretchable wrap and core	Non-stretchable, harder texture and less versatile	22.6 to 23.0
Stretchable cotton denim fabrics	Warp yarn composed of pure cotton; weft yarn composed of pure cotton wrap and elastane core	Moderately stretchable, softer texture, medium recovery and elongation, more versatile	23.3 to 23.9
Stretchable blended denim fabrics	Warp yarn composed of pure cotton; weft yarn composed of (i) mainly cotton wrap and core made up of elastane and elasterell; or (ii) synthetic fibre wrap and elastane core; or (iii) synthetic fibre wrap and core made up of elastane and elasterell	Highly stretchable, highly soft texture, high recovery and elongation, highly versatile, lighter	23.7 to 24.6

After going through the washing process, our denim fabrics can appear in a large variety of styles such as indigo shades and fading as well as worn or other vintage appearances. Examples of the post-washing appearances of the denim garments produced by garment manufacturers using our denim fabrics are demonstrated as follows:

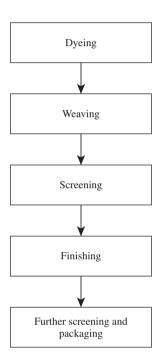




PRODUCTION

Production process of our principal products

The production lead time for transforming raw materials to the finished products ranges from 35 to 75 days. During the time when our machine utilisation rate is high, we may sometimes experience longer production lead time, as we may not be able to allocate available machines to commence the next production process right after the preceding production process has been completed. A summary of the typical production process of denim fabrics is as follows:



Dyeing

The yarn is unwound from its original packaging and rewound into warp beams of parallel lengths. The yarns are then submerged into multiple bath tanks consecutively, filled with specifically mixed dyes and chemicals, until the required indigo tones are reached. The baths are heated to high temperatures to enhance the interaction between the yarns and dyes. Only warp yarns, which form part of denim fabrics through the weaving process, require dyeing. The lead time for this step is usually five to 15 days.

Weaving

Denim fabrics are produced by weaving pure cotton warp yarns and weft yarns that can be stretchable or non-stretchable. We mix and weave pure cotton warp yarns and stretchable weft yarns to attain the physical properties, in particular stretchability, as required by apparel brands. The lead time for this step is usually 15 to 25 days.

Screening

After the weaving process, the denim fabrics will be inspected and screened by our quality control staff to ensure that they meet the customers' specifications and our internal quality control guidelines. The Four-Point System is adopted by our production facilities to identify defects of our denim fabrics. Defects, if any, are separately recorded and removed from the product batch for further processing. The lead time for this step is usually five to 10 days.

Finishing

The finishing process includes mainly the desizing and shrinking processes. Desizing involves the removal of chemicals and impurities attached on the denim fabrics during the preceding production processes, and is particularly prominent for stretchable denim fabrics as additional chemicals are applied during their dyeing process. Shrinking involves the stabilisation of the physical properties of denim fabrics, in particular the width for stretchable denim fabrics, before they are delivered to garment manufacturers to ensure effective control over their production process such that the final denim garments fulfil the requirements of apparel brands. The lead time for this step is usually five to 15 days.

Further screening and packaging

Sample screening is carried out to further ensure that our finished products fulfil our customers' requirements and our quality standards. Thereafter, the finished products are packaged for delivery to our customers. The lead time for this step is usually five to 10 days.

Production facilities

As at the Latest Practicable Date, we had a total of two production facilities in Zhongshan, Guangdong Province, the PRC. Each of our production facilities are specialised in different steps of the denim fabric manufacturing process. The production facility of Hing Shing is specialised in (i) dyeing and (ii) finishing, whereas the production facility of Hing Tak is specialised in (i) weaving and (ii) screening.

Major equipment and machinery

Our production facilities are equipped with production machinery and testing equipment imported from Belgium, Germany and Japan. Different machines were used at different stages of the production process of denim fabrics. The following table sets out the major equipment and machinery in our production facilities as at the Latest Practicable Date:

	Estimated average		
		age of major	Estimated
		equipment or	remaining useful
	Number of major	machinery as at	lives as at the
Types of major equipment	equipment or	the Latest	Latest Practicable
and machinery	machinery	Practicable Date	Date (Note)
		(years)	(years)
Slasher dyeing machine	Two	10	Two
Rope dyeing machine	One	13	Five
Weaving machine	150	Three	Seven
Desizing machine	One	10	Five
Shrinking machine	One	10	Two

Note: The actual useful lives of these machines or equipment may be different from the estimates due to reasons such as periodic maintenance.

Please see note 4 of the Accountants' Report in Appendix I to this prospectus for details of the depreciation method adopted for our major equipment and machinery and their useful life.

Production capacity and utilisation rate

As at 31 December 2017, our slasher dyeing, weaving, desizing and shrinking machines have been operating almost to or even exceeding their respective designed production capacity. In order to satisfy our customers' orders and to sustain our business growth, some of our dyeing, weaving finishing and processes have been outsourced. Please see "Subcontractors" in this section for further details.

Our denim fabrics are required to go through several key production processes including dyeing, weaving, finishing (i.e. desizing and/or shrinking). Our Directors also consider these processes as the most crucial steps in our production process.

Prior to 7 July 2017, Hing Shing was indirectly owned as to 43% and 57% by our Controlling Shareholders and two Independent Third Parties, respectively and thereafter became an indirect wholly-owned subsidiary of our Company pursuant to the acquisition of the 57% shareholding interests in Kingshine Investments by our Controlling Shareholders from the two Independent Third Parties and the Reorganisation. We had been using Hing Shing and other third party subcontractors to handle the dyeing and finishing processes. Since Hing Shing has been managed by our Controlling Shareholders, for the purpose of illustrating our capacity utilisation, we consider Hing Shing's production capacity as ours in the following table.

			Year ended 31 December									
			2015			2016			2017			
Key processes	Туре	Designed production capacity	Actual production volume	Average utilisation rate (Note 4)	Designed production capacity	Actual production volume	Average utilisation rate (Note 4)	Designed production capacity	Actual production volume	Average utilisation rate (Notes 4)		
		yards	yards	%	yards	yards	%	yards	yards	%		
Dyeing	Slasher dyeing (Note 1, 6)	17,700,000	10,660,445	60.2	17,700,000	10,266,679	58.0	17,700,000	16,253,914	91.8		
	Rope dyeing	7,687,559	1,769,668	23.0	7,687,559	2,360,728	30.7	7,687,559	2,237,872	29.1		
Weaving	(Note 1, 6) Weaving (Note 2, 5)	10,791,057	10,789,555	100.0	13,697,326	13,658,630	99.7	16,175,726	15,959,950	98.7		
Finishing	Desizing (Note 3, 6)	15,900,000	8,221,166	51.7	15,900,000	9,884,458	62.2	15,900,000	13,119,799	82.5		
	Shrinking (Note 3, 6)	17,600,000	9,953,365	56.6	17,600,000	10,714,155	60.9	17,600,000	13,690,206	77.8		

Notes:

- 1. The designed production capacity of our dyeing machines is calculated based on the following assumptions: (i) machines are generally operated for eight hours for each dye and are stopped for two hours for (a) clearance of residual used dye; (b) setting new raw yarn into the dyeing machines; and (c) adding and heating of new dye; and (ii) machines are operated 27 days a month and regular repair and maintenance are performed in the remaining three days.
- 2. The designed production capacity of our weaving machines is calculated based on the following assumptions: (i) machines are operated 24 hours a day; (ii) machines are generally operated for five days for each batch of dyed yarn and are stopped for half a day for (a) setting up new batch of dyed yarn; and/or (b) changing of weaving pattern; and (ii) machines are operated 27 days a month and regular repair and maintenance are performed in the remaining three days.
- 3. The designed production capacity of our desizing and shrinking machines is calculated based on the following assumptions: (i) machines are generally operated for eight hours for desizing and shrinking for each batch of denim fabric and are stopped for two hours for (a) clearance of used desizing liquid; (b) setting new batch of denim fabric into the machines; and (c) adding and heating of new desizing liquid; and (ii) machines are operated 27 days a month and regular repair and maintenance is performed in the remaining three days.
- 4. Average utilisation rate is derived by dividing the actual production volume by the designed production capacity in the relevant year/period.
- 5. The designed production capacity of the weaving process has increased during the Track Record Period. This was attributable to our purchase of 36 new weaving machines which are capable of manufacturing fabrics of larger width in each of 2016 and 2017, respectively.
- 6. These machines were owned by Hing Shing during the Track Record Period.

Save for the utilisation rate of the rope dyeing machine, the utilisation rates of the slasher dyeing, weaving and finishing machines have reached near their respective maximum capacity for FY2017.

Our machinery purchase plan

We plan to increase our production capacity and efficiency and enhance our product development capability by (i) adding new and more advanced machinery; and (ii) replacing certain existing machinery with new and more advanced ones:

In order to increase our production capacity and efficiency:

- The existing two slasher dyeing machines will be replaced by two slasher dyeing machines in or around August 2019 and August 2020, respectively. Our Directors believe that the new slasher dyeing machines will enhance our competitiveness in product variety and costs effectiveness since they are superior to those currently used by our subcontractors in terms of (i) larger variety of indigo shades that could be applied to the denim fabrics; (ii) more efficient and environmentally friendly utilisation of dye and water which will lower the production costs; and (iii) less bulky in size thereby allowing further expansion of our dyeing production line. Our Directors anticipate that the designed production capacity of our slasher dyeing process is expected to increase from approximately 17.7 million yards as at 31 December 2017 to 28.1 million yards. Based on the production level of FY2017, the two new slasher dyeing machines are expected to be operated at an utilisation rate of approximately 100%. The total estimated investment costs are HK\$81.9 million, which will be funded by the net proceeds from the Share Offer, with the payback period (*Note*) estimated at 4.7 years.
- 78 existing weaving machines, with an average age of 10.9 years, will be replaced by 80 new ones that are capable of processing wider denim fabrics and at a higher speed. We plan to purchase 40 weaving machines in each of August 2019 and June 2020. To the best knowledge of our Directors, the garment manufacturers consider it more cost effective to use wider denim fabrics to produce their denim garments since the former results in less raw material wastage. Our Directors anticipate that the designed production capacity of our weaving process is expected to increase from approximately 16.2 million yards as at 31 December 2017 to 20.3 million yards. Based on the production level of FY2017, the new weaving machines are expected to be operated at an utilisation rate of approximately 100%. The total estimated investment costs are HK\$45.7 million, which will be funded by the net proceeds from the Share Offer, with the payback period (*Note*) estimated at 4.1 years.
- One desizing machine and one shrinking machine that are capable of processing wider denim fabrics will be acquired by August 2018 and March 2019, respectively to align our finishing process with our weaving process. Our Directors anticipate that the designed production capacity of our desizing and shrinking process is expected to increase from approximately 15.9 million yards as at 31 December 2017 and 17.6 million yards as at 31 December 2017 to 36.8 million yards and 43.8 million yards, respectively. Based on the production level of FY2017, the new desizing machine and shrinking machine are expected to be operated at utilisation rates of approximately 64.3% and 61.3%, respectively. The total estimated investment costs are HK\$15.5 million, which will be funded by the net proceeds from the Share Offer and/or our internal resources, with the payback period (*Note*) estimated at 3.5 years.

In order to enhance our product development capability:

- One ozone bleaching machine will be purchased to enhance the colour consistency of the finishing process in each of March 2019 and December 2019. The total estimated investment costs are HK\$15.5 million, which will be funded by the net proceeds from the Share Offer, with the payback period (*Note*) estimated at 3.4 years.
- One washing machine will be purchased in each of March 2019 and July 2019 to ensure the post-washing colour meets the requirements of apparel brands. The total estimated investment costs are HK\$3.9 million, which will be funded by the net proceeds from the Share Offer, with the payback period (*Note*) estimated at 5.1 years.

Note: The payback period refers to the period of time required for accumulated earnings, before interest, tax, depreciation and amortisation (EBITDA) of the new equipment or machinery to recover its initial set up costs. The initial set up costs comprise the purchase costs of the equipment or machinery and the disposal costs of the old equipment and machinery.

In view of (i) the utilisation rates of our slasher dyeing, weaving and finishing machines being close to their respective designed production capacity for FY2017; (ii) our plan in producing more wide denim fabrics; (iii) our plan in reducing the proportion of outsourced production processes; and (iv) the planned furtherance of our product development capability, our Directors believe that the acquisition of new machinery is necessary for achieving our business plans and sustaining our business growth.

Our Directors anticipate that, after the acquisition of all the new machinery as mentioned above, the proportion of production volume processed by third party subcontractors to the total production volume for dyeing, weaving and shrinking processes are expected to be reduced from 46.9%, 48.5% and 49.0%, to 9.6%, 30.0% and 10.0%, respectively (calculated based on the actual production volume of FY2017). With a higher proportion of production processes handled by us in-house, quality control of our denim fabric products can be further strengthened and our Directors expect that our Group will be able to meet the delivery schedule as requested by our customers more readily. As a result, our Directors estimate that it will allow us to achieve a saving in production costs of HK\$11.9 million per year (calculated based on the production level of FY2017 and taking into account the increase in depreciation charges, related overhead costs, and decrease in subcontracting costs), which will be positive to our gross profit margin.

RAW MATERIALS, PROCUREMENT AND OUR SUPPLIERS

Raw materials and procurement

We use various raw materials throughout our production process. Our principal raw materials include (i) yarns of different types such as pure cotton, stretchable cotton and stretchable synthetic; (ii) colour dyes; (iii) other chemicals, such as enzymes and catalysts applied in the dyeing process; and (iv) packaging materials. We generally procure raw materials based on confirmed purchase orders from garment manufacturers and procurement plans provided by apparel brands. We maintain raw material inventory at levels sufficient for our two months' production on average. Further, when we receive from apparel brands, in particular AEO, their projected procurement plans that span over six months, we in general procure approximately 70% of the major yarns required for fulfiling such procurement plans.

As a cost control measure, we generally obtain competitive quotations from different suppliers before placing our purchase orders in order to enjoy flexibility in negotiating trading terms reflective of latest market trends and raw material prices. Therefore, it is not our policy to enter into long-term agreements with our suppliers. The cost of raw materials account for a substantial part of our production cost. For FY2015, FY2016 and FY2017, the cost of raw materials accounted for 67.0%, 68.4% and 71.0% of our total cost of sales, respectively.

We occasionally enter into short-term purchase contracts for yarns to ensure we have adequate supply. Based on the confirmed purchase orders from garment manufacturers and the projected procurement plans from apparel brands, we place bulk purchase orders with some of our yarn suppliers at an agreed price that allow delivery schedules to span across two to three months. Our Directors are of the view that these short-term purchase contracts provide the benefits of (i) securing the supply of our commonly used yarns; (ii) enabling us to enjoy bulk purchase discounts; and (iii) mitigating our risk during periods of surging raw material price.

We procure yarns mainly from suppliers based in the PRC, Pakistan, Thailand, Taiwan and Japan. Dyes while other chemicals are primarily sourced from Japan, Germany and the PRC. Our purchases are primarily denominated in USD and RMB.

Our suppliers are generally responsible for delivering the raw materials to our production facilities, while the customs clearances for the imported raw materials are handled by us. During the Track Record Period and up to the Latest Practicable Date, we did not experience any shortage or delay in the supply of raw materials that materially affected our operations.

We purchase principal raw materials from our qualified suppliers, the admission of which is subject to the approval of our executive Directors in accordance with our supplier evaluation procedures.

We procure the majority of our raw materials directly from suppliers, except for the cotton yarns from suppliers in Pakistan which are provided to us through their agents in Hong Kong, such as Supplier C. We negotiated and concluded with the agent on our purchase terms, including product specifications, quantity, price, payment term and delivery schedules. To the best knowledge of our Directors, we enjoy more price discounts by procuring through the agent as our demand alone does not account for a significant portion of the sales volume of these Pakistan suppliers.

We may absorb the increase in raw material price by ourselves fully or transfer partly to our customers, depending on the extent of such increase. During the Track Record Period, the average selling price of our denim fabrics remained relatively stable. Please see "Sales and Marketing — Our pricing strategy" of this section for further details about our pricing strategy.

Suppliers

Our major suppliers were producers of raw materials including yarns, dyes and other chemicals used in the production process. For FY2015, FY2016 and FY2017, purchases from our five largest suppliers were HK\$156.7 million, HK\$231.4 million and HK\$298.3 million, representing 88.5%, 90.7% and 93.9% of our total purchases, respectively. Purchases from our largest supplier during the Track Record Period were HK\$54.4 million, HK\$100.8 million and HK\$126.7 million, representing 30.7%, 39.5% and 39.9% of our total purchases, respectively.

Supplier concentration

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

- Middle-to high-end apparel brands generally require our denim fabrics to use yarns which meet the requirements of Better Cotton Initiative, COTTON USA or Cotton LEADS, which, to the best knowledge of our Directors, are non-profit making organisations that promote high quality and/or sustainable cotton. According to Frost & Sullivan, there are relatively limited number of pure cotton yarns, stretchable cotton yarns and stretchable synthetic yarns suppliers which are members of these organisations and thus resulting in denim fabrics manufacturers having high concentration of yarn suppliers.
- Our Directors believe that the quality of the yarns we used to produce our denim fabrics has to remain consistent in order to satisfy the stringent quality requirements of apparel brands. As our business volume with major apparel brands is usually large, we choose to procure from suppliers which can manage the consistency of their yarns in large volume from time to time. Further, our Directors believe that placing bulk purchase orders with our key suppliers allows us to enjoy bulk purchase discounts and reduce our production costs.
- Supplier B, our second largest supplier for FY2015 and largest supplier for FY2016 and FY2017, is a listed company and comprises multiple group companies operating in the manufacturing, sales and distribution of yarns over different places. During the Track Record Period, we had business dealings with a number of companies in the same group as Supplier B. To the best knowledge of our Directors, notwithstanding that these companies are under the same group of Supplier B, they operate independently with their own production facilities in different places of the PRC. Further, these companies provide different types of yarns, deliver their products directly to and collect payments directly from us. In view of the above as well as our stable business relationship with Supplier B and its group companies, our Directors consider that the chance of material, abrupt and comprehensive disruption of supply from all these group companies at the same time is remote.
- Based on our unaudited financial information currently available to us, (i) purchases from the five largest suppliers in aggregate accounted for 91.0% of our total purchases for 4M2018; (ii) the four largest suppliers for 4M2018 are the same as those for FY2017; and (iii) the fifth largest supplier for 4M2018, ranked the tenth in FY2017, supplied chemicals for dyeing and finishing processes to us.
- Apart from the five largest suppliers, we purchased from over 20 qualified suppliers (the "Other Suppliers") which include manufacturers and/or traders of yarns, fabrics, dyes, chemicals and packaging materials based mainly in the PRC and Hong Kong during the Track Record Period and 4M2018. Other Suppliers for 4M2018 included a new qualified supplier for dyes based in the PRC. During the Track Record Period and 4M2018, our Group did not encounter any material disruptions of business as a result of shortage of raw materials and does not expect any significant difficulties in procuring raw materials from our major suppliers for our production.

As at the Latest Practicable Date, we had over 25 qualified suppliers, more than 20 of which were yarn suppliers. We shall continue to expand our supplier base to maintain flexibility in selecting and sourcing from different suppliers, in the event that any of the major suppliers fail to fulfil our purchase terms. In view of our annual procurement volume and industry reputation, our Directors do not anticipate any hurdles in expanding our business volume with the Other Suppliers or sourcing from new qualified suppliers.

The following table sets out information on our five largest suppliers during the Track Record Period:

For FY2015

Supplier	Country	Supplier's principal business	Principal products purchased by us from the supplier	Business relationship with us (years)	Typical credit terms to us and our payment method (days)	•	ses from the n the year (% of our total purchases)
Supplier A (Note 1)	Hong Kong/ PRC	Manufacturer of yarns	Yarn	12	45/Cheque or cash; or 30/Telegraphic transfer	54.4	30.7
Supplier B (Note 2)	Hong Kong/ PRC	Manufacturer of yarns	Yarn	Eight	At sight/Letter of credit; nil or nil after monthly statement/ telegraphic transfer; or 45/Cheque or cash	35.2	19.9
Kurabo Industries (Note 3)	Hong Kong/ Japan/ Thailand	Manufacturer of yarns	Yarn	Five	60/Telegraphic transfer or cheque	34.6	19.5
Supplier C	Pakistan	Manufacturer of yarns and fabrics	Yarn	Nine	120/Letter of credit	25.1	14.2
Supplier D	Hong Kong	Trader of yarns	Yarn	Four	60/Cheques	7.4	4.2
Total purchases from	m our five larg	est suppliers				156.7	88.5

For FY2016

Supplier	Country	Supplier's principal business	Principal products purchased by us from the supplier	Business relationship with us (years)	Typical credit terms to us and our payment method (days)		ses from the n the year (% of our total purchases)
Supplier B (Note 2)	Hong Kong/ PRC	Manufacturer of yarns	Yarn	Eight	Nil or nil after monthly statement/Telegraphic transfer; or 120/Letter of credit	100.8	39.5
Supplier C	Pakistan	Manufacturer of yarns and fabrics	Yarn	Nine	120/Letter of credit	59.9	23.5
Kurabo Industries (Note 3)	Hong Kong/ Japan/ Thailand	Manufacturer of yarns	Yarn	Five	14-60/Telegraphic transfer	29.1	11.4
Supplier D	Hong Kong	Trader of yarns	Yarn	Four	60/Cheques	24.8	9.7
Supplier E (Note 4)	Hong Kong/ Japan	Manufacturer of various products such as yarns and fabrics	Yarn	Two	At sight/Letter of credit	16.8	6.6
Total purchases from	n our five larg	est suppliers				231.4	90.7

For FY2017

Supplier	Country	Supplier's principal business	Principal products purchased by us from the supplier	Business relationship with us (years)	Typical credit terms to us and our payment method (days)	Our purchas supplier in (HK\$ million)	
Supplier B (Note 2)	Hong Kong/ PRC	Manufacturer of yarns	Yarn	Eight	Nil or nil after monthly statement/Telegraphic transfer; or 120/Letter of credit	126.7	39.9
Supplier C	Pakistan	Manufacturer of yarns and fabrics	Yarn	Nine	120/Letter of credit	99.5	31.3
Kurabo Industries (Note 3)	Japan/ Thailand	Manufacturer of yarns	Yarn	Five	14-60/Cheque	33.7	10.6
Supplier D	Hong Kong	Trader of yarns	Yarn	Four	60/Telegraphic transfer	24.1	7.6
Supplier E (Note 4)	Hong Kong	Manufacturer of various products such as yarns and fabrics	Yarn	Two	At sight/Letter of credit	14.3	4.5
Total purchases from	Total purchases from our five largest suppliers					298.3	93.9

Notes:

- (1) According to the available public information, in mid 2015, Supplier B acquired the yarn spinning business of Central Textile (Hong Kong) Group which, to the best knowledge of our Directors, had been carried out by a group company of Supplier A. Further, according to the available public information, in October 2015, Supplier B acquired another group company of Supplier A. Subsequent to the above acquisitions in 2015, our purchases made from Supplier A were consolidated into that of Supplier B.
- (2) During the Track Record Period, we had business dealings with a number of companies in the same group of Supplier B.
- (3) During the Track Record Period, we had business dealings with a number of companies in the same group of Kurabo Industries including KDIL.
- (4) During the Track Record Period, we had business dealings with a number of companies in the same group as Supplier E.

As at the Latest Practicable Date, all of our five largest suppliers during the Track Record Period were Independent Third Parties and none of our Directors, their close associates, or any shareholders who, to the best knowledge of our Directors after having made all reasonable enquiries, owned more than 5% of our share capital as at the Latest Practicable Date had any interest in any of our five largest suppliers during the Track Record Period.

Relationship with our Japanese joint venture partner

Kurabo Industries is a Japanese-based company founded in 1888 which engages in a broad range of businesses including textile, chemical, technology and food and service businesses in Japan and internationally.

In 2013, Kurabo Industries proposed to set up a joint venture with our Group mainly because, to the best knowledge of our Directors, it had ceased its manufacturing operations for denim fabrics in the PRC in the same year and intended to establish a stable relationship with a credible denim fabric manufacturer in the PRC which is capable of supplying denim fabrics to its standards.

After thorough consideration by our management, we entered into the KDIL First Agreement with Kurabo Industries on 27 May 2013 whereby we (i) supply our denim fabrics to Kurabo Industries which, to the best knowledge of our Directors, on sells to their customers; and (ii) are allowed to apply "Kurabo Denim" trademark on our denim fabric products. We then entered into the KDIL Supplemental Agreement on 29 July 2016 and KDIL Renewal Agreement on 19 January 2018 with Kurabo Industries which, among other things, certain terms of the KDIL First Agreement and KDIL Supplemental Agreement were revised and the term of KDIL Agreements was extended to 31 December 2021.

Set out below are certain key commercial terms of the KDIL Agreements:

- KDIL, a joint venture the share capital of which is owned as to 51% by HWT and 49% by Kurabo Industries, was established in 2013.
- A royalty fee, calculated at the rate of 0.95% on the contract price of the denim fabrics produced by our subsidiaries in the PRC and sold by our Group bearing the "Kurabo Denim" trademark, is payable to Kurabo Industries by our Group.
- Certain geographical restrictions apply to the sales of denim fabrics by either Kurabo Industries or our Group. Kurabo Industries shall only sell its denim fabrics to brands and/or agents in the U.S. as agreed by us from time to time while our Group shall only sell our denim fabrics to brands and/or agents in the European Union as agreed by Kurabo Industries from time to time. Our Group is only allowed to sell our denim fabrics in Japan to Kurabo Industries.

The KDIL joint venture does not have any operating assets. Our Directors consider the purpose of the joint venture is merely to build a strategic alliance between a reputable Japanese textile enterprise and our Group. The principal business activity of KDIL is to collect and remit the royalty fee payable by our Group to Kurabo Industries. In performing its daily functions, KDIL incurs certain administrative expenses, which have been agreed to be shared between our Group and Kurabo Industries on a predetermined basis after arm's length negotiations between the parties. The intention of both parties is to enable KDIL to have an overall breakeven position financially each year.

To the best knowledge of our Directors, the additional benefits of this joint venture to Kurabo Industries are as follow:

- As one of our selected yarn suppliers, Kurabo Industries can sell the cotton yarns its group companies produces to our Group, thus enlarging the customer base for its cotton yarn business (although we do not have any obligation or commitment to purchase yarns from Kurabo Industries under the KDIL Agreements).
- Kurabo Industries is entitled to receive the royalty fee which amounted to HK\$3.1 million, HK\$3.9 million and HK\$4.7 million for FY2015, FY2016 and FY2017, respectively.
- Our use of trademark "Kurabo Denim" on our denim fabrics would help to promote Kurabo Industries' brand in the U.S..

Our Directors believe that our Group enjoys the following major benefits from this joint venture:

- As a renowned textile enterprise in Japan with a long history, Kurabo Industries would share
 their knowledge and experience in denim fabrics production with us, as well as their insight
 on development trends of this industry.
- It enhances our corporate profile in the solicitations of new business opportunities with apparel brands.

 Demand from Kurabo Industries for our denim fabrics would make revenue contribution to our Group.

During the Track Record Period, we printed the "Kurabo Denim" trademark (i) together with the name of HWT and our Group's trademark on labels for products sold to our customers other than Kurabo Industries, representing 91.0%, 91.6% and 95.6% of our revenue, respectively; and (ii) solely on labels for products sold to Kurabo Industries, representing 8.8%, 8.3% and 4.2% of our revenue, respectively. Revenue derived from the foregoing sales in aggregate amounted to HK\$399.9 million, HK\$474.7 million and HK\$646.6 million for FY2015, FY2016 and FY2017, respectively.

As mentioned above, Kurabo Industries and/or its subsidiaries (collectively the "Kurabo Group") have been our yarn suppliers and denim fabrics customers during the Track Record Period. For FY2015, FY2016 and FY2017, purchases of raw materials from Kurabo Group amounted to HK\$34.6 million, HK\$29.1 million and HK\$33.7 million, representing 19.5%, 11.4% and 10.6% of our total purchases, respectively. Denim fabrics which we sold to the Kurabo Group were generally manufactured with our rope dyeing machines to their required specifications and quality standards. Sales to the Kurabo Group amounted to HK\$35.1 million, HK\$39.6 million and HK\$27.5 million, representing 8.8%, 8.3% and 4.2% of our revenue for FY2015, FY2016 and FY2017, respectively while the sales volume of our denim fabrics to the Kurabo Group amounted to 1.6 million yards, 1.9 million yards and 1.2 million yards for the same period. It has been our understanding with Kurabo Group that for the denim fabrics they purchase from us we would only charge Kurabo Group a symbolic gross margin of around 5–7% as a gesture of maintaining good relationship with our joint venture partner. Gross profit attributable to sales of our denim fabrics to the Kurabo Group amounted to HK\$2.8 million, HK\$1.9 million and HK\$1.3 million, representing gross profit margin of 7.9%, 4.9% and 4.8% for FY2015, FY2016 and FY2017, respectively.

As confirmed by our Directors, negotiations of the terms of our sales to and purchases from the Kurabo Group were conducted on individual basis and the sales and purchases were neither interconnected nor inter-conditional with each other.

SUBCONTRACTORS

During the Track Record Period, our production processes are carried out by the following parties:

Parties	Production process	Relationship with our Company or Controlling Shareholders
Hing Tak	Weaving	Indirect wholly-owned subsidiary of our Company during the Track Record Period.
Hing Shing	Dyeing and shrinking	Wholly-owned by Kingshine Investments which was in turn owned as to 43% and 57% by our Controlling Shareholders and two Independent Third Parties prior to 7 July 2017, respectively. Thereafter, Hing Shing become an indirect wholly-owned subsidiary of our Company pursuant to acquisition of an aggregate of 57% shareholding interests in Kingshine Investments by our Controlling Shareholders and the Reorganisation, details of which are set out in "History, Corporate Structure and Reorganisation" in this prospectus. As our Controlling Shareholders held only 43% indirect equity interest in Hing Shing and did not have control over Hing Shing prior to 7 July 2017, Hing Shing was not a subsidiary of the Group prior to such date.
Subcontractors	Dyeing, weaving and shrinking	Independent Third Parties

Due to the high utilisation rates of the key production machineries of Hing Tak and Hing Shing and to a lesser extent, the limitation of the dyeing machines of Hing Shing, we outsourced some of the dyeing, weaving and shrinking processes to third party subcontractors.

Mr. TH Tung and Mr. Stephen Tung, both being our Controlling Shareholders, have been directors of Hing Shing (the other two directors of Hing Shing, who were two Independent Third Parties that held an aggregate of 57% shareholding interests in Hing Shing through Kingshine Investments prior to 7 July 2017, resigned from directorship after they disposed of their interests to our Controlling Shareholders) and have participated in its management and daily operation since 1 January 2015.

Our subcontracting costs during the period from 1 January 2015 to 6 July 2017 included the amount paid to Hing Shing and third party subcontractors. The financial results of Hing Shing have been consolidated into our financial statements since 7 July 2017 and thus, our subcontracting costs subsequent to 7 July 2017 comprised only the amount paid to third party subcontractors. Further details of our subcontracting costs are set out in "Financial Information — Principal income statement components — Cost of sales".

During the period from 1 January 2015 to 6 July 2017 (when Hing Shing was owned by two Independent Third Parties as to 57%), the subcontracting fees we paid to Hing Shing were negotiated on an arm's length basis, comparable to the fees we paid to third party subcontractors for similar services.

Set out below are the details of our production volume which was processed by (i) Hing Tak; (ii) Hing Shing; and (iii) third party subcontractors during the Track Record Period:

Dyeing volume by parties:

		For the year ended 31 December										
	2015		2016		2017							
	Yards	%	Yards	%	Yards	%						
1. Hing Shing	12,430,113	57.4	12,627,407	44.7	18,491,786	53.1						
2. Third party subcontractors	9,218,153	42.6	15,623,652	55.3	16,308,275	46.9						
	21,648,266	100.0	28,251,059	100.0	34,800,061	100.0						

Weaving volume by parties:

		For the year ended 31 December										
	2015		2016		2017							
	Yards	%	Yards	%	Yards	%						
1. Hing Tak	10,789,555	55.9	13,658,630	54.9	15,959,950	51.5						
2. Third party subcontractors	8,518,714	44.1	11,238,314	45.1	15,050,972	48.5						
	19,308,269	100.0	24,896,944	100.0	31,010,922	100.0						

Shrinking volume by parties:

		For the year ended 31 December									
	2015		2016		2017						
	Yards	%	Yards	%	Yards	%					
1. Hing Shing	9,953,365	61.2	10,714,155	46.8	13,690,207	51.0					
2. Third party subcontractors	6,316,781	38.8	12,168,614	53.2	13,151,881	49.0					
	16,270,146	100.0	22,882,769	100.0	26,842,088	100.0					

We have a list of qualified subcontractors and we review their performance, standard of services provided and subcontracting fees charged from time to time. Subcontractors who fail to adhere to our quality and safety standards are removed from our list of qualified subcontractors. As at the Latest Practicable Date, we had business relationship with our major subcontractors for an average of five years.

We in general do not enter into any long-term agreements with our subcontractors and we place orders with them on an order-by-order basis. Although we do not generally enter into long-term agreements with our subcontractors, certain of our subcontractors have undertaken to us that they will prioritise our Group's subcontracting orders over their other customers and have also committed to a minimum annual subcontracting processing amount of semi-finished products. Our typical subcontracting arrangement includes the following terms:

- Subcontracted part of the production process
- Type of semi-finished products processed
- Volume of semi-finished products processed
- Completion date
- Subcontracting fee
- Additional requirements (e.g. maximum shrinkage allowed, segmenting semi-finished products before processing, etc.)

We provide technical requirements and also raw materials sourced from our own qualified suppliers to subcontractors. Our quality control staff attends the production facilities of the subcontractors to provide guidance and on-site inspection and we also inspect the finished products in accordance with our customers' requirements before the delivery of our denim fabrics to our customers. Please see "Quality Control — Inspection of work done by subcontractors" in this section for further details.

For FY2015, FY2016 and FY2017, our subcontracting costs amounted to HK\$81.4 million, HK\$88.0 million and HK\$97.3 million, respectively, representing 27.7%, 26.9% and 22.3% of the total cost of sales, respectively. The amount of subcontracting costs increased during the Track Record Period which was mainly due to our increasing sales volume and the high utilisation of our production facilities. Our subcontracting costs for FY2015 and FY2016 included the amount paid to both Hing Shing and third party subcontractors, and the proportion of subcontracting costs to our total costs of sales was similar for these two years, whereas the proportion for FY2017 dropped mainly because our subcontracting costs comprised only the amount paid to third party subcontractors after Hing Shing had become an indirect wholly-owned subsidiary of our Company pursuant to the acquisition of an aggregate of 57% shareholding in Kingshine Investments by our Controlling Shareholders in July 2017 and the Reorganisation. Further details of our subcontracting costs are set out in "Financial Information — Principal income statement components — Cost of sales".

Our Directors intend to further reduce the outsourcing of our dyeing, weaving and shrinking processes in order to minimise the possible operational risks posed to and costs incurred by our Group in connection with (i) possible reliance on subcontractors for carrying out our key production processes; (ii) identification of sufficient number of new subcontractors that meet our quality standards and are with adequate capacity to take up our orders from time to time; (iii) the fulfilment of our quality standards and delivery schedules by our subcontractors from time to time; and (iv) increasing management efforts, manpower and costs to monitor the quality standard of the processes undertaken by our subcontractors.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material disputes with our subcontractors, nor were there any material claims or complaints by our customers in respect of the quality of the denim fabrics processed by our subcontractors. Moreover, because of our stable relationship with our subcontractors, we did not experience any major difficulties in engaging subcontractors that are able to satisfy our delivery and quality requirements during the same period.

SALES AND MARKETING

During the Track Record Period, we sold our denim fabrics to over 120 customers, which include mainly garment manufacturers designated by apparel brands. Our garment manufacturer customers during the Track Record Period were mainly based in Hong Kong and the PRC. To the best knowledge of our Directors after having made all reasonable enquiries, our denim fabrics are used to produce denim garments of apparel brands and in particular, certain reputable U.S. apparel brands.

When we receive enquiry from apparel brands, our sales and marketing personnel communicates with them to obtain details about their orders such as product specification, volume, packaging and delivery arrangements. Our sales and marketing team, production team and if required, our product development team, are responsible for evaluating our capacity in accepting the apparel brands' orders. Following such evaluation and having agreed the purchase terms, including specification, quantity, price and delivery plan, confirmation will be sent to the apparel brands which will then instruct their designated garment manufacturers to place purchase orders with our Group in accordance with the agreed terms.

To ensure due execution of their denim garments procurement plans, apparel brands may periodically provide with us their denim fabrics procurement plans in the next four to six months, which facilitate our production and procurement planning to better fulfil the demands by apparel brands.

In addition to our own sales and marketing effort, we have also appointed a sales agent in each of the U.S. and Italy for the purpose of further expanding our customer base. Our local agent in the U.S. mainly assists us in procuring purchaser orders from and maintaining business relationships with luxury apparel brands. The fees paid by our Group to the U.S. sales agent represents mainly commission calculated with reference to the amount derived from the buying orders solicited by the agent. For FY2015, FY2016 and FY2017, the total amount of fees paid to this U.S. sales agent amounted to HK\$nil, HK\$1.2 million and HK\$1.6 million, respectively. Our Directors believe that the engagement of the U.S. sales agent is in the interest of our Group because (i) we can secure purchase orders from luxury apparel brands which further broadens our customer base in different market segments of the denim garment industry; and (ii) it allows us to focus our sales and marketing manpower to middle-to high-end apparel brands, which is the primary customer niche for our denim fabrics. In April 2018, we have renewed the terms of the foregoing arrangements by entering into an agreement with this agent whereby this U.S. sales agent shall work towards a minimum amount of buying orders in any successive 12 months period and is entitled to a commission payable by us at a rate as determined upon negotiation from time to time.

Appointed in January 2018, our sales agent in Italy assists us to facilitate our business expansion plan in the European Union. To the best knowledge of our Directors, this agent has established networking with reputable apparel brands in the region and would help to promote our products to and solicit purchase orders from these brands. This agent has committed to a minimum amount of buying

orders solicited in any successive six month period and is entitled to commission payable by us with reference to the amount of sales derived from the buying orders it solicited. Our Directors believe that this agent will help us to develop our clientele in the European Union. Up to the Latest Practicable Date, apart from quotation requests from certain prospective customers in the region, our Group has received a trial purchase order from a new European customer. Our Group will keep exploring business opportunities in this new market.

Marketing and promotion

The major functions of our sales and marketing team are summarised as follows:

- Communicate with existing and potential customers to understand their business plans and requirements and introduce to them our denim fabrics that fulfil their requirements. This helps both the customers and our Group to keep abreast of the latest developments in fashion trends as well as demand and supply condition of different denim fabrics.
- Initiate and participate in product development and proactively present our new denim fabrics
 to apparel brands. This helps to drive our business growth and tighten our bonds with apparel
 brands by providing them with new ideas for designing denim garments.
- Participate in exhibitions and fabric shows, such as Intertextile Shanghai Apparel Fabrics (an
 exhibition for supreme apparel fabrics and accessories) and Kingpins Show in Los Angeles
 and New York (an exhibition for denim fabric, garment and other manufacturers from related
 industries). These activities help us to meet new potential customers and keep abreast of the
 latest developments in denim fabrics and production technology.

As at the Latest Practicable Date, our sales and marketing function is led by two of our senior management members, supported by our product development and administrative staff members located in Hong Kong and the PRC. In view of our business expansion plans, we endeavour to commit more financial and human resources into our sales and marketing activities for the purposes of (i) furthering our business with reputable U.S. apparel brands; and (ii) developing our business with reputable apparel brands and garment manufacturers in Europe and the PRC. Further details are set out in "Business — Our business strategies — Broaden our customer base by expanding into new markets".

Seasonality

Our sales are subject to seasonality. Based on our sales trend during the Track Record Period, we generally experience higher sales during January to April and lower sales in the third and fourth quarters of the year. Such seasonal pattern is mainly caused by the peak season for denim garment sales in the third and fourth quarters of the year and the lead time of about four to six months from receipt of yarns for our production of denim fabrics to delivery of denim garments by garment manufacturers to brand owners. The sales of denim garments in peak seasons are mostly driven by higher consumer spending during summer holidays, the commencement of the new school year from June to August and during the festive season from October to December.

Our pricing strategy

We generally negotiate prices with our customers on an order-by-order basis. We normally adopt a cost-plus pricing strategy, taking into consideration a range of factors including but not limited to:

- order volume;
- stretchability of the denim fabrics;
- complexity of indigo shading;
- post-finishing appearance of denim fabrics; and
- urgency of delivery.

We monitor the raw material price from time to time. We put much emphasis on maintaining long term and stable relationship with our customers by, among other measures, maintaining relatively stable selling price for our products notwithstanding temporary movements in the market price of raw materials.

Our Directors consider that our pricing strategy is able to reflect our overall costs, including fluctuation in raw material costs, and is acceptable to customers which is proven by being successful in maintaining long business relationships with them.

Transfer pricing

The transactions among our Group companies (the "Inter-company Transactions") during the Track Record Period are summarised below:

- HWT (indirect wholly-owned subsidiary of our Company in Hong Kong) sold raw materials
 purchased from third party suppliers to Hing Tak (indirect wholly-owned subsidiary of our
 Company in the PRC) through Kingstead Industrial (indirect wholly-owned subsidiary of our
 Company in Hong Kong).
- Hing Tak carried out the weaving process for producing denim fabrics, using the foregoing raw materials; and subcontracted dyeing and finishing processes to Hing Shing (an indirect wholly-owned subsidiary of our Company in the PRC since July 2017) or other third party factories in the PRC which charged Hing Tak subcontracting fees.
- The finished denim fabrics products were mostly sold by Hing Tak to HWT through Kingstead Industrial, which were then delivered by HWT to third party customers.

We have engaged an independent tax adviser, an international professional accounting firm in Hong Kong, to conduct transfer pricing analysis (the "Analysis") on the Inter-company Transactions during the Track Record Period.

Set out below are the key results of the Analysis:

- Our Group has been in compliance with the applicable transfer pricing laws and regulations in Hong Kong and the PRC.
- The net profit margin of Hing Tak for FY2015 was 2.26%, which was within the arm's length range of the companies considered as comparable to Hing Tak but below the median (the "Comparable Median") of 3.01%. If the PRC tax authorities were to impose the transfer pricing adjustments on Hing Tak for FY2015 and adjust its net profit margin to the Comparable Median, it would result in an additional tax payable of approximately RMB332,000. The net profit margins of Hing Tak for FY2016 and FY2017 were within the arm's length range and above the Comparable Medians, and accordingly, Hing Tak should not be exposed to any possible transfer pricing adjustments by the PRC tax authorities for these two years.
- Inter-company Transactions of Hing Shing were analysed during the period from July 2017, when it became our Group company, to the end of FY2017 (the "Post Acquisition Period"). Hing Shing reported a net loss during the Post Acquisition Period, which was below the arm's length range of the respective comparable companies with the Comparable Median of 2.53%. If the PRC tax authorities were to impose transfer pricing adjustments on Hing Shing and adjust its net profit margin to the Comparable Median, the resultant additional tax payable would be approximately RMB213,000.

We have provided in full the foregoing potential additional tax payable. Our Directors are of the view that such tax payable, even if imposed, would have no material adverse impact on the business operations and financial position of the Group.

We have adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- Our Directors will review the terms of the Inter-company Transactions to ensure that they are on arm's length basis from time to time.
- Our finance and accounting team will (i) closely monitor the amount of the Inter-company
 Transactions to ensure that the reporting and filing requirements under the relevant transfer
 pricing laws, regulations and guidelines are duly complied with from time to time; and (ii)
 ensure that the Inter-company Transactions are properly recorded and filed for the purposes
 of internal control and reporting to the tax authorities in the PRC.
- The Group engages tax adviser to review the transfer pricing arrangement and assist in preparing transfer pricing documentation for reporting requirements in the PRC.

As at the Latest Practicable Date, our Directors were not aware of any inquiry, audit or investigation by any tax authority in the PRC or Hong Kong with respect to the Inter-company Transactions.

CUSTOMERS

Our customers are primarily (i) garment manufacturers designated and instructed by apparel brands to procure our denim fabrics on the terms concluded directly between our Group and the apparel brands for the production of denim garments, which accounted for 87.9%, 88.3% and 84.4% of our revenue in FY2015, FY2016 and FY2017, respectively, and (ii) garment manufacturers that use our denim fabrics to produce denim garments for their own business needs and conclude contractual terms with us directly, which accounted for 3.3%, 3.4% and 11.3% of our revenue in FY2015, FY2016 and FY2017, respectively.

For FY2015, FY2016 and FY2017, sales to our five largest customers amounted to HK\$231.4 million, HK\$236.2 million and HK\$361.8 million, representing 57.9%, 49.7% and 55.7% of our revenue, respectively. Sales to our largest customer were HK\$122.2 million, HK\$67.0 million and HK\$124.7 million, representing 30.5%, 14.1% and 19.2% of our revenue, respectively. The payments made by our customers were primarily in USD and RMB.

The following table sets out information on our five largest customers during the Track Record Period:

For FY2015

			(Note 4)			(1)	the ye	
					(years)	(days)	(HK\$ million)	(% of our revenue)
Customer A	Hong Kong	Manufacturer of garments	AEO	Denim fabric	14	30/Letter of credit	122.2	30.5
Kurabo Industries (Note 1)	Hong Kong/ Japan	Various businesses such as manufacturer of yarns, fabrics and garments	N/A (Note 2)	Denim fabric	Five	15–60/Telegraphic transfer	35.1	8.8
Customer B	Hong Kong	Manufacturer of garments	AEO	Denim fabric	Five	At sight/Letter of credit	30.6	7.7
Customer C	Taiwan	Manufacturer of garments	AEO	Denim fabric	15	At sight/Letter of credit	24.3	6.1
Customer D (Note 3)	Hong Kong/ Vietnam	Manufacturer of garments	Brand D, Brand F	Denim fabric	Eight	45/Letter of credit	19.2	4.8
Total sales derived	from our five la	argest customers					231.4	57.9

For FY2016

Customer	Country	Customer's principal business	Apparel brand(s) served	Our principal products purchased by the customer	Business relationship with us	Our typical credit terms to the customer and their payment method	Our sales to the	
			(Note 3)		(years)	(days)	(HK\$ million)	(% of our revenue)
Customer A	Hong Kong	Manufacturer of garments	AEO	Denim fabric	14	30/Letter of credit	67.0	14.1
Customer E	PRC	Manufacturer of garments	AEO	Denim fabric	Eight	In advance/ Telegraphic transfer	46.4	9.8
Customer B	Hong Kong	Manufacturer of garments	AEO	Denim fabric	Five	30/Letter of credit	46.0	9.7
Kurabo Industries (Note 1)	Hong Kong/ Japan	Various businesses such as manufacturer of yarns, fabrics and garments	N/A (Note 2)	Denim fabric	Five	10 after monthly statement -60/ Telegraphic transfer	39.6	8.3
Customer F	PRC	Manufacturer of garments	AEO	Denim fabric	Six	In advance/ Telegraphic transfer	37.2	7.8
Total sales derived	from our five la	argest customers					236.2	49.7

For FY2017

Customer	Country	Customer's principal business	Apparel brand(s) served	Our principal products purchased by the customer	Business relationship with us	Our typical credit terms to the customer and their payment method	Our sales to the	ar
			(Note 4)		(years)	(days)	(HK\$ million)	(% of our revenue)
Customer A	Hong Kong	Manufacture of garments	AEO	Denim fabric	14	30/Letter of credit	124.7	19.2
Customer B	Hong Kong	Manufacture of garments	AEO	Denim fabric	Five	60/Letter of credit	100.1	15.4
Customer G	Vietnam	Manufacture of garments	AEO, Brand C and others	Denim fabric	Six	At sight/Letter of credit	52.6	8.1
Customer H	Hong Kong	Manufacture of garments	AEO	Denim fabric	17	At sight/Letter of credit	51.8	8.0
Customer F	PRC	Manufacturer of garments	AEO	Denim fabric	Six	In advance/ Telegraphic transfer	32.6	5.0
Total sales derived f	rom our five la	rgest customers					361.8	55.7

Notes:

⁽¹⁾ During the Track Record Period, we had business dealings with a number of companies in the same group of Kurabo Industries including KDIL.

- (2) To the best knowledge of our Directors, Kurabo Industries concluded their sales terms directly with their customers and we were not provided with the information about their customers.
- (3) During the Track Record Period, we had business dealings with a number of companies in the same group of Customer D.
- (4) "Apparel brands served" refer to the brands which our garment manufacturer customers have procured our denim fabrics for, and hence, the apparel brands disclosed in this column do not necessarily set out all brands served by our customers.

As at the Latest Practicable Date, all of our five largest customers during the Track Record Period were Independent Third Parties and none of our Directors, their close associates or any shareholders who, to the best knowledge of our Directors after having made all reasonable enquiries, owned more than 5% of our share capital as at the Latest Practicable Date had any interest in any of our five largest customers.

Breakdown of revenue by apparel brands

During the Track Record Period, we had business relationships with over 30 apparel brands which instructed their designated garment manufacturers to procure our denim fabrics on the terms concluded directly between our Group and these brands. Please see "Customers — Business relationship among our Group, apparel brands and garment manufacturers "in this section for further details.

The following table sets out a breakdown of our revenue by apparel brands during the Track Record Period:

	For the year ended 31 December								
	2015		2016		2017				
	HK\$'000	%	HK\$'000	%	HK\$'000	%			
AEO	227,931	56.9	298,429	62.8	422,163	65.1			
Brand A	1,332	0.3	2,613	0.6	33,807	5.2			
Brand B	9,918	2.5	5,532	1.2	21,284	3.3			
Silver Jeans	9,000	2.2	10,569	2.2	9,852	1.5			
Brand C	1,502	0.4	_	0.0	7,899	1.2			
Brand D	18,340	4.6	18,177	3.8	7,431	1.1			
Brand E	13,500	3.4	14,922	3.1	6,003	0.9			
Brand F	16,908	4.2	16,480	3.5	5,570	0.9			
Others	102,125	25.5	108,317	22.8	134,210	20.8			
Total	400,556	100.0	475,039	100.0	648,219	100.0			

The above are the top five largest apparel brands which are Independent Third Parties served by us during the Track Record Period and have established business relationships with us for approximately five to 10 years.

Based on our unaudited financial information currently available to us, (i) sales attributable to purchase orders from garment manufacturers for AEO accounted for 65.2% of our revenue for 4M2018 (77.2% for 4M2017); (ii) sales attributable to purchase orders from garment manufacturers for Brand A

to Brand F and Silver Jeans in aggregate accounted for 19.4% of our revenue for 4M2018 (10.8% for 4M2017); and (iii) sales attributable to other brands accounted for 15.4% of our revenue for 4M2018 (12.0% for 4M2017).

Apparel brand concentration

Notwithstanding that our revenue during the Track Record Period was attributable to business concluded with a few apparel brands, our Directors consider that our Group's business is sustainable in view of the following factors:

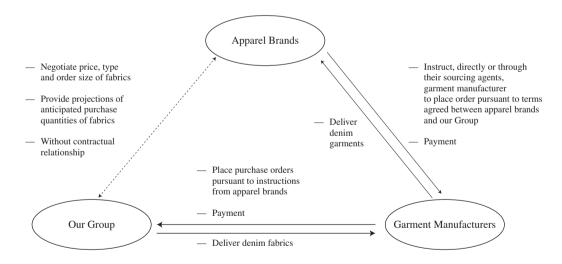
- To the best knowledge of our Directors after having made all reasonable enquiries, the male and female business lines of AEO are operated separately and make independent business decisions such as (i) the procurement of raw materials; and (ii) the designation of qualified fabric suppliers and garment manufacturers. Under these arrangements, the disruption of our business with either of these business lines of AEO will not affect our business with the other line.
- Our Directors believe that (i) our denim fabrics are conductive to the marketability of denim garments of AEO; (ii) each of our denim fabric item has unique composition of yarns (by weaving several types of yarns with different stretchability and weight), dyes (by mixing dyes of different indigo tones according to our pre-determined formulae) and production parameters (such as temperature and time for dyeing and shrinking processes) which, to the best knowledge of our Directors, is difficult for other denim fabric manufacturers to replicate without knowing the exact constituents of yarns and dyes as well as the production parameters; and (iii) we are able to adhere to the quality standards of our denim fabrics supplied to AEO. As such, our Directors are confident that AEO will continue to place orders through its designated garment manufacturers for our denim fabrics for the production of its denim garments.
- While being able to secure the business relationship with our top apparel brands, we have been successful in soliciting business from nine new apparel brands during the Track Record Period. Moreover, we are planning to expand our presence into the PRC and European markets by setting up a sales office in the PRC, engaging a sales agent for the European market and participating overseas exhibitions, financed by the net proceeds from the Share Offer and/or our internal resources. We believe that our proven track record in establishing business relationship with and soliciting orders from new apparel brands has laid solid foundation for us to keep pursuing our strategy in expanding the clientele that fuels our business growth in the future.
- We have maintained five to ten years' business relationships with other top five apparel brands as at the Latest Practicable Date. During the Track Record Period, we had business relationships with over 30 apparel brands. We have been making additional efforts to increase our volume of sales to other apparel brands in FY2018. As a result, our sales attributable to purchase orders from garment manufacturers for AEO dropped by 12.0 percentage points in 4M2018 as compared to 4M2017. Our Directors are confident that the proportion of revenue from other apparel brands to our revenue would be higher in the future.

- Based on our insights into the prospects of the apparel and textile industry, we entered into the textile industry in the 1980s. According to Frost & Sullivan, there has been an increasing trend in the popularity of stretchable denim garments and hence, stretchable denim fabric has a relatively higher profit margin. We believe that we are well-positioned and have the competitive strength to further our business in the stretchable denim fabric market.
- In view of the anticipated industry growth, our expanding clientele, increasing demand for our stretchable denim fabrics and rising quality standards of customers, we plan to procure slasher dyeing, weaving, finishing (desizing and shrinking), ozone bleaching and washing machines in order to increase our production capacity and enhance our product development capability. Please see "Production Our machinery purchase plan" in this section for further details. Our Directors believe that the above machinery will further our capability in developing and producing denim fabrics of even greater aesthetics and functionality which drives our business by obtaining more orders from existing customers and attracting new apparel brands to procure denim fabrics in the future.

We believe the foregoing anticipated industry growth and our continuous efforts in business development, in particular clientele expansion, will sustain our business growth on one hand and reduce the proportion of revenue from certain apparel brands to our revenue on the other hand.

Business relationship among our Group, apparel brands and garment manufacturers

The following diagram illustrates the typical business relationship among our Group, apparel brands and garment manufacturers:



Principal contractual terms and credit terms

During the Track Record Period, we generally entered into individual sales orders and did not enter into long-term contracts with our garment manufacturer customers.

The terms typically included in these sales orders are product specifications, unit price, volume, delivery schedule and payment terms which are agreed between our Group and apparel brands. Garment manufacturers must procure denim fabrics from designated suppliers and in accordance with purchase

terms as instructed by the apparel brands. Payments are usually made by cash or letters of credit. We granted credit periods of up to 60 days to customers who have long business relationship with us and good payment record.

Delivery arrangement

The finished products are generally delivered to garment manufacturers on the basis of FOB. However, we sometimes deliver on the basis of CIF or CNF to certain overseas garment manufacturers.

We generally engage third party logistic service providers for the delivery of our denim fabrics to our customers in both overseas and PRC sales. For FY2015, FY2016 and FY2017, our delivery and export related expenses amounted to HK\$4.4 million, HK\$6.0 million and HK\$7.6 million, respectively.

During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption to our delivery arrangements and we did not suffer any material loss or pay any compensation as a result of delays in deliveries to our customers.

Product return and warranty

We carry out internal quality control assessments to ensure that the finished products comply with the specifications or quality standards of the apparel brands. Apparel brands may also designate their quality control examiners to assess the quality of our finished products. If the results of either one of the assessments fail to meet the pre-determined specifications or quality standards, we may arrange replacement for the returned products on a case-by-case basis.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group (i) did not receive any material complaints or claims from our customers in relation to the quality of our denim fabrics; and (ii) did not have any material sales return or product recall.

OUALITY CONTROL

We place great emphasis on quality standards and are committed to manufacturing excellent quality denim fabrics. As at the Latest Practicable Date, there were 58 employees in our quality control team, of which two were based in Hong Kong and 56 were based in the PRC.

We have implemented and put in place the following internal quality control guidelines and measures throughout our production process from use of qualified suppliers, subcontracting to packaging:

Use of qualified suppliers

Our suppliers are selected based on, among other things, price and payment terms, product and service quality, operation scale, and geographical proximity to our production facilities.

A qualified supplier list for our principal raw materials approved by our executive Directors is maintained by our procurement team and all principal raw materials must be purchased from our qualified suppliers. We closely monitor the performance of our suppliers from time to time. Besides, we

generally obtain quotations from different suppliers prior to procurement as a cost control measure. Suppliers that fail to keep up with our requirements on product and service quality or contribute to material product defects at any stage of production may be removed from the qualified supplier list.

Inspection and testing of incoming raw materials

We inspect incoming raw materials by sample on parameters such as strength, length and weight, in accordance with the testing procedures in our quality control manual. Incoming raw materials are also tested in our in-house laboratory to ensure that these materials meet the agreed specifications and our quality standards. If defects are found from the inspections, further testing may be conducted. We also have the right to require the suppliers to provide their testing reports and/or replace the defective raw materials.

Compliance with industry and customers' quality standards

Before we are admitted as their qualified supplier, the apparel brands evaluate, among other things, the due compliance of our production facilities with environmental laws and regulations and the credibility of our yarn suppliers. Once we are admitted as a designated supplier, the apparel brands will instruct garment manufacturers to procure our denim fabrics and monitor our product quality by testing our product samples.

We adhere to industry quality standards that are implemented by the American Association of Textile Chemists and Colorists, a non-profit professional association of the textile and apparel industry, and the American Society for Testing and Materials, an international organisation which develops and publishes technical standards for materials. Key parameters for evaluating the quality of our denim fabrics include (i) fabric stretchability; (ii) washing effects; (iii) range of indigo shade band; (iv) amount of restrictive material; (v) fibre content; (vi) tear and tensile strength; (vii) weight; (viii) width; (ix) shrinkage, and (x) due compliance of environmental laws and regulations in our production process.

Inspection during the production process

Quality control measures are implemented throughout the production process. For instance, we inspect all semi-finished products after the dyeing and finishing process. The inspection conducted on semi-finished products includes tests on the dyes applied in the dyeing process and visual checks for defective indigo tones and shrinkage. Any items which do not pass the quality checks will either be discarded or reprocessed depending on the type and severity of the defect. These quality control measures ensure that our finished products are free from defects.

Inspection of work done by subcontractors

All work done by our subcontractors are subject to the quality control standards imposed on our own production process. We inform subcontractors the product features and quality standards pursuant to instructions from apparel brands and/or garment manufacturers for each purchase order. We also send our technicians to the production facilities of the subcontractors for on-site monitoring and guidance from time to time. Quality checks are performed by subcontractors at their site before the semi-finished products are delivered to us. Our own quality control team will then perform thorough tests on the semi-finished products in our own production facilities to ensure compliance with our quality standards.

Final inspection

We conduct final inspection on our finished products on a sample basis in accordance with the inspection guidelines provided by apparel brands which set out the inspection parameters, such as (i) colour fastness and texture consistency; (ii) fabric composition; (iii) stretchability and recoverability; (iv) finishing effects; (v) tear and tensile strength; (vi) shrinkage; (vii) fabric weight; and (viii) pH value. The inspection guidelines also provide detailed requirements in relation to the conditions and methods of the quality control inspections, such as lighting and sample size. Further, apparel brands will instruct garment manufacturers to monitor our product quality by testing our product samples.

Different procedures are applied to assess the quality of our finished goods. For instance, (i) laboratory tests are conducted to ascertain the fabric composition of the finished products; (ii) finished products are put into desizing and shrinking machines to evaluate its finishing effects; and (iii) force is applied to finished products to examine their stretch recovery, tensile and tearing strength.

Our Directors believe that the experience of our quality control team and stringent quality control measures have been and will continue to be a key contributor to our high and consistent product quality, from which we derive our competitive advantage that accounted for our achievements in the past and enhance our continual growth in the future.

INVENTORY MANAGEMENT

As at 31 December 2015, 31 December 2016 and 31 December 2017, our inventories amounted to HK\$94.7 million, HK\$163.3 million and HK\$212.5 million, respectively.

We manage our inventory levels with the help of our information technology systems and physical records, which keep moving record of our inventory levels. Our warehouse staff will also conduct physical inventory taking at our production facility on a monthly basis to ensure accuracy of our inventory record and inspect physical condition of our inventory.

Our principal raw materials, namely (i) yarns of different types such as pure cotton, stretchable cotton and stretchable synthetic yarns; (ii) colour dyes; (iii) other chemicals; and (iv) packaging materials.

We normally keep inventory for principal and commonly used raw materials at levels that are sufficient for two to three months' production; and procure raw materials and supplies which are specific to individual sales orders (such as coloured yarn) on an order-by-order basis.

Depending on customers' requirements, delivery of finished products under a purchase order could be made by more than one shipment that span across a period generally from one to three months. To streamline our production plans for orders of various size and delivery schedule and to optimise the utilisation of our production facilities from time to time, we may produce the ordered denim fabrics well ahead of their delivery, especially for orders of larger size with longer delivery schedules, and those denim fabrics become our finished goods inventory. Our Directors do not consider this practice would increase our inventory risks as we in general produce only with confirmed purchase orders from garment manufacturers or occasionally when the terms of purchases of sizeable volume have been confirmed with

major and credible apparel brands. Our Group did not experience any incidents which our customers failed to honour their purchase orders that resulted in any material loss to our Group during the Track Record Period.

Our Directors believe such inventory policy, along with our pricing strategy as elaborated in "Sales and Marketing — Our pricing strategy" in this section, have enabled us to mitigate any risks in association with raw material price volatility, inventory obsolescence and strained liquidity due to stocking-up of inventories.

PRODUCT DEVELOPMENT

As at the Latest Practicable Date, our product development team consisted of a total of 10 members, of which four were based in Hong Kong and six were based in the PRC. Our product development team is proactive in developing stretchable and fashionable denim fabrics based on its understanding of the style and functionality characteristics of popular denim garments. Our product development team is mainly responsible for (i) proactive and continuous exploration of new denim fabrics which satisfy the aesthetic and functional requirements (such as stretchability, quick recovery, rapid drying, softness and thermal) of consumers; (ii) visiting apparel brands to better understand their business plan and product requirements as well as fashion trends; and (iii) doing our own designs of denim garments using our existing or new denim fabrics and presenting these designs in the form of finished samples to apparel brands so that their designers can have more precise ideas as to how our denim fabrics can be applied in their designs.

To perform its functions, our product development team works closely with our different teams, including sales and marketing, production and quality control. Our sales and marketing senior management members seek support from our product development team before concluding sales orders with customers from time to time. To facilitate its work, the product development team collects latest industry information through various means, such as studying product specifications required by customers, communicating with suppliers and customers and attending trade exhibitions. On technical perspectives, our product development team is capable of making denim fabrics of different (i) physical properties, such as stretchability, by varying raw material composition; and (ii) appearances, such as indigo shading and vintage styles, by experimenting and applying various dyeing, finishing and washing techniques. Moreover, we seek support from an Italian finishing expert from time to time to enhance the aesthetics of our denim fabrics samples presented to apparel brands.

During the Track Record Period, our product development team produced around 500 new denim fabric items of distinct yarn composition, weight, pattern, stretchability and indigo tones and approximately 20% of our running denim fabric items every year were new denim fabric items developed by our product development team during the Track Record Period.

Our ability in catching up with the latest fashion trends in conjunction with our proactive approach in developing and promoting new denim fabrics enable us to provide new product ideas to apparel brands from time to time and have become of one of our core competitive strengths. Our product development capability and strategy have been recognised by the apparel brands, as proven by the innovation award in 2016 from AEO, one of the largest U.S. denim jeans brands whose most popular products are denim jeans targeting college students.

During the Track Record Period, our product development expenses amounted to HK\$5.8 million, HK\$1.4 million and HK\$1.1 million, respectively. The expenses for FY2015 were much higher than those for the subsequent two years mainly because we spent more resources in promoting stretchable denim fabrics in men's apparel market during that year. We did not apply for and did not own any patent relating to the results of our forgoing product development operations during the Track Record Period and up to the Latest Practicable Date.

INSURANCE

We maintain insurance policies for (i) losses to our production facilities arising from fire, natural causes and accidents; (ii) our vehicles; and (iii) our employees, including social insurance and health insurance and compensation scheme for our workers.

Our Directors consider our insurance coverage to be customary for businesses of our size and type and is adequate with respect to our business operations. During the Track Record Period and up to the Latest Practicable Date, we did not make any significant claims under our insurance policies.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 470 full-time employees, of which 45 were based in Hong Kong and 425 were based in the PRC. The following table sets out a breakdown of the number of employees by functions as at the Latest Practicable Date:

	Hong Kong	PRC	Total
Senior management	8 ^(Note 1)	17 ^(Note 2)	25
Production	5	271	276
Product development	4	6	10
Quality control	2	56	58
Procurement	2	9	11
Warehousing	2	32	34
Human resources and administration	15	29	44
Finance and accounting	7	5	12
Total	45	425	470

Notes:

- Comprised our executive Directors and senior management as set out in the section headed "Directors and Senior Management" in this prospectus, two of whom lead our sales and marketing function supported by our product development and administration staff.
- 2. Included mainly the factory managers, department heads and workshop supervisors of Hing Tak and Hing Shing.

Our Directors believe that we had maintained a good working relationship with our employees during the Track Record Period.

We provide regular on-the-job training to our staff including technical knowledge, skills development and health and safety. Further, we send our staff, in particular those of sales and product development teams, to attend courses on fabrics and yarns from time to time.

Our employees in the PRC are mainly recruited through (i) recruitment events; (ii) online advertisements; and (iii) staff referral; whereas our employees in Hong Kong are mainly recruited through (i) newspaper advertisements; and (ii) the Labour Department.

For FY2015, FY2016 and FY2017, our total staff costs were HK\$25.9 million, HK\$30.9 million and HK\$50.6 million, respectively.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, our Group had not encountered or experienced any material labour disputes with any of our employees, which would have materially affected our business operations and financial performance.

Save for the matters disclosed in "Legal Compliance" in this section, as advised by our PRC Legal Adviser, we had complied with the applicable PRC labour laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

HEALTH, WORK SAFETY AND ENVIRONMENTAL MATTERS

Health and safety matters

We endeavour to ensure our employees are provided with a safe working environment. We have a safety and health policy and have implemented various measures at our production facilities to promote occupational safety and health and to ensure compliance with applicable laws and regulations. We conduct on-the-job safety and health training for all our new employees. We also publish bulletins with relevant guidelines, rules and procedures to remind and promote the importance of safety in the workplace at all times and maintain an internal record of workplace accidents.

Environmental protection

As our production activities take place in the PRC, we are subject to certain environmental laws and regulations in the PRC. Further details of these laws and regulations, please see "Regulatory Overview — PRC laws and regulations — Laws and Regulations Relating to Environmental Protection" in this prospectus.

We generate industrial waste, such as sewage from dying process and exhaust gas from the coal power generator that require special treatment under applicable environmental standards and measures. In order to ensure our regulatory compliance in this respect, we have in place waste management procedures and engaged pollution control companies, who are Independent Third Parties, to treat our industrial waste and operate our coal power generator.

In January 2018, Hing Tak has obtained ISO 14001 certifications in relation to the quality of its environmental management system. Our Directors also confirm that during the Track Record Period and up to the Latest Practicable Date, (i) save for the matters disclosed in "Legal compliance — Noncompliance" in this section, we complied with the applicable laws and regulations in all material aspects and were not subject to any material claim, disciplinary action or penalty in relation to health, work safety, social and environmental protection; and (ii) our employees were not involved in any material accident or fatality.

MARKET AND COMPETITION

According to Frost & Sullivan, the competitive landscape of middle-to high-end denim fabric manufacturing industry in the PRC and South China are fragmented, with (i) approximately 400 and 100 market players, respectively; and (ii) the top 10 PRC market players accounted for 21.4% market share in the country whilst the top five market players in South China accounted for 21.6% market share in the region in terms of production value, in 2017. We ranked seventh and second with a market share of approximately 1.9% and 5.4% in the PRC and South China in terms of production value in 2017, respectively.

As compared to other commonly used garment fabrics, due to the unique combination of dyes and yarns, and the fabric treatment applied in the production process of denim fabrics, it is considerably difficult for another manufacturer to replicate denim fabrics produced by a particular denim fabric manufacturer. Hence, once an apparel brand has selected a denim fabric item produced by a denim fabric manufacturer for the manufacture of its specific denim garments, it is highly likely that such apparel brand will designate its garment manufacturers to place reorder for the denim fabrics. As a result, well established denim fabric manufacturers in general do not need to adopt any discount pricing strategy to gain reorder of their products thereby allowing them to maintain a stable profit margin.

With our competitive strengths and business strategies set out in the paragraph headed "Our Competitive Strengths" and "Our Business Strategies" in this section, respectively, we believe that we will continue to maintain our market position in the competitive business environment.

For further details on the competitive landscape of the industry in which we operate in, please see "Industry Overview — Competitive Landscape of the Denim Fabric Manufacturing Industry".

AWARDS AND QUALIFICATIONS

In recognition of our business development and quality standards, we have received a number of awards, certifications and qualifications over the years of our operation. The following tables highlight some of the major awards, certificates and qualifications in respect of our business:

Awards/certifications

Recipient of		Awarding and issuing	
Award	Award/certification	authority	Date of issue
HWT	2016 Innovation Award	AEO	2016
HWT	Special recognition award 2014	An American clothing retailer specialising in casual clothing	2014
HWT	Textile Partnership Conference HK 2012	An American jeanswear group which designs and markets branded label jeanswear brands	2012

Qualifications

The following table sets out a list of major certifications of our Group as at the Latest Practicable Date:

Recipient of Qualification	Granting and issuing authority	Scope of Qualification
HWT	Better Cotton Initiative ⁽¹⁾	Use of yarns produced from better quality and sustainably grown cotton
HWT	Cotton LEADS ⁽²⁾	Use of yarns produced from consistent and sustainably grown Australian cotton
HWT	COTTON USA ⁽³⁾	Use of yarns produced from higher quality and sustainably grown American cotton

Notes:

- (1) Better Cotton Initiative is a global organisation which promotes sustainable cotton production, use and assurance.
- (2) Cotton LEADS is a program launched in the U.S. and Australia which promotes sustainable cotton production.
- (3) COTTON USA is the trademark of Cotton Council International, a non-profit trade association that promotes quality and sustainable cotton.

Our qualification as members of cotton organisations which promote good use, management, assurance and production of sustainable cotton qualifies us to be business partner of certain U.S. apparel brands which have established business relationships with us.

PERMITS, LICENCES AND APPROVALS

Save for business registration certificates, our Group is not required to obtain or hold any industry specific qualification, licence or permit for carrying out our business operation in Hong Kong under the laws and regulations in Hong Kong.

As confirmed by our PRC Legal Adviser, each of our subsidiaries in the PRC obtained and renewed all requisite licences, permits and certification which are necessary for the operation of their business within the scope described in their respective business licences up to the Latest Practicable Date.

INFORMATION TECHNOLOGY

We have set up information technology systems for our business operations, such as inventory management and production planning. In view of our anticipated ongoing business development, our Directors consider it necessary to install the enterprise resource planning system for, on one hand, streamlining the operational flow and facilitating, among other things, the processing of increasing volume of sales, purchases and production as well as uplifting our capability in producing accurate and timely financial and management reports whilst on the other hand enhancing our internal control systems. The installation and full operation of the enterprise resource planning system is scheduled to take place by the fourth quarter of 2018.

As confirmed by our Directors, there had not been any system or network failure which caused material interruption to our operations during the Track Record Period and up to the Latest Practicable Date.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we were the registered owner of one trademark in Hong Kong and had submitted applications for the registration of four trademarks in the U.S. and the PRC which we consider to be material to our operations. We had also registered one domain name.

For the risks associated with our unregistered logos or our intellectual properties, see "Risk Factors — Risks relating to our Business and The Denim Fabric Manufacturing Industry — We may be subject to intellectual property rights dispute, which could adversely affect our business, results of operations and financial conditions" in this prospectus. For details of our material trademarks and domain name, see "Statutory and General Information — B. Further Information about our Business — 2. Intellectual property rights of our Group" in Appendix IV.

During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors after having made all reasonable enquiries, we had not infringed or had not been alleged of any infringement of intellectual property rights owned by third parties and we had not been subject to any material intellectual property claims against us or involved in any material intellectual property dispute.

PROPERTIES

Owned properties in the PRC

As at the Latest Practicable Date, we owned two parcels of land and the buildings erected on the land with an aggregate gross floor area of 48,962 sq.m. in the PRC. The following table sets out details of the properties owned by us in the PRC as at the Latest Practicable Date:

Title details	Registered owner	Description/ usage		Approximate gross floor area of the building
No.1, West Changlong Road, Gaoping Industrial Zone, Sanjiao Town, Zhongshan City (中山市三角 鎮高平工業區昌隆 路西一號)	Kingstead Industrial	Industrial applications/ Production facilities	26,000 sq.m.	27,482 sq.m.
No.2 Changlong West Street, Sanjiao Town, Zhongshan (中山市三角鎮昌 隆西街2號)	Hing Shing	Industrial applications/ Production Facilities	21,603 sq.m.	21,480 sq.m.

On 1 November 2011 and 31 December 2017, Kingstead Industrial and Hing Tak entered into a lease agreement and a supplemental lease agreement, respectively, pursuant to which the land and buildings at No.1, West Changlong Road, Gaoping Industrial Zone, Sanjiao Town, Zhongshan City (中 山市三角鎮高平工業區昌隆路西一號) are leased by Kingstead Industrial to Hing Tak rent-free for Hing Tak's use as production facilities.

The foregoing properties are used by us for non-property activities as defined under Rule 5.01(2) of the Listing Rules. As at 31 December 2017, no single property interest that forms part of non-property activities has a carrying amount of 15.0% or more of our total assets. Accordingly, this prospectus is exempt from including a property valuation report pursuant to Rule 5.01A of the Listing Rules and section 6 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice.

Leased properties in the PRC

The following table sets out details of our leased property in the PRC as at the Latest Practicable Date:

Location	Tenant	Landlord	Description/ Usage	Approximate gross floor area	Duration of tenancy
2nd Floor, West Side, No.103, Gaoping Avenue, Sanjiao Town, Zhongshan City, Wang Xiaohua Complex Building (中山市三角鎮高平大道103號 王小華綜合樓第二層西半部 份)("PRC Leased Property")	Hing Tak	Independent Third Party	Industrial application/ Warehouse	1,200 sq.m.	15 July 2017 to 31 July 2018

As at the Latest Practicable Date, the landlord of our PRC Leased Property was unable to provide the relevant property ownership certificates to prove his authority to lease the relevant property. The PRC Leased Property has been mainly used by our Group as warehouse.

Our Directors believe that the fact that the landlord of our PRC Leased Property does not have the relevant property ownership certificates will not have a material adverse effect on our business, financial condition and operating results primarily because (i) the relevant leased property has not been used by us for production purpose; (ii) we can identify alternate premises that fulfil our requirements within a short period of time; and (iii) during the Track Record Period and up to the Latest Practicable Date, we were not aware of any claims or actions being contemplated or initiated by government authorities, property owners or any other third parties with respect to the above lease deficiencies.

As at the Latest Practicable Date, the lease agreements in respect of (i) the above PRC Leased Property; and (ii) a leased agreement between Hing Tak and Kingstead Industrial in the PRC pursuant to which Kingstead Industrial had leased a property at No.1, West Changlong Road, Gaoping Industrial Zone, Sanjiao Town, Zhongshan City (details of which are set out in "Properties-Owned properties in the PRC" in this section) to Hing Tak for production purpose for free, have not been registered with the relevant PRC government authorities. According to the Mobile Population Management Office of Sanjiao Town, Zhongshan City (中山市三角鎮流動人口管理辦公室), lease agreement with zero rental cannot be registered. Our PRC Legal Adviser is of the view that this office is the competent authority for providing such confirmation. As advised by our PRC Legal Adviser, the failure to register the foregoing lease agreements would not affect the validity of the lease agreements and non-registration of a lease is not a ground for any third party or regulatory authority to evict us, but the relevant government authorities may require us to rectify the non-compliance within a period of time and failing which, we may be imposed a fine of up to RMB10,000 for each unregistered lease. Our PRC Legal Adviser is also of the opinion that the risk of our Group being fined for these non-compliances is remote. Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we did not receive any rectification order or been subject to any fine in respect of non-registration of lease agreements.

Leased and licenced properties in Hong Kong

As at the Latest Practicable Date, we leased and were licenced a total of eight properties in Hong Kong. These leased and licenced properties are primarily used by our Group as workshops, warehouses, ancillary offices and car parking. Six of these eight leased and licenced properties in Hong Kong have been leased from our connected persons. For details, please see the section "Continuing Connected Transactions — Non-exempt Continuing Connected Transactions Subject to Reporting and Announcement Requirements — Tenancy Agreements".

The following table sets out details of our remaining two leased and licenced properties from Independent Third Parties in Hong Kong as at the Latest Practicable Date:

Location	Nature of occupancy	Tenant/ Licensee	Landlord/Licensor	Description/ Usage	Tenancy/ licence expiry date
Flat B on 18th floor and Parking Spaces Nos. 42 & 43 on 3rd floor, HighCliff, 41D Stubbs Road, The Peak, Hong Kong ("HighCliff Property")	Tenancy	НШТ	Independent Third Party	Private residential	17 October 2020
Parking Space No. 8 on the 2nd floor of HighCliff, 41D Stubbs Road, The Peak, Hong Kong or any other one parking space to be designated in replacement thereof	Licence	HWT	Independent Third Party	Car parking	Can be revoked upon one month's notice
Workshop 5 & Workshop 6 on 24th Floor, Million Fortune Industrial Centre, Nos. 34-36 Chai Wan Kok Street, Tsuen Wan, New Territories, Hong Kong	Tenancy	HWT	Independent Third Party	Workshop	20 June 2020

Note: The rental payment for HighCliff Property by our Group represents part of the remuneration to an executive Director, namely Mr. Stanley Tung.

LEGAL PROCEEDINGS

Our Directors confirm that, to their best knowledge after making all reasonable enquiries, there was no litigation or arbitration proceeding pending or threatened against us or any of our Directors which would have a material adverse effect on our operations, financial condition, operating results or reputation during the Track Record Period and up to the Latest Practicable Date.

LEGAL COMPLIANCE

Our Directors also confirm that, to their best knowledge after making all reasonable enquiries, save for certain incidents of non-compliance set out below, we complied in all material respects with the applicable PRC and Hong Kong laws and regulations, respectively, in relation to our business and operation during the Track Record Period and up to the Latest Practicable Date.

Non-compliance

The following table sets out the non-compliance incidents our Group was involved in during the Track Record Period:

Non-compliance incident

1. During the Track Record Period and up to 31 August 2017, Hing Tak and Hing Shing failed to make adequate social insurance contributions for their employees as required by the relevant PRC laws and regulations.

We estimate that the shortfall of our social insurance contributions during the years ended 31 December 2015 and 2016 and for the eight months ended 31 August 2017 were RMB1,22,000, RMB1,358,000 and RMB1,029,000, respectively.

Reasons for the non-compliance

The non-compliance incidents were primarily due to the fact that (i) certain individual employees who had contributed to social insurance in their own hometowns not willing to enrol for social insurance in Zhongshan; and (ii) the relevant staff of our human resources department had different interpretation towards the relevant PRC laws and regulations.

Possible legal consequences and maximum penalty

According to Social Insurance Laws of the PRC (《中華人民共和國社會保險法》), we are required to provide our employees with social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance.

According to our PRC Legal Adviser, late charges and fines may be imposed on us if we fail to make the social insurance contributions for our employees in full amount in a timely manner. We may be ordered to pay the shortfall within a specified period, together with a late charge equivalent to 0.05% of the shortfall per day. Should we continue to fail to pay the shortfall and/or the late charge, we may be subject to a fine that equals up to three times of the total shortfall of our social insurance contributions

Actions taken and current status

Our PRC Legal Adviser has advised us that, based on the enquiry with Zhongshan Human Resources and Social Security Bureau (中山市人力資源及社會保險局) ("ZHRSSB") and under the premise that there is no employee making complaints to relevant government authorities regarding these noncompliance incidents, the risk of Hing Tak and Hing Shing being fined for failing to make contributions to the social insurance in full amount on time or being required to make up the shortfalls in social insurance contributions is remote because of the following reasons:

- (i) We have obtained confirmation letter dated 19 December 2017 from ZHRSSB that no administrative penalty has been imposed on Hing Tak and Hing Shing for any non-compliance with laws and regulations relating to labour and social protection from 1 October 2014 to 31 October 2017. Our PRC Legal Adviser is of the view that the ZHRSSB is the competent authority in relation to the payment of social insurance contributions.
- (ii) Based on the enquiry made by our PRC Legal Adviser with ZHRSSB, the bureau usually allows enterprises to pay the shortfall in contributions on a voluntary basis, or demands the subject enterprises to pay for the shortfall if ZHRSSB receives relevant complaints against the subject enterprises and; under normal circumstance, the bureau will not impose administration penalties on the relevant enterprises.
- (iii) Our Directors confirm that we have made full contributions to the social insurance since September 2017 except for eight employees who have maintained social insurance in another city. These employees have declared in writing that (i) it is their will not to require us to contribute social insurance for them; (ii) they would not claim from us any shortfall in social insurance contributions in the past; and (iii) would not require us to bear legal obligations for failing to contribute to social insurance.
- (vi) Our Controlling Shareholders have agreed to indemnify us monetary fine, settlement payments and any associated costs and expenses which would be incurred or suffered by us in connection with the aforesaid noncompliance occurred on or before the Listing Date.

Notwithstanding that during the Track Record Period and up to the Latest Practicable Date, our Group did not receive any orders or demands from the relevant government authority requesting us to pay the shortfall in social insurance contributions or any penalties, our Group has made provisions in respect of the shortfall in contributions to the social insurance as follows:

- approximately RMB2,448,000 as at 31 December 2015;
- approximately RMB2,578,000 as at 31 December 2016; and
- approximately RMB2,389,000 as at 31 December 2017.

In order to prevent future potential non-compliance incidents in relation to social insurance fund contributions, we have adopted various measures including (i) specifying in our employment contracts that our Group and employees shall comply with the laws and regulations relating to social insurance contributions at all times; (ii) providing training to the relevant personnel of our human resources department and finance department on the social insurance contributions requirements under the relevant PRC laws and regulations; (iii) our finance department to calculate the social insurance fund contributions based on the staff list and salary information provided by human resources department, with the calculations being set out in the payroll summary which are then checked by human resources manager and plant manager to ensure the correctness and compliance with regulatory requirements; and (iv) having our Directors to review the payments on a monthly basis.

Non-compliance incident

2. During the Track Record
Period and up to 18
September 2017 and 15
September 2017,, Hing
Tak and Hing Shing did
not respectively open
housing provident fund
accounts and make
housing provident fund
contributions for their
employees as required by
the relevant PRC laws
and regulations.

We estimate that the amount of shortfall in housing provident fund contributions during the years ended 31 December 2015 and 2016 and for the eight months ended 31 August 2017 were RMB469,000, RMB514,000 and RMB395,000, respectively.

Reasons for the non-compliance

The non-compliance incidents were due to the fact that the relevant staff of our human resources department were unfamiliar with the relevant PRC laws and regulations, mistakenly regarded that housing provident fund contribution was not a compulsory requirement.

Possible legal consequences and maximum penalty

According to Regulation on Management of the Housing Provident Fund (《住房公積金管理條例》), we are required to provide our employees with housing provident fund.

According to our PRC Legal Adviser, we may be ordered to pay the outstanding housing provident fund contributions within a prescribed time period, failing which the relevant authority may apply to the relevant PRC court for the enforcement of the payment of the unpaid contributions.

Actions taken and current status

Our PRC Legal Adviser has advised us that under the premise that there is no employee making complaints to relevant government authorities regarding these non-compliance incidents, the risk of Hing Tak and Hing Shing being fined for failing to make contributions to the housing provident fund in full amount on time or being required to make up the shortfall in housing provident fund contributions is remote because of the following reasons:

- (i) We have obtained confirmation letters dated 31 October 2017 and 7 March 2018 from Zhongshan Housing Fund Management Centre (中山市住房公積金管理中心) ("ZHFMC") that Hing Tak and Hing Shing had opened housing provident fund accounts and no administrative penalty has been imposed on Hing Tak and Hing Shing for any non-compliance with housing provident related laws and regulations.
- (ii) Based on the interview conducted by our PRC Legal Adviser with ZHFMC on 22 January 2018, ZHFMC usually allows enterprises to pay the shortfall in contributions on a voluntary basis, or demands the subject enterprises to pay for the shortfall if ZHMC receives relevant complaints. If such shortfall has been paid, the relevant authority will generally not impose any penalties on such enterprise. ZHFMC further confirmed that, as at 22 January 2018, they did not receive any complaints against Hing Tak and Hing Shing related to shortfall of the housing provident fund.
- (iii) Our Directors confirm that we have made full contributions to the housing provident fund since September 2017 for our employees.
- (iv) In addition, our Controlling Shareholders have agreed to indemnify us monetary fine, settlement payments and any associated costs and expenses which would be incurred or suffered by us in connection with the aforesaid non-compliance occurred on or before the Listing Date.

Notwithstanding that during the Track Record Period and up to the Latest Practicable Date, our Group did not receive any orders or demands from the relevant government authority requesting us to pay the shortfall in housing provident fund contributions or any penalties, our Group has made provisions in respect of shortfall in contributions to the housing provident fund as follows:

- approximately RMB904,000 as at 31 December 2015;
- approximately RMB983,000 as at 31 December 2016; and
- approximately RMB909,000 as at 31 December 2017.

In order to prevent future potential non-compliance incidents in relation to housing provident fund contributions, we have adopted various measures including (i) specifying in our employment contracts that our Group and employees shall comply with the laws and regulations relating to housing provident fund contributions at all times; (ii) providing training to the relevant personnel of our human resources department and finance department on the housing provident fund contributions requirements under the relevant PRC laws and regulations; (iii) our finance department to calculate the housing provident fund based on the staff list and salary information provided by human resources department, with the calculations being set out in the payroll summary which are then checked by human resources manager and plant manager to ensure the correctness and compliance with regulatory requirements; and (iv) having our Directors to review the payments on a monthly basis.

BUSINESS

Non-compliance incident

3. During the Track Record Period, three administrative fines in the total sum of approximately RMB300.000 were imposed by Zhongshan Environmental Protection Bureau (中山市環境保護 局) on Hing Shing for emission of exhaust gas from its coal power generators on 21 April 2015, 11 April 2017 and 5 December 2017 (the "Environmental Noncompliance Incidents").

Reasons for the non-compliance

The Environmental Noncompliance Incidents were a result of inadvertent oversight and operational defects committed by Hing Shing or its outsourced contractor, respectively.

Possible legal consequences and maximum penalty

According to the Law on Prevention and Control of Atmospheric Pollution of the PRC (《中華人民共和國大氣污染 防治法》), if the emission of atmospheric pollutant is beyond the emission standards, or emission of atmospheric pollutant is beyond the total quantity control indicators for emission of key atmospheric pollutants, the relevant environmental protection authority shall order the offender to implement rectification measures or restrict production or suspend production for rectification, and shall impose a fine ranging from RMB100,000 to RMB1 million; in serious cases, the offenders shall be ordered to cease operation and close down, upon approval of the competent authority.

Actions taken and current status

According to Zhongshan Air Pollution Control 2017 Implementation Plan (中山市大氣污染防治2017年度實施方案) issued by Zhongshan Environmental Protection Bureau on 23 June 2017 (the "New Implementation Plan"), Hing Shing shall cease to use the existing coal power generator for supply of heat or change to use natural gas, electricity, biomass fuel or other clean energy for heat supply by 31 December 2017.

Based on the respective interviews conducted by our PRC Legal Adviser with Zhongshan Sanjiao Environmental Protection Branch Bureau (中山三角環保分局) ("ZSEPBB") on 14 December 2017 and 22 January 2018, ZSEPBB confirmed that (i) the Environmental Non-compliance Incidents were not material violation of the laws, and (ii) save for the Environmental Non-compliance Incidents, as at 22 January 2018, no other penalties or fines were imposed on Hing Shing. ZSEPBB also confirmed that they allow Hing Shing to continue to use the coal power generator before the centralised gas supply by local government being made available.

Our PRC Legal Adviser is of the view that ZSEPBB, as the local level environmental protection department, is the competent authority to provide such confirmation.

In light of the foregoing, our PRC Legal Adviser is of the view that subject to our Group's compliance with the relevant laws and regulations to discharge exhaust gas, the risk of our Group being imposed penalties is remote.

Our Directors confirm that once the centralised natural gas supply by the local government in Zhongshan is available in or about August 2018, Hing Shing will cease using coal power generators for its production process.

Our Directors also confirm that the Environmental Non-compliance Incidents have no material adverse impact on our Group's business, financial condition and results of operations.

To prevent recurrence of these Environmental Non-compliance Incidents, we (i) entered into service contract with an external experienced coal power generator operation contractor for daily operation and maintenance of the coal power generators for a term of three years from 1 July 2016; and (ii) require the operation contractor to perform test on the coal power generators and provide the test reports to us on monthly basis to ensure the operation of the generators complies with the relevant environmental protection laws and regulations from time to time.

BUSINESS

View of our Directors and the Sole Sponsor

Our Directors are of the view that, and the Sole Sponsor concurs:

- (1) given the insignificant amount of the maximum aggregate penalties that may be imposed on us, which have been provided for in our financial statements, these immaterial non-compliance incidents and the above incidents did not and will not have any material adverse effect on our business, results of operation and financial position;
- (2) our internal controls currently in place to prevent recurrence of similar non-compliance are adequate and effective; and
- (3) our Directors are suitable to act as directors of our Company under Rules 3.08 and 3.09 of the Listing Rules and we and our businesses are both suitable for listing under Rule 8.04 as the non-compliance incidents:
 - do not involve any element of dishonesty on the part of our Directors;
 - do not involve deliberate intent on the part of our Directors or our Company not to comply with the relevant laws and regulations; and
 - neither cast doubt on the integrity or competence of our Directors nor affect their suitability to act as our directors under Rules 3.08 and 3.09 of the Listing Rules.

INTERNAL CONTROL AND RISK MANAGEMENT

We believe that effective risk management and internal control are critical to our success. Mr. Stephen Tung is responsible for establishing our internal control system and reviewing its effectiveness. In accordance with the applicable laws and regulations, we have established an internal control system, covering areas such as, among other things, (i) financial reporting; (ii) sales and accounts receivable; (iii) procurement and accounts payable; (iv) inventory management; and (v) human resources management. We believe that our internal control system is sufficient and effective.

In preparation for the Listing, we engaged an internal control consultant to evaluate our internal control system. We have implemented the recommendations from the internal control consultant to improve and enhance our internal control system.

The internal control consultant also performed a follow-up review on the status of our actions to address the findings in the abovementioned evaluation and reported that the deficiencies identified have been remedied.

To strengthen our internal control and ensure future compliance with the applicable laws and regulations (including the Listing Rules) after the Listing, we have adopted the following additional internal control measures:

our Board will continuously monitor, evaluate and review our internal control system to
ensure compliance with the applicable legal and regulatory requirements and will adjust,
refine and enhance our internal control system as appropriate;

BUSINESS

- if necessary, we may consider arranging our Directors, members of senior management and relevant employees to attend trainings on the legal and regulatory requirements applicable to our business operations from time to time; and
- if necessary, we may consider appointing external Hong Kong and/or PRC legal advisers to advise us on matters relating to compliance with the Listing Rules and the applicable laws and regulations in Hong Kong and/or the PRC.

OVERVIEW

We have entered into the following transactions with parties who will, upon Listing, become our connected persons, and such transactions are expected to continue after the Listing Date. As such, upon Listing, these transactions will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

Following the Listing, each of Star Alliance and Hing Tak (HK), which have entered into the transactions described in this section, will be connected persons of our Company as each of Star Alliance and Hing Tak (HK) is owned as to 30% by Mr. TH Tung (our chairman, executive Director and Controlling Shareholder), 20% by Mr. Stephen Tung (our chief executive officer, our executive Director and Controlling Shareholder), 20% by Mr. Stanley Tung (our executive Director and Controlling Shareholder), 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung (each our Controlling Shareholder). The principal business activities of each of Star Alliance and Hing Tak (HK) are investing holding.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS SUBJECT TO REPORTING AND ANNOUNCEMENT REQUIREMENTS

Tenancy Agreements

As at the Latest Practicable Date, our Group has leased certain properties from our connected persons under various tenancy agreements (the "Tenancy Agreements") which will constitute continuing connected transactions of our Company under Chapter 14A of the Listing Rules, details as follows:

	Date of Tenancy Agreement	Property Address	Parties	Approximate Saleable area (sq.ft.)	Monthly rental (HK\$)	Term	Use of Premises
1.	1 January 2017 (as amended and supplemented by (i) a supplemental deed dated 16 March 2018 and (ii) a supplemental deed dated 16 April 2018)	Unit A6 on 30th & 31st floor of TML Tower with Car Parking Spaces No. 54, 55 & 56 on 3rd floor	Landlord: Star Alliance Tenant: HWT	6,930	236,348	1 January 2017 to 31 December 2020	Workshop, warehouse, ancillary office and car parking
2.	31 July 2017 (as amended and supplemented by (i) a supplemental agreement dated 31 December 2017 and (ii) a supplemental deed dated 16 March 2018)	Unit B6 on 31st floor of TML Tower	Landlord: Star Alliance Tenant: HWT	2,813	70,958	1 August 2017 to 31 July 2020	Workshop, warehouse, ancillary office

	Date of Tenancy Agreement	Property Address	Parties	Approximate Saleable area (sq.ft.)	Monthly rental (HK\$)	Term	Use of Premises
3.	1 January 2017 (as amended and supplemented by a supplemental deed dated 16 April 2018)	Car Parking Space No. P.45 on 3rd floor of TML Tower	Landlord: Star Alliance Tenant: HWT	N/A	4,000	1 January 2017 to 31 December 2020	Car parking
4.	1 January 2017 (as amended and supplemented by a supplemental deed dated 16 April 2018)	Car Parking Space No. P.10 on 2nd floor of TML Tower	Landlord: Star Alliance Tenant: HWT	N/A	4,000	1 January 2017 to 31 December 2020	Car parking
5.	1 January 2017 (as amended and supplemented by a supplemental deed dated 16 April 2018)	Car Parking Space No. P.09 on 2nd floor of TML Tower	Landlord: Star Alliance Tenant: HWT	N/A	4,000	1 January 2017 to 31 December 2020	Car parking
6.	1 January 2017 (as amended and supplemented by a supplemental deed dated 16 April 2018) (the "Jing Ho Tenancy Agreement")	Unit D on 11th floor of Jing Ho Industrial Building, No. 78–84 Wang Lung Street Tsuen Wan, N.T. Hong Kong	Landlord: Hing Tak (HK) Tenant: HWT	3,860	18,596	1 January 2017 to 31 December 2020	Warehouse

Historical transaction amounts, annual caps and basis

With respect to the continuing connected transactions contemplated under the Tenancy Agreements (and their preceding agreements, if any), the historical transaction amounts during the Track Record Period and the proposed annual caps for each of the three years ending 31 December 2020 are as follows:

	cal transaction am ar ended 31 Dece		Proposed annual caps for Year ending 31 December			
 2015	2016	2017	2018	2019	2020	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
3,131	3,199	3,487	4,055	4,055	4,055	

The above proposed annual caps are determined based on the monthly rental under the Tenancy Agreements, which were on normal commercial terms or better determined after arm's length negotiations based on the prevailing market rates no less favourable than to Independent Third Parties for similar properties at comparable locations. We have engaged an independent property valuer which is of the opinion that (i) save for the Jing Ho Tenancy Agreement, the rental payable under the Tenancy Agreements are fair and reasonable and consistent with the prevailing market rates for similar premises at comparable locations; and (ii) the rental payable under the Jing Ho Tenancy Agreement is below the prevailing market rate by approximately HK\$0.2 million per year which, in the opinion of our Directors, is immaterial to the operating results and in favour of our Group.

Reasons for the transactions

Our Group has been using the properties under the Tenancy Agreements as our workshop, warehouse, ancillary office and car parking space since October 2013. Having considered that the rent is comparable to or below the prevailing market rent of comparable properties in the locality, and additional renovation and associated costs which we may incur if we move out of the properties under the Tenancy Agreements and relocate to another premises, our Directors consider that it is desirable and in the interests of our Company and the Shareholders as a whole to continue using the properties under the Tenancy Agreements as our workshop, warehouse, ancillary office and car parking space.

Implications under the Listing Rules

As the highest applicable percentage ratios (other than the profits ratio) in respect of the above annual caps for the Tenancy Agreements is more than 0.1% but less than 25%, and the total annual consideration is more than HK\$3 million but less than HK\$10 million, the transactions contemplated under the Tenancy Agreements will, in the absence of a waiver, be subject to reporting and announcement requirements but exempt from circular and shareholders' approval requirements under Chapter 14A of the Listing Rules upon Listing.

CONFIRMATIONS

Directors' confirmation

Our Directors (including our independent non-executive Directors) have confirmed that:

- (a) the non-exempt continuing connected transactions contemplated under the Tenancy Agreements have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and
- (b) the proposed annual caps for the non-exempt continuing connected transactions contemplated under the Tenancy Agreements are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

Sole Sponsor's confirmation

The Sole Sponsor has confirmed that:

- (a) the non-exempt continuing connected transactions contemplated under the Tenancy Agreements have been and will be entered into in the ordinary and usual course of our business, on normal commercial terms or better which are fair and reasonable and in the interests of our Group and our Shareholders as a whole; and
- (b) the proposed annual caps for the non-exempt continuing connected transactions contemplated under the Tenancy Agreements are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

APPLICATION FOR WAIVER

The non-exempt continuing connected transactions contemplated under the Tenancy Agreements are expected to continue after the Listing. As the Tenancy Agreements were entered into prior to the Listing Date and details of which have been fully disclosed in this prospectus and potential investors will participate in the Share Offer taking into consideration of such disclosure, our Directors consider that it would be impractical, unduly burdensome and would add unnecessary administrative costs and workload for us if the contemplated transactions under the Tenancy Agreements are subject to strict compliance with the announcement requirement under Chapter 14A of the Listing Rules.

Pursuant to Rule 14A.105 of the Listing Rules, the Sole Sponsor has applied on behalf of our Company to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with the announcement requirement under Rule 14A.35 of Chapter 14A of the Listing Rules for the non-exempt continuing connected transactions contemplated under the Tenancy Agreements. Our Directors have confirmed that, apart from the announcement requirement of which a waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the annual review and annual reporting requirements, upon the Listing.

OUR CONTROLLING SHAREHOLDERS

Immediately upon the completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercised and without taking into account Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), Manford Investment will control 75% of the issued share capital of our Company. As at the Latest Practicable Date, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by each of Mr. Stephen Tung and Mr. Stanley Tung and 10% by each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, and is an investment-holding company and does not have any business operation.

Over the course of our business history, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries. As we were a group of private entities in the past, these arrangements were not formalised in writing and each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung was content with such arrangement based on their family relationship, as well as the trust and confidence they have in each other.

On 9 March 2018, in preparation for the Listing, among others, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung executed the Deed of Concert Parties, whereby they have confirmed their acting in concert arrangement in the past, as well as their intention to continue to act in the above manner upon Listing to consolidate their control over our Group until the Deed of Concert Parties is terminated by them in writing.

The Deed of Concert Parties covers our Company and all of our subsidiaries (the "Relevant Companies"). Pursuant to the Deed of Concert Parties, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung have confirmed, agreed and acknowledged, among others, they have agreed to, and shall continue until the termination of the Deed of Concert Parties to:

- (a) reach unanimous decisions among themselves on all management matters (including but not limited to the operations and financial matters) of the Relevant Companies;
- (b) reach unanimous decisions among themselves on all material matters relating to the business of the Relevant Companies;
- (c) cast unanimous vote collectively for or against all board resolutions or shareholders' resolutions to be passed at any board meetings or shareholders' meetings of the Relevant Companies; and
- (d) maintain and centralise the ultimate control and management with respect to the Relevant Companies by way of mutual cooperation.

Therefore, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, together through Manford Investment, will be entitled to control approximately 75% of the issued share capital of our Company immediately upon the completion of the Capitalisation Issue and the Share Offer (assuming that the Over-allotment Option is not exercise and without taking into account any options which may be granted under the Share Option Scheme). As such, Manford

Investment, Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung will together form a group of Controlling Shareholders within the meaning of the Listing Rules. For details of the shareholding of the Controlling Shareholders in each of the companies in our Group, please refer to the section headed "History, Corporate Structure and Reorganisation".

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the following factors, our Directors are satisfied that our Group is capable of carrying on its business independently of our Controlling Shareholders and their respective close associates after the Listing.

Management independence

Our management rests with our Board and senior management. Our Board comprises three executive Directors, namely Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, and three independence non-executive Directors, namely Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Please see "Directors and Senior Management" for further details. Each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is a director of Manford Investment. Save as disclosed above, our Directors and senior management do not hold any directorships or positions in Manford Investment or its close associates.

Despite the above, we consider that our Board and senior management are able to function independently from our Controlling Shareholders due to the following reasons:

- (a) each Director, including Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung who are our Controlling Shareholders and directors of Manford Investment, is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his personal interests;
- (b) our Board consists of three independent non-executive Directors. This represents half of the members of the Board and there will be a sufficiently robust and independent voice within our Board to counter-balance any situation involving conflict of interest and protect the interests of our independent Shareholders;
- (c) the management, operation and affairs of our Group are headed, managed and supervised by our Board as a whole and not by any individual Directors. According to the Articles, our Board must act collectively by a majority decision, and no individual Director is allowed to transact or make any decision for and on behalf of the Company alone unless he is authorised by our Board or in accordance with the provisions of the Articles. Any view of a Director will be checked and balanced by the view of other Board members;
- (d) in the event that there is a potential conflict arising out of any transaction to be entered into between our Group and our Directors or their respective associates ("Conflicting Transaction"), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum, unless otherwise permitted under the Articles and/or the Listing Rules. The interested Director(s) shall not attend any independent board committee meetings comprising

our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they would have sufficient experience and knowledge to oversee such Conflicting Transaction from different aspects;

- (e) our Company has also established internal control mechanism to identify related party transactions and/or connected transactions that are subject to the requirements under the Listing Rules, including the requirements of reporting, announcement, circular and independent Shareholders' approval (where appropriate);
- (f) in order to allow the non-conflicting members of the Board to function properly and make informed decision with the necessary professional advice, our Company will engage third party professional adviser(s) to advise the Board when necessary, depending on the nature and significance of the Conflicting Transaction;
- (g) our Controlling Shareholders have undertaken to provide all information requested by our Group which is necessary for the annual review conducted by the independent non-executive Directors and the enforcement of the Deed of Non-Competition;
- (h) our independent non-executive Directors will, based on the information available to them, review on annual basis (i) compliance with the Deed of Non-Competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-Competition, and to disclose all decisions on the matters pertaining to the annual review either through the annual report, or by way of announcement to the public; and
- (i) the Company has established corporate governance procedures in safe guarding the interests of our Shareholders and enhancing Shareholders' value. Please refer to the paragraph headed "Corporate Governance Measures" in this section for details.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles as our Directors and manage the business of the Group independently from our Controlling Shareholders and their respective close associates after the Listing.

Financial independence

Our Board believe that we are able to operate financially independently from our Controlling Shareholders and their close associates as:

- (a) we have an independent financial system and we make financial decisions independently according to our Group's own business and operation needs;
- (b) we have sufficient capital to operate our business independently, and have adequate internal resources and credit profile to support our daily operations;
- (c) all loans, advances and balances due to and from our Controlling Shareholders and their close associates will be fully settled upon Listing;

- (d) all personal guarantee provided by our Controlling Shareholders for our banking facilities will be released upon Listing and, if necessary, be replaced by a corporate guarantee provided by our Company;
- (e) we have independent access to third party financing on market terms and conditions for our business operations as and when required; and
- (f) we have independent bank accounts and do not share any of our bank accounts, loan facilities or credit facilities with our Controlling Shareholders or their close associates.

Operational independence

We make business decisions independently. On the basis of the following reasons, our Directors consider that we will continue to be operationally independent from our Controlling Shareholders and their respective close associates after the Listing:

- (a) we hold all relevant licences, permits and approvals that are material to the operation of our business and have sufficient capital, equipment and employees to operate our business independently;
- (b) we have our own operational and administrative resources and we do not share such resources with our Controlling Shareholders or other companies controlled by our Controlling Shareholders;
- (c) although we have rented certain of our workshop, warehouse, ancillary office and car parking space in Hong Kong from our Controlling Shareholders, we would be able to relocate the aforementioned to similar properties if necessary without material disruption to our operation, taking into consideration that majority of our production were conducted in the PRC and the rent of the aforementioned properties are comparable to the then prevailing market rate;
- (d) we have our own organisational and corporate governance structure and has established our own accounting, legal and human resources departments;
- (e) we have established a set of internal control measures to facilitate the effective operation of our business;
- (f) we have independent access to customers and suppliers; and
- (g) each of our Controlling Shareholders and their respective close associates have no relationship with the five largest customers and the five largest major suppliers of our Group (other than the business contacts in the ordinary and usual course of business of our Group) during the Track Record Period.

COMPETITION UNDER RULE 8.10 OF THE LISTING RULES

Our Directors confirm that none of our Controlling Shareholders and their respective close associates (other than members of our Group) has any interest in a business apart from our business which competes or is likely to compete, either directly or indirectly, with our business.

Further, each of our Directors has confirmed that he/she is not interested in any business apart from our business (where relevant), which competes or is likely to compete, either directly or indirectly, with our business.

NON-COMPETITION UNDERTAKING

Each of our Controlling Shareholders entered into the Deed of Non-competition dated 19 June 2018 in favour of our Company and subsidiaries. Pursuant to the Deed of Non-competition, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to our Company (for itself and for the benefit of our subsidiaries) that, save and except as disclosed in this prospectus, during the period that the Deed of Non-competition remains effective, he/it shall not, and shall procure that his/its close associates (other than any member of our Group) not to carry on or be engaged, concerned or interested, or otherwise be involved, directly or indirectly, in any business in competition with or likely to be in competition with the existing business activity(ies) of any member of our Group and any business(es) that our Group may engage in from time to time within Hong Kong, the PRC and such other parts of the world where any member of our Group may operate from time to time, save for the holding of not more than 5% shareholding interest (individually or with his/its close associates) in any company listed on a recognised stock exchange and at any time the relevant listed company shall have at least one shareholder (individually or with his/its close associates).

Each of our Controlling Shareholders has further undertaken that, if he/it or his/its close associates, other than any member of our Group, is offered or becomes aware of any business opportunity which may compete with the business of our Group, he/it shall promptly notify our Group in writing and our Group shall have a right of first refusal to take up such opportunity. Our Group shall, within 30 days after receipt of the written notice (or such longer period if our Group is required to complete any approval procedures as set out under the Listing Rules from time to time), notify the relevant Controlling Shareholder whether our Group will exercise the right of first refusal.

Our Group shall only exercise or reject the right of first refusal upon the approval by all independent non-executive Directors who do not have any interest in such opportunity. The relevant Controlling Shareholder(s) and other conflicting Directors (if any) shall abstain from participating in and voting at and shall not be counted as quorum at all meetings of the Board convened to consider such opportunity including but not limited to the relevant meeting(s) of our independent non-executive Directors for considering whether or not to exercise the right of first refusal.

Our Company will adopt the following procedures to monitor that the Deed of Non-competition is being observed:

- (i) each of our Controlling Shareholders has undertaken to provide any information as is reasonably required by our Group and/or our independent non-executive Directors, to decide whether to exercise the right of first refusal by our Company from time to time;
- (ii) our independent non-executive Directors shall review, on an annual basis, the compliance of the above undertakings from the Controlling Shareholders and to evaluate the effective implementation of the Deed of Non-competition; and

(iii) each of the Controlling Shareholders has undertaken to provide all information necessary for the aforesaid annual review on the enforcement of the Deed of Non-competition by our independent non-executive Directors and to provide an annual confirmation on his/its compliance with the Deed of Non-competition for inclusion in the annual report of our Company.

The undertakings contained in the Deed of Non-competition are conditional upon the Listing Division granting approval for the Listing of and permission to deal in the Shares on the Stock Exchange and all conditions precedent under the Underwriting Agreement having been fulfiled (or where applicable, waived) and the Underwriting Agreement not having been terminated in accordance with its terms. If any such condition is not fulfiled on or before the date specified in the Underwriting Agreement (unless such conditions are waived on or before such date) or in any event on or before the date falling 30 days after the date of this prospectus, the Deed of Non-competition shall lapse and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-competition.

The Deed of Non-competition shall terminate on the date on which (i) in relation to any Controlling Shareholders, when he/it together with his/its close associates, whether individually or taken together, ceases to be interested in 30% (or such other amount as may from time to time be specified in the Listing Rules as being the threshold for determining a controlling shareholder of a company) or more of the entire issued share capital of our Company provided that the Deed of Non-competition shall continue to be in full force and effect as against the other Controlling Shareholders; or (ii) our Shares cease to be listed and traded on the Stock Exchange (except for temporary trading halt or suspension of trading of the Shares on the Stock Exchange due to any reason).

CORPORATE GOVERNANCE MEASURES

Our Company expects to comply with the Corporate Governance Code which sets out the principles of good corporate governance in aspects such as directors' responsibilities and their appointment, re-selection and removal, board composition, remuneration of directors and senior management, accountability and audit, and communication with Shareholders. Our Company will state in our interim and annual reports whether we have complied with such code provisions, and will provide details of, and reasons for, any deviation from it in the corporate governance reports attached to our annual reports.

In addition, our Company has adopted the following measures to strengthen our corporate governance practice and to safeguard the interests of our Shareholders:

- (a) our Board will ensure that any material conflict or potential conflict of interests involving our Controlling Shareholders will be reported to our independent non-executive Directors as soon as practicable.
- (b) the Articles provide that a Director shall not be counted in the quorum or vote on any resolution of the Board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested unless in certain circumstances as expressly stated in the Articles;

- (c) each Director is aware of his fiduciary duties as a Director, which require, among other things, him to act for the benefit of our Company and the Shareholders as a whole and not to allow any conflict of interests between his duties as a Director and his personal interests;
- (d) our audit committee will review, on an annual basis, compliance with the Deed of Noncompetition given by our Controlling Shareholders;
- (e) our Company will obtain (i) an annual written confirmation in respect of our Controlling Shareholders' compliance with the terms of the Deed of Non-competition, (ii) consent (from each of our Controlling Shareholders) to refer to the said confirmation in our annual reports, and (iii) all information as may reasonably be requested by us and/or our independent non-executive Directors for our review and enforcement of the Deed of Non-competition;
- (f) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (g) our independent non-executive Directors may appoint independent financial advisers and other professional advisers as they consider appropriate to advise them on any matter relating to the non-competition undertaking or connected transaction(s) at the cost of our Company; and
- (h) our Company has appointed Shenwan Hongyuan Capital (H.K.) Limited as the compliance adviser which shall provide our Company with professional advice and guidance in respect of compliance with the Listing Rules.

Further, any transaction that is proposed between our Group and our Controlling Shareholders and their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent Shareholders' approval requirements.

With the corporate governance measures including the measures set out above, our Directors believe that the interest of our Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

		As at date of submission of the		Immediately following completion of		
		As at date of sub application		completi the Capitalisation		
		this pros	-	the Share		
Name	Capacity/nature of interest	Number of Shares ⁽¹⁾	Percentage shareholding	Number of Shares ⁽¹⁾	Percentage shareholding	
Manford Investment ⁽²⁾	Beneficial owner	200,000(L)	100%	480,000,000(L)	75%	
Mr. TH Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Mr. Stephen Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Mr. Stanley Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Ms. Li Ka Mei	Interest of spouse ⁽⁴⁾	200,000(L)	100%	480,000,000(L)	75%	
Mrs. Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Ms. Barbara Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Mr. Li Chi Hiu Lawrence	Interest of spouse ⁽⁵⁾	200,000(L)	100%	480,000,000(L)	75%	
Ms. Mabel Tung	Interest of controlled corporation ⁽³⁾	200,000(L)	100%	480,000,000(L)	75%	
Mr. Fung Cheong Chi	Interest of spouse ⁽⁶⁾	200,000(L)	100%	480,000,000(L)	75%	

Notes:

^{1.} The letter "L" denotes a long position in the Shares.

^{2.} As at the Latest Practicable Date, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.

SUBSTANTIAL SHAREHOLDERS

- 3. Mr. TH Tung, Mr. Stanley Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, among others, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that each of Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO. For details, please refer to "Relationship with Controlling Shareholders".
- 4. Ms. Li Ka Mei is the spouse of Mr. Stanley Tung and is deemed, under the SFO, to be interested in all the Shares that Mr. Stanley Tung is interested.
- 5. Mr. Li Chi Hiu Lawrence is the spouse of Ms. Barbara Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Barbara Tung is interested.
- 6. Mr. Fung Cheong Chi is the spouse of Ms. Mabel Tung and is deemed, under the SFO, to be interested in all the Shares that Ms. Mabel Tung is interested.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Our Board currently consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The following table sets forth certain information concerning our Directors:

Name	Age	Present Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Executive Directors						
Mr. Tung Tsun Hong (董信康先生)	77	Chairman and executive Director	3 November 2017	16 January 1981	Overseeing our Group's overall development strategy	Father of Mr. Stephen Tung, and Mr. Stanley Tung
Mr. Tung Wai Ting Stephen (董韋霆先生)	48	Executive Director and chief executive officer	3 November 2017	6 October 1995	Administration, finance and production of our Group	Son of Mr. TH Tung and brother of Mr. Stanley Tung
Mr. Tung Cheuk Ming Stanley (董卓明先生)	44	Executive Director and sales director	3 November 2017	1 April 1997	Sales and marketing of our Group	Son of Mr. TH Tung and brother of Mr. Stephen Tung
Independent non-executive Directors						
Mr. Tsang Ling Biu Gilbert (曾令鏢先生)	47	Independent non- executive Director	19 June 2018	19 June 2018	Supervising and providing independent advice to our Board	Nil
Mr. Cheung Che Kit Richard (張之傑先生)	46	Independent non- executive Director	19 June 2018	19 June 2018	Supervising and providing independent advice to our Board	Nil
Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生)	39	Independent non- executive Director	19 June 2018	19 June 2018	Supervising and providing independent advice to our Board	Nil

The following table sets forth certain information concerning our senior management members:

Name	Age	Position	Date of appointment of current position	Date of joining our Group	Roles and responsibilities	Relationship with other Directors and senior management
Ms. Poon Yuet Ling (潘月玲女士)	58	Senior accounting manager	1 August 1996	5 August 1986	Overseeing daily accounting operation, financial management, administration and human resource work of our Group	Nil
Mr. Tung Ming Po (董鳴寶先生)	71	Assistant general manager	1 October 1992	1 October 1992	Administering and coordinating the manufacturing process of our Group	Brother-in-law of Mr. TH Tung and uncle of Mr. Stephen Tung and Mr. Stanley Tung
Mr. Woo Chi Yuen Eric (胡志遠先生)	49	Senior fabric manager	1 October 2014	16 March 2000	Administering and coordinating the manufacturing process of our Group	Nil
Mr. Li Chi Hiu Lawrence (李之曉先生)	43	Sales manager	1 December 2015	1 July 2004	Overseeing the sales management of our Group	Brother-in-law of Mr. Stephen Tung and Mr. Stanley Tung
Mr. Cheung Ka Chun (張家俊先生)	35	Chief financial officer and company secretary	16 January 2018	16 January 2018	(i) Overseeing the financial and accounting functions of our Group and (ii) handling corporate secretarial and compliance work of our Group	Nil

Directors

Executive Directors

Mr. Tung Tsun Hong (董信康先生), aged 77, was appointed as our Director on 3 November 2017 and was redesignated as an executive Director and appointed as our chairman on 16 January 2018. Mr. TH Tung is one of the founders of our Group and is primarily responsible for overseeing our Group's overall development strategy.

Mr. TH Tung has approximately 59 years of experience in the textile and apparel industry. Prior to founding the Group in 1981, Mr. TH Tung started his career in the textile industry as an apprentice in a textile company in 1958 and was later promoted to the managerial position where he was responsible for the overall operations and management in the factory. In 1968, Mr. TH Tung established his own sole proprietorship in Hong Kong, which focused on the trading of denim fabrics manufactured by third parties. Subsequently in 1983, Mr. TH Tung changed the business model of the sole proprietorship and started to engage in denim fabric manufacturing.

Mr. TH Tung completed his junior secondary education in Hong Kong in 1958.

Mr. TH Tung was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

Name of company	Date of dissolution	Means of dissolution	Reasons for dissolution
Ling Chun Electronics (H.K.) Company Limited	13 October 2000	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Hing Shun Textiles Company Limited	10 August 2001	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Kingwise Development Limited	21 March 2003	striking off	ceased to carry out business
Kingable Investments Limited	9 May 2003	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Shanghai Flora Niche Garden (H.K.) Limited	3 August 2007	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Zodiac Textiles Company Limited	30 April 2010	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business

Note: The above companies were solvent immediately prior to their dissolutions.

Mr. Tung Wai Ting Stephen (董韋霆先生) (formerly known as Mr. Tung Hak Ming Stephen (董 克明先生)), aged 48, was appointed as our Director on 3 November 2017 and was redesignated as our executive Director and appointed as our chief executive officer on 16 January 2018.

Mr. Stephen Tung has approximately 22 years of experience in the textile and apparel industry. He joined our Group on 6 October 1995 and is primarily responsible for administration, finance and production of our Group.

Prior to joining our Group in 1995, Mr. Stephen Tung worked in the Asia Financial Asset Services Division at the State Street Bank and Trust Company, an institution which provides financial services to investors and manages financial assets, from 1993 to 1995 with his last position being senior portfolio administrator and was responsible for managing different types of funds.

As at the Latest Practicable Date, Mr. Stephen Tung was the honourary director of the Origin Charity Foundation, the director of the supervisory board of the Hong Kong Ning Po Residents Association* (香港寧波同鄉會), and the vice chairman of the Hong Kong Ning Po Yin Zhou Association Limited* (香港寧波鄞州同鄉會有限公司).

Mr. Stephen Tung obtained a Bachelor of Commerce degree at the University of Toronto in Canada in June 1993.

Mr. Stephen Tung was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

Name of company	Date of dissolution	Means of dissolution	Reasons for dissolution
Best Tower Limited	10 October 2008	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Millen Textiles Company Limited	17 June 2005	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Pattyboutik Denim Limited	18 August 2017	striking off	ceased to carry out business
Zodiac Textiles Company Limited	30 April 2010	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business

Note: The above companies were solvent immediately prior to their dissolutions.

Mr. Tung Cheuk Ming Stanley (董卓明先生), aged 44, was appointed as our Director on 3 November 2017 and was redesignated as our executive Director on 16 January 2018.

Mr. Stanley Tung has approximately 21 years of experience in the textile and apparel industry. Mr. Stanley Tung joined our Group on 1 April 1997 and is currently our sales director. Since joining our Group, Mr. Stanley Tung has been primarily responsible for the sales and marketing of our Group. Furthermore, Mr. Stanley Tung has been assisting our product development by participating in international fabric exhibitions and fashion shows in various countries including the PRC and the United States. During his participation in the fabric exhibitions and fashion shows, Mr. Stanley Tung had the opportunities to obtain a better understanding on the market trend and as such we were able to adjust our development efforts in a timely manner to seize the market growth.

Mr. Stanley Tung obtained a Bachelor of Arts degree from University of Toronto in Canada in November 1996.

Mr. Stanley Tung was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

Name of company	Date of dissolution	Means of dissolution	Reasons for dissolution
Hing Fu Weaving Factory Limited	13 August 2004	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Pattyboutik Denim Limited	18 August 2017	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Zodiac Textiles Company Limited	30 April 2010	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business

Note: The above companies were solvent immediately prior to their dissolutions.

Independent non-executive Directors

Mr. Tsang Ling Biu Gilbert (曾令鏢先生), aged 47, was appointed as our independent non-executive Director on 19 June 2018 and is primarily responsible for supervising and providing independent advice to our Board. He is also the chairman of our audit committee.

Mr. Tsang has over 20 years of experience in finance and accounting. Mr. Tsang began his career in 1995 with Ernst & Young where he worked as staff accountant in information systems audit department. From 1996 to 2004, Mr. Tsang worked in several renowned financial institutions and securities regulator, including Credit Lyonnais Securities Asia Limited, Peregrine Brokerage Limited and the SFC. From 2004 to 2013, Mr. Tsang worked in the investment banking division of Barclays Capital Asia Limited ("Barclays Capital"), which included senior positions in the Hong Kong investment banking division.

In April 2013, Mr. Tsang co-founded and has since then worked as a partner and responsible officer of Calibration Partners Limited, a company which provides independent strategic and focused advice in mergers and acquisitions, capital raisings and bespoke direct investment opportunities. Mr. Tsang also co-founded Alpha Calibration (Hong Kong) Limited, a compliance advisory firm in December 2015.

Mr. Tsang is a non-executive director of Tus International Limited (stock code: 872), a Hong Kong-based investment holding company principally engaged in the trading of cars.

Mr. Tsang obtained a Bachelor of Science and a Master of Commerce in Accounting and Finance from the University of New South Wales in Australia, in 1992 and 1995, respectively. Mr. Tsang then obtained a Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia in 1996. Mr. Tsang is also a fellow member of the CPA Australia (Certified Practising Accountants).

Mr. Tsang was a director of the following companies which were incorporated in Hong Kong prior to their respective dissolution:

Name of company	Date of dissolution	Means of dissolution	Reasons for dissolution
Cortus Capital (Hong Kong) Limited	29 December 2017	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business
Cortus Capital International (Hong Kong) Limited	13 May 2016	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business

Note: The above companies were solvent immediately prior to their dissolutions.

Mr. Cheung Che Kit Richard (張之傑先生), aged 46, was appointed as our independent non-executive Director on 19 June 2018 and is primarily responsible for supervising and providing independent advice to our Board. He is also a member of our audit committee, remuneration committee and nomination committee.

After his graduate studies in 2001, Mr. Cheung worked at McKinsey & Company, Incorporation ("McKinsey"), a global management consulting firm. In 2006, Mr. Cheung became a partner of McKinsey focusing on the retail and consumer sector.

From 2008 to 2010, Mr. Cheung worked as a principal of Cinven Hong Kong Limited, a global private equity firm in Europe, and was responsible for developing EBITDA growth strategies for the portfolio companies.

Since 2010, Mr. Cheung has been working as an executive director (Customer and International Business Development) for the Hong Kong Jockey Club ("HKJC"). He is responsible for channelling gaming demand in all of racing, football and lottery wagering business, which also includes the exporting of the Hong Kong racing betting product to overseas jurisdictions.

Mr. Cheung obtained a Bachelor of Commerce degree with first class honour from Queen's University in Canada in May 1995. Subsequently he obtained his Master's degree in Business Administration with high distinction from Harvard Business School in the United States in June 2001.

Mr. Leung Wang Ching Clarence, J.P. (梁宏正先生), aged 39, was appointed as our independent non-executive Director on 19 June 2018 and is primarily responsible for supervising and providing independent advice to our Board. He is also the chairman of our remuneration committee and nomination committee, and a member of our audit committee.

Mr. Leung has approximately 18 years of experience in the textile and apparel industry. Mr. Leung began his career in 1999 as a director of Texwatch Incorporation, a company principally engaged in providing relevant information and tools to the textile and apparel industry for the purpose of enhancing business efficiency and opportunities. In 2001, Mr. Leung joined Sun Hing Knitting Factory Limited, a company principally engaged in the manufacturing of cardigan, sweater and pullover; and is currently a director of this company.

Mr. Leung has been serving the community and the textile industry by holding various positions in a number of institutions and organisations. From April 2017 to March 2018, Mr. Leung was a member of the Textile Advisory Board. He has been a member of the Committee of Beijing Chinese People's Political Consultative Conference (with a term of five years), the chairman of the Third Committee of Youth of the Business and Professionals Alliance for Hong Kong since 2013 and 2016, respectively.

Mr. Leung obtained a Bachelor of Arts degree and a Master of Arts degree in Economics from the University of Cambridge in the United Kingdom in June 1999 and March 2003, respectively.

Mr. Leung was a director of the following company which was incorporated in Hong Kong prior to its dissolution:

Name of company	Date of dissolution	Means of dissolution	Reasons for dissolution
Champ Grace International Limited	13 March 2015	deregistration pursuant to section 291AA of the Predecessor Companies Ordinance	ceased to carry out business

Note: The above company was solvent immediately prior to its dissolution.

Disclosure required under Rule 13.51(2) of the Listing Rules

Save as disclosed under this section, each of our Directors confirms with respect to him that: (a) he has not held directorships in the last three years in other public companies the securities of which are listed on any securities market in Hong Kong or overseas prior to the Latest Practicable Date; (b) he did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (c) he did not have any relationship with any other Directors, senior management, substantial shareholder or Controlling Shareholder of our Company as at the Latest Practicable Date; (d) he does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the section headed "Statutory and General Information — C. Further Information about our Directors and Substantial Shareholders — 1. Interests and/or short positions of our Directors in the Shares, underlying Shares and debentures of our Company or any associated corporation" in Appendix IV to this prospectus; (e) he does not have any interest in any business which competes or is likely to compete,

directly or indirectly, with us, which is discloseable under the Listing Rules; and (f) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no additional information relating to our Directors or senior management that was required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matter with respect to their appointments that needed to be brought to the attention of our Shareholders as at the Latest Practicable Date.

Senior Management and Company Secretary

Ms. Poon Yuet Ling (潘月玲女士), aged 58, joined our Group on 5 August 1986 and is currently our senior accounting manager. Ms. Poon is primarily responsible for overseeing daily accounting operation, financial management, administration and human resource management of our Group.

Ms. Poon Yuet Ling has over 30 years of experience in accounting practise. Ms. Poon began her career in March 1978 as an accounts clerk at Arthur Ip & Co, an accounting firm. From November 1981 to November 1983, Ms. Poon served as a secretary at Doneright Trading Co. Ltd, a company principally engaged in trading of luxury goods. Between November 1984 and May 1985, Ms. Poon Yuet Ling was an export clerk at Anthony Company, a company principally engaged in trading of luxury goods.

Ms. Poon completed her secondary education in Hong Kong in July 1977 and obtained an intermediate group certificate in business studies at the Hong Kong School of Commerce in February 1978.

Ms. Poon does not have any current or past directorships in any listed companies in the three years immediately preceding the Latest Practicable Date.

Mr. Tung Ming Po (董鳴寶先生), aged 71, joined our Group in 1 October 1992 and is our assistant general manager. Mr. Tung is primarily responsible for administering and coordinating the manufacturing process of our Group.

From March 1968 to May 1969, Mr. Tung worked as a shipping clerk in the shipping department of Kader Industrial Company Limited, a manufacturing company, and was responsible for attending to all shipping documents. From June 1969 to January 1975, Mr. Tung worked for World Wide Shipping Agency Limited as a shipping clerk, and was later redesignated and promoted to various positions from January 1975 to December 1989, with his last position being the manager of the licenced crew department. As the manager, he was in charge of the manning of crew and officers such as recruitment, deployment and relief planning. Mr. Tung moved to Australia in December 1989 and returned to Hong Kong in September 1992, and started to work in HWT in October 1992.

Mr. Tung graduated from Tak Ming Middle School in July 1963 and continued his education at Sham Shui Po Pooi Sun English College from September 1964 to June 1966. In 1991, Mr. Tung obtained the Certificate of Interpreting/Translating from the South Brisbane College of Technical and Further Education.

Mr. Tung does not have any current or past directorships in any listed companies in the three years immediately preceding the Latest Practicable Date.

Mr. Woo Chi Yuen Eric (胡志遠先生), aged 49, joined our Group on 16 March 2000 and is our senior fabric manager of our production department. Mr. Woo is primarily responsible for administering and coordinating the manufacturing process of our Group.

Mr. Woo has approximately 30 years of experience in the textile industry. Mr. Woo began his career in 1988 as an assistant merchandiser at Dutton II Trading Limited, a Hong Kong company engaged in apparel merchandising and was mainly responsible for in woven and the follow-up of orders and samples knit top department. He left Dutton II Trading Limited in May 1990 and shortly after, he continued working as an assistant merchandiser in fabrics and trims department at Next (HK) Limited, a Hong Kong company engaged in apparel merchandising, between September 1990 to December 1990 and was mainly responsible for fabric and trim sourcing. From February 1992 to October 1993, Mr. Woo served as a fabric merchandiser at the HE-RO Group, Incorporation, a company engaged in sale of high fashion silk and woven apparel to the United States. From December 1993 to August 1996, Mr. Woo was the senior fabric merchandiser at Antonhill Textile Limited, a company engaged in the wholesale distribution of piece goods or yard goods of natural or man-made fibres. Between August 1996 and August 1997, Mr. Woo worked as a fabric purchasing co-ordinator at Tarrant Company Limited, a company engaged in design, sourcing and export of woven and knit garments. From August 1997 to March 2000, Mr. Woo served as a senior fabric merchandiser at G2000 (Apparel) Limited, a company engaged in manufacturing and retailing of fashion wear.

Mr. Woo obtained a joint diploma of management studies from the Hong Kong Management Association — Lingnan University in September 2002 and completed the master of business administration program at the University of Leicester, United Kingdom in July 2005. In August 2005, Mr. Woo received the Certificate in Investment Portfolio Management from The Hong Kong Management Association. Mr. Woo completed a designer and photographer colour management workshop* (設計師與攝影師色彩管理工作坊) in 2015.

Mr. Woo does not have any current or past directorships in any listed companies in the three years immediately preceding the Latest Practicable Date.

Mr. Li Chi Hiu Lawrence (李之曉先生), aged 43, joined our Group on 1 July 2004 and is our sales manager. Mr. Li is primarily responsible for overseeing the sales management of our Group.

Mr. Li has more than 17 years of experience in the textile industry. From September 1997 to January 2000, Mr. Li began his career as a project coordinator at S&D Design and Engineering (HK) Limited, a building and construction company principally engaged in roofing and steel structure construction and was later promoted as a site engineer. During his employment with S&D Design and Engineering (HK) Limited, he was responsible for carrying out daily supervision, method statement preparation, and design coordination with the main contractor and architect on site work. Between 2000 and 2002, Mr. Li served as the fabric department manager and project manager in Nam Liong (HK) Company Limited, a company engaged in the manufacturing of fabrics and apparel. Prior to joining our Group in 2005, Mr. Li was the project manager in Tiong Liong Industrial Company, a company based in Taiwan which manufactures and supplies functional textiles.

Mr. Li graduated from the Seneca College of Applied Arts & Technology in Toronto, Canada in April 1997.

Mr. Li does not have any current or past directorships in any listed companies in the three years immediately preceding the Latest Practicable Date.

Mr. Cheung Ka Chun (張家俊先生), aged 35, was appointed as the chief financial officer and the company secretary of our Company on 16 January 2018 and is primarily responsible for (i) overseeing the financial and accounting functions of our Group and (ii) handling corporate secretarial and compliance work of our Group.

Mr. Cheung has over 10 years of experience in audit and assurance and multi-national certified public accounting firms. Mr. Cheung joined Aoba CPA Limited as an audit associate in December 2005 with his last position as an audit senior in June 2011. From July 2011 to August 2015, he was employed as a senior auditor and promoted to be an assistant manager in the assurance and business advisory department at Mazars CPA Limited. He worked at Wincy Corporate Management Limited as the chief financial officer from September 2015 to July 2016. Mr. Cheung has been working as a senior manager at ST Lo & Co. CPA since August 2016.

Mr. Cheung was awarded the bachelor's degree of Business Administration (majoring in accounting and finance) by the University of Hong Kong in December 2004. He is a member of the Hong Kong Institute of Certified Public Accountants.

BOARD COMMITTEES

Audit Committee

We have established an audit committee with written terms of reference in compliance with Rules 3.21 of the Listing Rules and the Corporate Governance Code. Our audit committee consists of three members, comprising all the independent non-executive Directors, namely Mr. Tsang Ling Biu Gilbert, Mr. Cheung Che Kit Richard and Mr. Leung Wang Ching Clarence, J.P.. Mr. Tsang Ling Biu Gilbert is the chairman of our audit committee.

The primary duties of the audit committee are mainly (i) to review and supervise the financial reporting process and to oversee the audit process of the Group; (ii) to oversee internal control procedures and corporate governance of our Group; (iii) to supervise internal control systems of our Group; and (iv) and to monitor any continuing connected transactions.

Remuneration Committee

We have established a remuneration committee with written terms of reference in compliance with Rules 3.25 of the Listing Rules and the Corporate Governance Code. Our remuneration committee consists of three members, namely Mr. Leung Wang Ching Clarence, J.P., Mr. Cheung Che Kit Richard and Mr. Stephen Tung. Mr. Leung Wang Ching Clarence, J.P. is the chairman of our remuneration committee.

The primary duties of the remuneration committee are mainly (i) to develop a transparent policy in relation to remuneration; (ii) to review the remuneration policy and the structure relating to all Directors and senior management of our Group; (iii) to review the remuneration of our Directors and senior

management of our Group based on their performance; and (iv) to make recommendations on other remuneration-related arrangement, such as, housing allowance and bonuses payable to Directors and senior management of our Group.

Nomination Committee

We have established a nomination committee with written terms of reference in compliance with the Corporate Governance Code. Our nomination committee consists of three members, namely Mr. Leung Wang Ching Clarence, J.P., Mr. Cheung Che Kit Richard and Mr. Stanley Tung. Mr. Leung Wang Ching Clarence, J.P. is the chairman of our nomination committee.

The primary duties of the nomination committee are (i) to review the structure, size and composition of our Board on a regular basis; (ii) to make recommendations to our Board relating to the appointment and removal of Directors; (iii) to identify individuals suitably qualified to become members of our Board; and (iv) to assess the independence of our independent non-executive Directors.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

During FY2015, FY2016 and FY2017, total remuneration (including salaries and bonus, allowances, and pension costs) paid by us to our Directors amounted to approximately HK\$2.8 million, HK\$4.7 million and HK\$13.5 million, respectively, while total remuneration (including salaries and bonus, and pension costs) paid to the five highest paid individuals of our Group, excluding our Directors, was approximately HK\$2.5 million, HK\$2.9 million and HK\$3.6 million, respectively.

Under the arrangements currently in force, the aggregate remuneration (including benefits in kind but excluding any commission or discretionary bonus) to be paid by us to our Directors for the year ending 31 December 2018 is estimated to be approximately HK\$16.7 million.

During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

Save as disclosed in this prospectus, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

None of our Directors had waived or agreed to waive any remuneration during the Track Record Period.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of director fees, salaries, benefits in kind and/or discretionary bonuses with reference to those paid by comparable companies, time commitment and the performance of our Group. Our Group also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Group or executing their functions in relation to the operations of our Group. We regularly review and determine the remuneration and compensation packages of our Directors and senior

management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and the performance of our Group.

CORPORATE GOVERNANCE

Our Company intends to comply with all the Corporate Governance Code contained in Appendix 14 to the Listing Rules after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report, which will be included in our annual reports subsequent to the Listing.

COMPLIANCE ADVISER

We have appointed Shenwan Hongyuan Capital (H.K.) Limited as our compliance adviser in accordance with Rule 3A.19 of the Listing Rules. The term of appointment shall commence on the Listing Date and end on the date on which we comply with rule 13.46 in respect of our financial results for the first full financial year after the Listing.

Pursuant to Rule 3A.23 of the Listing Rules and the terms of the agreement with our compliance adviser, we will consult with and, if necessary, seek advice from our compliance adviser in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues or share repurchase;
- (iii) where we propose to use the net proceeds from the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (iv) where the Stock Exchange makes an inquiry to our Company under Rule 13.10 of the Listing Rules.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid as at the date of this prospectus and following the completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):

1,000,000,000
Issued share capital:
500,000
479,500,000
160,000,000
640 000 000
share capital: 500,000 479,500,000

Assumptions

The above table assumes that the Share Offer has become unconditional and the Shares are issued pursuant thereto. It does not take into account (i) any Shares which may be allotted and issued (a) pursuant to the exercise of the Over-allotment Option; or (b) pursuant to the exercise of the options which may be granted under the Share Option Scheme; and (ii) any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

RANKING

The Offer Shares and the Shares which may be issued pursuant to the Over-allotment Option will rank *pari passu* in all respects with all Shares currently in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of this prospectus save for the entitlements under the Capitalisation Issue.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 8.08 of the Listing Rules, at the time of Listing and at all times thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules). The 160,000,000 Offer Shares represent 25% of the issued share capital of the Company upon Listing.

SHARE CAPITAL

GENERAL MANDATE TO ISSUE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued or dealt with, subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (a) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer; and
- (b) the aggregate number of Shares repurchased by our Company pursuant to the authority granted to our Directors referred to in "General Mandate to Repurchase Shares" in this section.

The aggregate number of Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, script dividend scheme or similar arrangement in accordance with the Articles, or pursuant to the exercise of any options which may be granted under the Share Offer or the Capitalisation Issue.

This general mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting; or
- (b) the expiration of the period within which our Company is required by any applicable laws or the Articles to hold the next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please see "Appendix IV — Statutory and General Information — A. Further Information about our Group — 4. Written resolutions of our sole Shareholder passed on 19 June 2018" for further details.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Share Offer becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase such number of Shares representing not more than 10% of the aggregate number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer.

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. Please see "Appendix IV — Statutory and General Information — A. Further Information about our Group — 7. Repurchase by our Company of our own securities" for the further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares.

SHARE CAPITAL

This general mandate will expire at the earliest of:

- (a) the conclusion of our Company's next annual general meeting; or
- (b) the expiration of the period within which our Company is required by any applicable laws or the Articles to hold the next annual general meeting; or
- (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

Please see "Appendix IV — Statutory and General Information — A. Further Information about our Group — 4. Written resolutions of our sole Shareholder passed on 19 June 2018" for further details.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Please see "Appendix IV — Statutory and General Information — D. Share Option Scheme" for further details.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

As exempted company, our Company is not required by law to hold any general meeting or class meeting under the Companies Law. The circumstances under which general meeting and class meeting are required is prescribed under the Articles. Accordingly, our Company will hold general meetings as prescribed for under the Articles. Please see "Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law" for further details.

You should read this section in conjunction with our audited combined financial information, including the notes thereto, as set out in the Accountants' Report in Appendix I to this prospectus. Our combined financial information have been prepared in accordance with the Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards, amendments and interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKFRSs"). You should read the entire Accountants' Report and not merely rely on the information contained in this section.

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

OVERVIEW

We are engaged in manufacturing denim fabrics primarily to serve apparel brands in the U.S. Our denim fabrics can be classified into (i) stretchable cotton denim, (ii) stretchable blended denim and (iii) non-stretchable denim.

We achieved remarkable growth in our revenue and net profit during the Track Record Period, mainly thanks to our successful efforts in marketing stretchable blended denim fabrics to the apparel brands for producing their denim garments. Stretchable blended denim fabric has certain fabric properties such as highly stretchable and strong recovery, soft texture, as well as being light in weight, which can render denim jeans made of such fabric more form-fitting. Our Directors have long placed strong emphasis on our product development, in particular to the stretchable blended denim fabrics. During the Track Record Period, our product development team has introduced over 300 types of stretchable blended denim fabrics in terms of stretchability, weight and indigo tone. Our ability to develop and provide the type of stretchable blended denim fabrics to fulfil the requirements of the apparel brands has been reflected in the considerable growth in the sales volume of stretchable blended denim fabrics over the years. Set out below is our revenue, sales volume, average selling price and gross profit margin by product types during the Track Record Period.

	Year ended 31 December												
	2015				2016				2017				
	Revenue HK\$ million	Sales volume million yards	Average selling price HK\$ per yard	Gross profit margin	Revenue HK\$ million	Sales volume million yards	Average selling price HK\$ per yard	Gross profit margin	Revenue HK\$ million	Sales volume million yards	Average selling price HK\$ per yard	Gross profit margin	
	million	yurus	ушти	70	тиноп	yaras	ушти	70	million	yurus	yuru	/0	
Stretchable cotton													
denim fabrics	139.6	5.9	23.8	26.0	110.6	4.8	23.3	25.1	88.4	3.7	23.9	24.8	
Stretchable blended													
denim fabrics	192.6	7.8	24.6	28.4	308.9	12.8	24.2	34.4	519.3	21.9	23.7	34.9	
Non-stretchable denim													
fabrics	67.7	3.0	22.7	23.0	55.2	2.4	22.6	23.9	38.9	1.7	23.0	24.0	
Others Note	0.7		N/A	2.0	0.3		N/A	2.0	1.6		N/A	13.3	
	400.6	16.7			475.0	20.0			648.2	27.3			

Note: Includes subcontracting income and income from sales of yarns.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations have been, and will continue to be, affected by a number of factors, including those set out below:

Demand for garment products of downstream market

During the Track Record Period, our denim products are mainly used by our customers, who are garment manufacturers, as production materials for manufacturing denim garments for certain U.S. retail apparel brands. During the Track Record Period, our revenue increased steadily from HK\$400.6 million for FY2015 to HK\$475.0 million for FY2016 and to HK\$648.2 million for FY2017, out of which sales of denim fabric used for manufacturing of apparels for U.S. apparel retail brands accounted for 87.9%, 88.3% and 84.4% of the total revenue for FY2015, FY2016 and FY2017, respectively. Therefore, our sales are largely influenced by the sales performance of denim garment products of these U.S. retail apparel brands. The higher market demands for denim garment products these retail apparel brands expect, the more denim fabrics would normally be purchased from us by our garment manufacturing customers as instructed by these U.S. retail apparel brands in meeting their expected market demands. The major reason for the growth of our sales during the Track Record Period was the improvements in sales performance of the top apparel brand we served, who has been able to continue to bring in new fashion functionality elements in its denim garment products to stimulate sales as well as our success in introducing stretchable denim fabrics to the men's fashion lines of certain U.S. apparel brands.

According to Frost & Sullivan, the retail value of the overall denim garment market of the U.S. is expected to grow at a CAGR of 7.3% from 2017 to 2021. Hence, we believe the downstream market prospects will continue to provide a favourable backdrop to the development of our business. However, if there occurs any deterioration in the downstream market or any of the U.S. retail apparel brands we are serving now suffers major setback in their sales performance, our financial condition or results of operations may be adversely affected.

Pricing

The pricing of our products affects our financial performance. During the Track Record Period, average price of our products was HK\$24.0 per yard, HK\$23.8 per yard and HK\$23.7 per yard for FY2015, FY2016 and FY2017, respectively. We have been able to maintain a relatively stable price of our products, despite the slight decline in the production unit cost of our garment fabric during the Track Record Period. Because of the general increasing trend in the retail price of denim garment products in the U.S., we believe we have not been under undue pressure from the U.S. apparel brands to reduce the selling price of our products. According to Frost & Sullivan, retail price of middle-to high-end denim garments is expected to grow from US\$101.6 per piece in 2017 to US\$105.2 per piece in 2018, mainly due to the continuing product development of denim garment products by retail apparel brands and increase in brand awareness among the consumers. With the increase in selling price of denim garment products, retail apparel brands are able to maintain their profit margins without a strong need to resort to reduce their production costs, which include cost of denim fabrics we supply. This, together with our ability in developing and producing a variety of functional denim fabrics in satisfying the product development needs of retail apparel brands, we are able to sell our products with relatively steady product prices. However, if we cannot maintain our selling price with the targeted profit margin because of the price reduction pressure resulting from changes in consumer preferences, fashion trends or any other reasons which negatively impact the sales performance of these apparel brands, our financial conditions or results of operations may also be adversely affected.

Cost of raw materials

We use various raw materials throughout our production processes. The key raw materials that we use in the production of our products include yarns of different types such as pure cotton, stretch cotton and synthetic. Throughout the Track Record Period, our raw material costs as a percentage of total cost of sales remained relatively stable. For FY2015, FY2016 and FY2017, the cost of raw materials accounted for 67.0%, 68.4% and 71.0% of our total cost of sales, respectively. The prices of our raw materials are determined principally by the price of the underlining raw materials (e.g. prices of cotton yarns are mainly affected by prices of cotton and prices of synthetic yarns are mainly affected by prices of crude oil), which are purely determined by market forces. The raw material prices, to a less extent, are also affected by our bargaining power with our supplier and we have long established relationship with most of our suppliers and are able to negotiate favourable prices for the raw materials. However, if there is any sudden surge in the price of the raw material and we are unable to pass on such cost increase to our customers, our financial condition or results of operations would be adversely affected.

Our ability to maintain business relationship with our subcontractors

Our in-house production facilities had been operating at near their full capacity during most part of our Track Record Period and, on average, approximately half of our sales volume required subcontracting services in terms of dyeing, weaving and/or finishing from external third party factories during the Track Record Period.

We have maintained good relationships with our subcontractors so that we could always secure the necessary amount of subcontracting services from them at the fees and with the services quality acceptable to us. Furthermore, our subcontractors also permit us to regularly send in our

own staff to their production facilities to perform quality controls over the products they process for us. During the Track Record Period, we did not have any dispute with our subcontractors nor encounter any material claims or complaints by our customers in respect of the quality of the products processed by our subcontractors. However, since no long-term agreements have been entered into by the Group with the subcontractors, there is no assurance that the subcontractors will continue their relationships with us and will continue to be able to supply processing services to us at our desired quality standards or in a timely manner or on commercially acceptable terms.

Notwithstanding that we plan to acquire new machinery and equipment for expanding our Group's in-house production facilities, we may still need to rely on subcontractors to help cope with the increasing orders from our customers in the future. Therefore, in the event any of our major subcontractors are unable to make available to us their processing capacity when required for whatever reason, our business, results of operations and development prospects would be adversely affected.

Our ability to retain key customers and attract new customers

For FY2015, FY2016 and FY2017, the revenue we derived from our top five apparel brands accounted for 71.5%, 75.5% and 76.4% of our sales revenue, respectively. Revenue derived from the largest apparel brands we serve, which is one of the largest U.S. denim jeans brand whose most popular products are denim jeans targeting college students, accounted for 56.9%, 62.8% and 65.1% of our sales revenue for the same periods. The top five apparel brands which we served have had relationships with us ranging from five to 10 years, and we have established business relationship with the largest apparel brands for seven years.

We believe we have been able to consistently receive recurring orders from the U.S. apparel brands (through their designated garment manufacturers) because of our abilities to provide high quality fabric in a timely manner, and to develop new denim fabric products which meet their functionality requirements and assist the apparel brands in their ongoing product development. While we will continue to follow the aforesaid strategies to maintain the customer stickiness with the brands, there is no guarantee that such brands will find the products and/or services we provide entirely satisfactory. If the brands find our products and/or services we provide not up to their standards and decide to switch to another fabric manufacturer for product sourcing, our business would certainly be adversely affected.

Notwithstanding that we have built up good relationships with customers, we do not enter into any long-term agreements with them to secure the future sales volume and sales are generally concluded on an order-by-order basis. Therefore, if there is any change in relationships with our key customers, which will materially affect our results of operations and financial condition.

BASIS OF PREPARATION AND PRESENTATION

The financial information of our Group has been prepared in accordance with the accounting policies set out in note 4 of the Accountants' Report in Appendix I to this prospectus which conform with the HKFRSs issued by the HKICPA.

Pursuant to the Reorganisation, our Company, which was incorporated on 3 November 2017, will become the holding company of the companies now comprising the Group on 23 March 2018. The combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows are prepared as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period, or since the respective dates of incorporation or acquisition, where there are shorter periods. The combined statements of financial position, as at 31 December 2015, 2016 and 2017, present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the respective dates of incorporation or acquisition, where applicable.

Our financial information has been prepared under the historical cost basis. The functional currency of our Company is US\$, as the sales activities of our Group are mainly denominated in US\$ and the presentation currency of our Group is HK\$, as our Directors consider HK\$ can provide more meaningful information to our Company's investors.

Further details of the basis of preparation and presentation for our financial information are set out in note 2 of the Accountants' Report in Appendix I to this prospectus.

SIGNIFICANT ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our combined financial statements. Our significant accounting policies are set out in note 4 of the Accountants' Report in Appendix I to this prospectus.

Basis of combination

Our financial information incorporates the financial statements of the entities comprising our Group. Control is achieved when our Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Our Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when our Group obtains control over the subsidiary and ceases when our Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date our Group gains control until the date when our Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributable to the owners of our Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of our Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with our Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of our Group are eliminated in full on combination.

Merger accounting for business combination involving entities under common control

Our financial information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

Investment in a joint venture

Our joint venture, namely KDIL, is owned as to 51% by our Group and 49% by Kurabo Industries. Since neither our Group nor Kurabo Industries is in a position to exercise unilateral control over KDIL, KDIL is classified as a joint venture of our Group.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint venture are incorporated in our financial information using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of our Group for like

transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the combined statement of financial position at cost and adjusted thereafter to recognise our Group's share of the profit or loss and other comprehensive income of the joint venture.

Revenue recognition

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

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, such costs are recognised as an expense on a straight-line basis over the lease term.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

CRITICAL ACCOUNTING JUDGMENTS AND ESTIMATION

In the process of applying our Group's accounting policies, our management may exercise judgments that have an impact on the amounts recognised in the financial statements in respect of such typical areas as:

- (i) Useful lives of property, plant and equipment Our management estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life;
- (ii) Allowance for doubtful debts Our Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the balances may not be collectible. The amount of the allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate; and
- (iii) Allowance for inventories Our Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value.

Details of the critical accounting judgments and estimation for the financial information are set out in note 5 of the Accountants' Report in Appendix I to this prospectus.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out the combined results of our Group for each of the FY2015, FY2016 and FY2017, which are derived from, and should be read in conjunction with, the combined financial information set out in the Accountants' Report in Appendix I to this prospectus:

Combined Statements of Profit or Loss and Other Comprehensive Income

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Revenue	400,556	475,039	648,219	
Cost of sales	(294,111)	(327,691)	(435,402)	
Gross profit	106,445	147,348	212,817	
Other income	22,894	27,208	27,234	
Other gains (losses)	44,490	(2,298)	2,530	
Selling and distribution expenses	(12,840)	(17,771)	(24,487)	
Administrative expenses	(45,248)	(44,857)	(59,857)	
Listing expenses	_	_	(5,315)	
Share of profit (loss) of a joint venture	29	(35)	45	
Finance costs	(800)	(639)	(1,272)	
Profit before tax	114,970	108,956	151,695	
Income tax expense	(11,008)	(17,106)	(25,217)	
Profit and total comprehensive income for the year	103,962	91,850	126,478	

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

Our Group generates revenue primarily from the sales of denim fabrics, which consist of (i) stretchable cotton denim fabrics; (ii) stretchable blended denim fabrics; and (iii) non-stretchable denim fabrics. Our total revenue increased by 18.6% from HK\$400.6 million in FY2015 to HK\$475.0 million in FY2016, and further increased by 36.5% to HK\$648.2 million in FY2017. Our revenue is primarily affected by our ability to develop denim fabric products to satisfy the needs of retail apparel brands and the sales performance of those brands, which is driven by fashion trends as well as their marketing efforts. We are able to achieve significant growth in our revenue as a result of (i) our ability in developing stretchable blended denim fabric to cater for the market needs; and (ii) the strong demands for stretchable men's denim garment products due to this emerging fashion trend.

Revenue by product types

The following table sets out the breakdown of our revenue by product types for the years indicated:

	Year ended 31 December					
	2015		2016	j	2017	1
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Stretchable: — Stretchable cotton						
denim fabrics — Stretchable blended	139,629	34.9	110,577	23.3	88,387	13.6
denim fabrics	192,553	48.1	308,856	65.0	519,326	80.1
	332,182	82.9	419,433	88.3	607,713	93.8
Non-stretchable: — Non-stretchable						
denim fabrics	67,717	16.9	55,230	11.6	38,921	6.0
Others ^{Note}	657	0.2	376	0.1	1,585	0.2
	400,556	100.0	475,039	100.0	648,219	100.0

Note: Includes subcontracting income and income from sales of yarns.

Stretchable denim fabric are our major products which accounted for over 82.9% of our revenue during the Track Record Period. Sales of these products increased by 26.3% from HK\$332.2 million in FY2015 to HK\$419.4 million in FY2016, and further increased by 44.9% to HK\$607.7 million in FY2017. Sales of non-stretchable denim fabric were declining during the Track Record Period, which accounted for 16.9%, 11.6% and 6.0% of our revenue for each of FY2015, FY2016 and FY2017, respectively.

The following table sets out the sales volume and average selling price by product types for the years indicated:

		Y	Year ended 31	December		
	2015		2016		2017	
		Average		Average		Average
	Sales	selling	Sales	selling	Sales	selling
	volume	price	volume	price	volume	price
	yards	HK\$ per	yards	HK\$ per	yards	HK\$ per
	('000)	yard	('000)	yard	('000)	yard
Stretchable: — Stretchable cotton denim fabrics	5,875	23.8	4,755	23.3	3,696	23.9
Stretchable blended denim fabrics	7,835	24.6	12,774	24.2	21,939	23.7
	13,710	24.2	17,529	23.9	25,635	23.7
Non-stretchable: — Non-stretchable						
denim fabrics	2,984	22.7	2,441	22.6	1,695	23.0
	16,694	24.0	19,970	23.8	27,330	23.7

Growth in sales of stretchable denim fabric was mainly driven by the significant increase in sales of stretchable blended denim fabric, which increased by 60.4% from HK\$192.6 million in FY2015 to HK\$308.9 million in FY2016, and further increased by 68.1% to HK\$519.3 million in FY2017. The sales volume of stretchable blended denim fabric, which increased by 63.0% from 7.8 million yards in FY2015 to 12.8 million yards in FY2016, further increased by 71.7% to 21.9 million yards in FY2017. Such increase was primarily due to change in fashion trend, which created stronger demand for denim garment products with higher stretchability.

Revenue by target market of end products

Our denim products are mainly used by our customers, who are principally garment manufacturers, as production materials for manufacturing denim garments for retail apparel brands. The following table sets out breakdown of our revenue by the target market segment of the denim garment products for the years indicated:

	Year ended 31 December					
	2015		2016	2016		
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Women's apparel	307,581	76.8	280,743	59.1	323,775	49.9
Men's apparel	43,956	11.0	136,464	28.7	220,797	34.1
Kids' apparel	585	0.1	2,251	0.5	2,595	0.4
Garment manufacturers Note	13,374	3.3	15,940	3.4	73,512	11.3
Kurabo Industries Note	35,060	8.8	39,641	8.3	27,540	4.2
	400,556	100.0	475,039	100.0	648,219	100.0

Note: Target market of denim garment products for such sales cannot be ascertained/were not disclosed by our customers due to commercial reasons.

Majority of our products sold are used for the production of women's apparel products, which accounted for 76.8%, 59.1% and 49.9% of our revenue for FY2015, FY2016 and FY2017. Revenue contributed from these sales decreased by 8.7% from HK\$307.6 million for FY2015 to HK\$280.7 million for FY2016, and then increased by 15.3% to HK\$323.8 million in FY2017.

Revenue contributed from sales of products for men's apparel market increased by HK\$92.5 million, or 210.5%, from HK\$44.0 million for FY2015 to HK\$136.5 million for FY2016, and further increased by HK\$84.3 million, or 61.8%, to HK\$220.8 million for FY2017. Such increase was primarily due to the fact that male consumers have become more receptive towards stretchable jeans than before.

Sales to garment manufacturers (FY2015: HK\$13.4 million, FY2016: HK\$15.9 million, FY2017: HK\$73.5 million) were denim fabrics for use of making denim garment products for their own customers (with which we have no business relationship).

The remaining 8.8%, 8.3% and 4.2% of our revenue during the same period, respectively, was derived from sales to Kurabo Industries, our joint venture partner which, to the best knowledge of our Directors, procures and sells our denim fabrics which are manufactured to their required specifications and standards.

Cost of sales

Cost of sales primarily consist of (i) raw materials; (ii) subcontracting cost; (iii) direct labour; (iv) utilities; (v) depreciation of property, plant and equipment; and (vi) other production costs.

The following table sets out a breakdown of our cost of sales for the years indicated:

	Year ended 31 December						
	2015		2016		2017		
	HK\$'000	%	HK\$'000	%	HK\$'000	%	
Cost of raw materials	197,042	67.0	224,220	68.4	309,341	71.0	
Subcontracting costs	81,376	27.7	88,047	26.9	97,276	22.3	
Direct labour	7,123	2.4	8,251	2.5	15,498	3.6	
Utilities	4,826	1.6	4,433	1.4	7,051	1.6	
Depreciation of property, plant and							
equipment	2,259	0.8	2,032	0.6	5,262	1.2	
Others	1,485	0.5	708	0.2	974	0.2	
	294,111	100.0	327,691	100.0	435,402	100.0	

Cost of raw materials, to a large extent, consist of cost of yarn and, to a lesser extent, colour dye and chemical for the finishing process during the production of denim fabric.

Subcontracting costs consist of costs we incurred from outsourcing part of our manufacturing processes, including dyeing, weaving and some of the finishing processes.

Direct labour expenses represented salaries for our labour involved in our in-house production processes. Before Hing Shing (which handled dyeing and finishing processes) became an indirect wholly-owned subsidiary of our Company pursuant to the acquisition of an aggregate of 57% shareholding interests in Kingshine Investments by our Controlling Shareholders in July 2017 and the Reorganisation, we only had the weaving processes handled in house. The dyeing and finishing as well as some of the weaving processes were handled by Hing Shing as a subcontractor and other third party subcontractors.

Utilities primarily represented electricity, water and steam consumed throughout our production process.

Depreciation primarily related to plant and machinery, and buildings for production use.

Other costs primarily comprise repair and maintenance, and other miscellaneous expenses.

Gross profit and gross profit margin

Our gross profit increased by HK\$40.9 million, or 38.4%, from HK\$106.4 million for FY2015 to HK\$147.3 million for FY2016 as our revenue grew by 18.6% during the same period. Our gross profit further increased by HK\$65.5 million, or 44.4%, to HK\$212.8 million for FY2017 as our revenue rose by 36.5% during the same period.

During the Track Record Period, our gross profit grew at a rate faster than our revenue mainly because of (i) the change in our sales mix, where we sold more higher margin denim fabrics, namely the stretchable blended denim fabric (which accounted for 48.1% of the total revenue in FY2015 and 80.1% in FY2017), than other denim fabrics; and (ii) the increase in our overall gross margin (from 26.6% in FY2015 to 32.8% in FY2017). During the Track Record Period, notwithstanding that the stretchable blended denim fabric had a similar average selling price like other denim fabrics, we recorded a higher gross margin in selling such fabric because stretchable blended denim fabric which has a lower fabric unit weight as compared to other types of denim fabrics, requires less amount of yarns to manufacture the same yardage of fabric resulting in a higher margin.

Analysis of gross profit and gross profit margin by product types

The following table sets forth a breakdown of our gross profit and gross profit margin by product types for the years indicated:

		Y	Year ended 31	December		
	2015		2016		2017	
		Gross		Gross		Gross
	Gross	profit	Gross	profit	Gross	profit
	profit	margin	profit	margin	profit	margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Stretchable:						
- Stretchable cotton denim fabrics	36,260	26.0	27,774	25.1	21,959	24.8
— Stretchable blended denim fabric	54,603	28.4	106,341	34.4	181,311	34.9
Non-stretchable:						
- Non-stretchable denim fabrics	15,569	23.0	13,225	23.9	9,337	24.0
Others	13	2.0	8	2.0	210	13.3
	106,445	26.6	147,348	31.0	212,817	32.8

During the Track Record Period, gross margins for stretchable cotton and non-stretchable denim fabrics were relatively stable, while stretchable blended denim fabric registered increase in gross margin from 28.4% in FY2015 to 34.9% in FY2017. Such increase in the gross margin for stretchable blended denim fabric was due to a number of reasons: (i) the price of synthetic fibre had an overall drop of around 6%-8% in FY2016 as a result of lower oil price, which helped lower our raw materials cost; (ii) as our sales volume of stretchable blended denim fabric grew in FY2016 and FY2017, we managed to negotiate a relatively lower unit subcontracting cost with our subcontractors as compared to FY2015;

and (iii) absence of extra subcontracting fees paid for meeting short notice delivery schedule in FY2016 and FY2017 — in FY2015, we had ordered a batch of yarns which arrived late and as a result, we needed to incur extra subcontracting charge to our subcontractors to speed up the production in order to meet the relevant garment manufacturer's delivery schedule.

Other income

The following table sets out the breakdown of our other income for the years indicated:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Interest income from bank deposits	2,822	1,206	1,031	
Imputed interest income on amounts due from				
related companies	13,602	20,169	20,383	
Services income from a joint venture ⁽¹⁾	5,400	5,400	5,400	
Rental income	639	_	_	
Storage income	380	420	420	
Others ⁽²⁾	51	13		
	22,894	27,208	27,234	

Notes:

- (1) Service income from a joint venture represents income charged to KDIL for the provision of management service including the use of premises, office equipment, utilities, facilities and consumables.
- (2) Others comprise income from insurance claim and miscellaneous income.

Imputed interest income on amounts due from related companies represents imputed interest recognised on non-current amount due from related companies, which are interest free, unsecured and repayable on demand. These balances were carried at amortised cost using the effective interest method at an effective interest rate of 8.0% per annum throughout the Track Record Period.

Service income from a joint venture represents income from KDIL for the provision of management service including the use of premises, office equipment, utilities, facilities and consumables. Rental income represents income from an independent third party for renting of investment properties held by us, which were disposed of during December 2015. Storage income represents income received from one of our customers for storage space provided to it for certain products on hold for delivery.

Other gains (losses)

The following table sets out the breakdown of our other gains or losses for the years indicated:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Impairment losses (recognised) reversed on trade				
receivable	(140)	87	(169)	
Gain on disposal of properties	42,619	_	_	
Gain on disposal of production facilities and motor				
vehicles	5,674	535	1,876	
Net foreign exchange gains (losses)	(4,211)	(1,978)	698	
Others ^{Note}	548	(942)	125	
	44,490	(2,298)	2,530	

Note: Others comprise compensation received from customers for cancelled orders, donation made and miscellaneous gains or losses.

Gain on disposal of properties amounting to HK\$42.6 million in FY2015 arose from the disposal of several properties located in Hong Kong to a related company owned by our Controlling Shareholders, at a consideration of HK\$74.3 million.

The net foreign exchange gain or loss primarily consisted of exchange gain or loss arose from bank balances dominated in RMB held by us, whilst our functional currency is in US dollars. RMB exhibited a general depreciation trend against US dollars during 2015 and 2016, and a general appreciation trend against US dollars during 2017, as a result of which, we recorded a net foreign exchange loss of HK\$4.2 million, HK\$2.0 million and a gain of HK\$0.7 million for FY2015, FY2016 and FY2017, respectively.

Selling and distribution expenses

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

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Delivery and export related expenses	4,378	5,979	7,591	
Royalty fee	3,123	3,923	4,680	
Travelling expenses	3,666	3,689	4,322	
Staff costs	1,105	1,923	5,862	
Commission expenses	_	1,245	1,587	
Exhibition and business development expenses	568	1,012	445	
	12,840	17,771	24,487	

Delivery and export related expenses represent the costs incurred in delivering our products to customers mainly located in Hong Kong, PRC, Bangladesh and Vietnam.

Royalty fee represents fee paid to Kurabo for the use of "Kurabo Denim" trademark, which is calculated at 0.95% of the value of the products sold by our Group. Please see "Business — Relationship with our Japanese joint venture partner" for further details of the arrangement.

Travelling expenses mainly represent costs incurred by our sales and marketing senior management members for business travel to U.S. for the negotiation of business and participating in trade show and industry exhibitions.

Commission expenses represent fees paid to a U.S. sales agent calculated with reference to the HK\$56.6 million of products sold to customers referred by such agent.

Administrative expenses

The following table sets forth a breakdown of the key components of our administrative expenses for the years indicated:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Staff costs	20,338	23,764	33,447	
Product development expenses	5,816	1,404	1,150	
Bank charges	1,860	2,547	2,474	
Entertainment expenses	4,829	5,847	7,274	
Depreciation and amortisation expenses	5,072	4,400	4,088	
Office and rental expenses	5,979	5,641	8,651	
Others	1,354	1,254	2,773	
	45,248	44,857	59,857	

Note: Others comprise repair and maintenance expenses and miscellaneous expenses.

Product development expenses represent cost incurred for testing and production of sample denim fabrics for apparel brands in order to demonstrate the quality and characteristic of our fabrics.

Bank charges mainly include bank service fees paid to banks in respect of handling letters of credit provided by customers.

Depreciation and amortisation expenses mainly comprise depreciation expenses of buildings and motor vehicles for administration use, and amortisation of prepaid lease payments for the land we own.

Office and rental expenses primarily consist of rental expenses incurred for our Hong Kong office and expenses incurred for the implementation of our enterprises management system.

Share of profit (loss) of a joint venture

Our share of result of a joint venture represents our proportion of the net profit or loss in our joint venture, namely KDIL. We shared a profit of HK\$29,000, a loss of HK\$35,000 and a profit of HK\$45,000 for FY2015, FY2016 and FY2017, respectively from the joint venture. Please see note 20 of "Appendix I — Accountants' report" for further details on our interest in KDIL.

Finance costs

Our finance costs represent interest expenses on bank borrowings and obligations under finance leases. The following table sets out a breakdown of our finance costs for the years indicated:

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Interest expenses on:				
Bank borrowings	702	545	1,153	
Finance leases	98	94	119	
	800	639	1,272	

The bank borrowings are mainly used for (i) financing the working capital of our Group; (ii) purchases of production facilities; and (iii) acquisition of Kingshine Investments. The borrowings were subject to interest ranging from 1.11% to 2.42% per annum during the Track Record Period. Interest rates of finance leases are fixed at respective contract dates ranging from 2.50% to 4.37% per annum.

Income tax expense

Income tax expenses represent our total current and deferred tax expenses. The current taxes are calculated based on taxable profits at the applicable tax rates for the relevant years. Deferred tax is recognised based on temporary differences associated with depreciation of property, plant and machinery.

The following table sets forth a breakdown of our current and deferred tax expenses for the years indicated. During the Track Record Period and up to the Latest Practicable Date, we had fulfiled all our tax obligations and did not have any unresolved tax disputes.

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Hong Kong profits tax:				
Current tax	9,656	15,629	21,139	
PRC EIT:				
Current tax	1,813	1,361	3,881	
Under provision in prior years	42	8	43	
Income tax expenses (excluding deferred tax)	11,511	16,998	25,063	
Deferred tax	(503)	108	154	
	11,008	17,106	25,217	

While our income tax expenses (excluding deferred tax) amounted to HK\$11.5 million, HK\$17.0 million and HK\$25.1 million for FY2015, FY2016 and FY2017, respectively, the actual payments of income tax made by our Group (as per the combined statements of cash flows) for the respective years were HK\$4.3 million, HK\$1.9 million and HK\$18 million, respectively. The following table sets out a breakdown of our actual payments of income tax made by our Group for the years indicated:

	Year ended 31 December		
	2015 2016		2017
	HK\$'000	HK\$'000	HK\$'000
Payment of Hong Kong profits tax:			
Final tax assessed	$122^{(Note\ l)}$	(Note 4)	6,258 ^(Note 5)
Provisional tax for previous year	1,203 ^(Note 2)	_	6,258 ^(Note 5) 9,766 ^(Note 6)
Provisional tax for current year	1,816 ^(Note 3)	_	_
Payment of EIT	1,160	1,894	1,955
	4,301	1,894	17,979

Notes:

- (1) The amount represented the payment of final assessed Hong Kong profits tax for FY2013.
- (2) The amount represented the payment of provisional Hong Kong profits tax for FY2014.
- (3) The amount represented the payment of provisional Hong Kong profits tax for FY2015.
- (4) As the provisional Hong Kong profits tax for FY2014 paid by our Group in prior year was larger than the final assessed Hong Kong profits tax for the same year, no further payment was made for the final assessed Hong Kong profits tax for FY2014.
- (5) The amount represented the payment of final assessed Hong Kong profits tax for FY2015.
- (6) The amount represented the payment of provisional Hong Kong profits tax for FY2016.

The difference between our income tax expenses and the actual income tax payments for each of the respective years was mainly due to the time lag between the recognition of income tax expenses in our combined financial statements and the actual payments of such income tax expenses as finally assessed by the relevant tax authorities. In the case of Hong Kong, there is usually a time lag of about 12 months between the recognition of Hong Kong profits tax and the payments of such tax amount. In the case of PRC, EIT are paid on a quarterly basis and the final assessed amount of EIT for a financial year would be concluded by the local tax authority after the submission of the audited financial statements. In the event that the payment of EIT (sum of the four quarters) for a financial year is less than the final amount assessed by the local tax authority, our PRC subsidiaries have to pay the shortfall accordingly.

PRC

Our two subsidiaries established in the PRC were subject to PRC enterprise income tax rate at 25% during the Track Record Period.

Hong Kong

Our Hong Kong incorporated subsidiary was subject to Hong Kong profits tax rate at 16.5% during the Track Record Period.

Other Jurisdictions Tax

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Our effective tax rate for FY2015, FY2016 and FY2017 was 9.6%, 15.7% and 16.6%, respectively. The lower effective tax rate for FY2015 was due to the non-taxable capital gain from disposal of several properties situated in Hong Kong in the sum of HK\$42.6 million. After excluding such gain from the profit before tax, our effective tax rate for FY2015 would be 15.2%. Effective tax rate in FY2017 further increased to 16.6% mainly attributable to the non-deductible Listing expenses of HK\$5.3 million incurred during the year. The effective tax rate would be 16.1% for FY2017 if the Listing expenses were excluded.

YEAR TO YEAR COMPARISON OF RESULTS OF OPERATIONS

Comparison between the years ended 31 December 2016 and 2017

Revenue

Our revenue increased from HK\$475.0 million to HK\$648.2 million for each of FY2016 and FY2017, respectively, representing a significant increase of HK\$173.2 million, or a 36.5% year on year growth. Such revenue growth was resulted from the increase in total sales volume by 7.4 million yards, or 36.9%, from 20.0 million yards for FY2016 to 27.3 million yards for FY2017, while our average selling price remained relatively stable at HK\$23.8 and HK\$23.7 for FY2016 and FY2017, respectively.

Stretchable cotton denim fabrics

Revenue generated from sales of stretchable cotton denim fabrics decreased by 20.1% from HK\$110.6 million for FY2016 to HK\$88.4 million for FY2017, which was mainly because of a decrease in sales volume from 4.8 million yards for FY2016 to 3.7 million yards for FY2017, partially offset by an increase in average selling price from HK\$23.3 per yard for FY2016 to HK\$23.9 for FY2017. The decrease in sales volume was primarily owing to the fact that more customers switched to use stretchable blended denim fabrics, which have better physical properties, including softer, higher stretchability, higher elongation, compared to stretchable cotton denim fabrics.

Stretchable blended denim fabrics

Revenue generated from sales of stretchable blended denim fabrics increased by 68.1% from HK\$308.9 million for FY2016 to HK\$519.3 million for FY2017, driven by an increase in sales volume of 9.2 million yards, from 12.8 million yards for FY2016 to 21.9 million yards for FY2017. The increase in sales volume was mainly because more apparel brands chose to use stretchable blended denim fabric for making men's denim garment products. Two of our top retail apparel brands together contributed growth in sales volume of stretchable blended denim fabrics of 6.7 million yards, accounting for 73.5% of the growth in this segment.

Non-stretchable denim fabrics

Revenue generated from sales of non-stretchable denim fabrics decreased by 29.5% from HK\$55.2 million for FY2016 to HK\$38.9 million for FY2017, with a drop in sales volume from 2.4 million yards for FY2016 to 1.7 million yards for FY2017. The decrease in sales volume was mainly because stretchable denim fabrics substituted non-stretchable denim fabrics in recent years due to their versatile fabric properties.

Cost of sales

Our cost of sales increased from HK\$327.7 million for FY2016 to HK\$435.4 million for FY2017 by HK\$107.7 million or by 32.9%. The increase was in line with the growth in our sales of 36.5% for FY2017.

Gross profit and gross profit margin

Our gross profit increased by HK\$65.5 million, or 44.4%, from HK\$147.3 million for FY2016 to HK\$212.8 million for FY2017, as a result of the growth in revenue of HK\$173.2 million.

Our gross profit margin increased from 31.0% for FY2016 to 32.8% for FY2017 primarily due to increase in our sales of stretchable blended denim fabrics, which are of higher gross profit margin (FY2016: 34.4%, FY2017: 34.9%) compared to our other products. Contribution of sales of stretchable blended denim fabrics to our total revenue increased from 65.0% for FY2016 to 80.1% for FY2017.

Other income

Our other income remained relatively stable at HK\$27.2 million and HK\$27.2 million, for each of FY2016 and FY2017, respectively.

Other gains (losses)

We had other gains amounting to HK\$2.5 million for FY2017, as compared to other losses of HK\$2.3 million for FY2016. Due to continuous appreciation of RMB against US dollars during FY2017, we recorded foreign exchange gain of HK\$0.7 million on our RMB denominated fixed deposit, whilst we had foreign exchange losses of HK\$2.0 million in FY2016. Furthermore, we recorded gain on disposal of production facilities and motor vehicles of HK\$1.9 million for FY2017, representing an increase of HK\$1.4 million from FY2016.

Selling and distribution expenses

Our selling and distribution expenses increased by 37.8% from HK\$17.8 million for FY2016 to HK\$24.5 million for FY2017, which was attributable to (i) rise in delivery and export related expenses of HK\$1.6 million, following our sales growth in FY2017; and (ii) HK\$3.8 million pay increase to our Director who is in charge of marketing in FY2017.

Administrative expenses

The increase in administrative expenses by HK\$15.0 million, or 33.4%, from HK\$44.9 million for FY2016 to HK\$59.9 million for FY2017, was mainly driven by (i) HK\$4.9 million pay increase to two of our executive Directors in charge of our daily operation; (ii) our increase in staff salaries by HK\$4.8 million mainly as a result of growth in average number of our administrative personnel from 62 for FY2016 to 94 for FY2017 after acquisition of Kingshine Investments in July 2017; and (iii) increase in our office and rental expenses as a result of additional cost incurred for implementation of our new enterprise management system.

Share of profit (loss) of a joint venture

Our share of profit or loss of a joint venture increased from a share of loss of HK\$35,000 for FY2016 to a share of profit of HK\$45,000 for FY2017 as net profit of our joint venture, KDIL increased in FY2017.

Finance costs

Our finance costs increased by HK\$0.6 million or 99.1% from HK\$0.6 million for FY2016 to HK\$1.3 million for FY2017 as a result of the additional bank borrowings made during FY2017 primarily for the replacement of production facilities and acquisition of Kingshine Investments, which increased bank borrowings from HK\$37.5 at the end of FY2016 to HK\$80.6 at the end of FY2017.

Income tax

Our income tax expenses increased by HK\$8.1 million or 47.4% from HK\$17.1 million for FY2016 to HK\$25.2 million for FY2017 mainly because of increase in profit before tax from HK\$109.0 million for FY2016 to HK\$151.7 million for FY2017.

Profit for the year

As a result of the growth in our gross profit by HK\$65.5 million, our profit for the year increased by HK\$34.6 million, or 37.7%, from HK\$91.9 million to HK\$126.5 million for each of FY2016 and FY2017, respectively.

Comparison between the years ended 31 December 2015 and 2016

Revenue

Our total revenue increased from HK\$400.6 million for FY2015 to HK\$475.0 million for FY2016, representing an increase of HK\$74.5 million, or a 18.6% year on year growth. Our sales volume increased by 3.3 million yards, or 19.6%, from 16.7 million yards for FY2015 to 20.0 million yards for FY2016.

Stretchable cotton denim fabrics

Revenue generated from sales of stretchable cotton denim fabrics decreased by 20.8% from HK\$139.6 million for FY2015 to HK\$110.6 million for FY2016, with a decrease in sales volume from 5.9 million yards for FY2015 to 4.8 million yards for FY2016 and a 2.2% decrease in average selling price from HK\$23.8 per yard for FY2015 to HK\$23.3 for FY2016. Our Directors consider that the decrease in sales volume was a result of more apparel brands switching to use stretchable blended denim fabrics, which have better physical properties, including softer, higher stretchability, higher elongation, as compared to stretchable cotton denim fabrics.

Stretchable blended denim fabrics

Revenue generated from sales of stretchable blended denim fabrics increased by 60.4% from HK\$192.6 million for FY2015 to HK\$308.9 million for FY2016, with an increase in sales volume from 7.8 million yards for FY2015 to 12.8 million yards for FY2016. The increase in sales volume was primarily because of (i) growth in demand for stretchable denim garment products in the men's apparel market; sales of denim fabric attributable to men's fashion increased by around 210.5% from HK\$44.0 million for FY2015 to HK\$136.5 million for FY2016; and (ii) general increase in demand for stretchable blended denim fabric products in other denim garment product segments. As a result, we were able to generate more orders from existing customers with the top apparel brand increased its procurement from us by 4.6 million yards as compared to FY2015.

Non-stretchable denim fabrics

Revenue generated from sales of non-stretchable denim fabrics decreased by 18.4% from HK\$67.7 million for FY2015 to HK\$55.2 million for FY2016. Sales volume dropped from 3.0 million yards for FY2015 to 2.4 million yards for FY2016. The decrease in sales volume was mainly because of the significant increase in demand for stretchable denim fabrics, which substituted non-stretchable denim fabrics in recent years.

Cost of sales

Our cost of sales increased by HK\$33.6 million, or 11.4%, from HK\$294.1 million FY2015 to HK\$327.7 million for FY2016, respectively. Such increase was mainly attributable to the 18.6% increase in our sales volume.

Our cost of sales had a smaller increase than our sales volume was mainly owing to (i) change in sales mix — stretchable blended denim fabric which had a higher gross margin than other fabric types, accounted for 65.0% of the sales volume for FY2016 as compared to 48.1% for FY2015; and (ii) in order to make up the time loss due to delay in the yarn shipment, we had to incur extra subcontracting charges in the amount of HK\$2.4 million to speed up the production process for an order placed by our top apparel brand so as to meet the delivery schedule in FY2015.

Gross profit and gross profit margin

Our gross profit increased by HK\$40.9 million, or 38.4%, from HK\$106.4 million for FY2015 to HK\$147.3 million for FY2016. Our gross profit margin also increased from 26.6% to 31.0%.

Increase in our gross profit margin was mainly due to (i) increase in sales of stretchable blended denim fabrics (of which the gross margin was 28.4% for FY2015 and 34.4% for FY2016), from HK\$192.6 million for FY2015 (which accounted for 48.1% of our total revenue of FY2015) to HK\$308.9 million for FY2016 (which accounted for 65.0% of our total revenue of FY2016).

Other income

Our other income increased by HK\$4.3 million or 18.8% from HK\$22.9 million for FY2015 to HK\$27.2 million for FY2016 primarily due to the net effect of (i) increase of HK\$6.6 million in imputed interest income on amounts due from related companies as the average balance of amounts due from related companies rose in FY2016 compared to FY2015 after the disposal of investment properties to a related company in December 2015; and (ii) decrease in interest from bank deposits of HK\$1.6 million as a result of the decrease in cash and cash equivalents denominated in RMB.

Other gains (losses)

Our other gains decreased by HK\$46.8 million from gains of HK\$44.5 million for FY2015 to losses of HK\$2.3 million for FY2016. The decrease in other gains was mainly attributable to (i) non-recurring gain on disposal of properties in FY2015 amounting to HK\$42.6 million, which was related to disposal of several properties located in Hong Kong to a related company owned by our Controlling Shareholders, at a consideration of HK\$74.3 million; and (ii) decrease in net foreign exchange losses from HK\$4.2 million for FY2015 to HK\$2.0 million for FY2016 because we reduced our fixed deposits denominated in RMB from HK\$79.9 million in FY2015 to HK\$3.4 million in FY2016 while RMB exhibited a general depreciation trend against US dollars in FY2015 and FY2016.

Selling and distribution expenses

Our selling and distribution expenses increased by HK\$4.9 million or 38.4% from HK\$12.8 million for FY2015 to HK\$17.8 million for FY2016 as we started to engage a U.S. sales agent from FY2016 with commission expenses amounting to HK\$1.2 million to assist us in procuring orders from and to maintain business relationships with apparel brands. We also incurred additional delivery expenses of HK\$1.6 million as more shipments were made to overseas customers compared to FY2015.

Administrative expenses

Our administrative expenses remained relatively stable at HK\$44.9 million for FY2016, representing a slight decrease of HK\$0.4 million from HK\$45.2 million for FY2015. Such decrease was mainly as a result of the net effect of (i) HK\$1.3 million pay increase to two of our executive Directors in charge of our daily operation; (ii) growth in our staff costs of HK\$2.1 million attributable to general increase in monthly salary of our administrative personnel in FY2016; and (iii) drop in our product development expenses of HK\$4.4 million from HK\$5.8 million for FY2015 to HK\$1.4 million for FY2016.

Our product development expenses are incurred for the development and production of denim fabric samples, which are used to solicit interest from apparel brands. Additional product development expenses were incurred in FY2015 because of our strategy to promote stretchable denim fabric in men's apparel market, which translated into growth in sales in products for men's apparel market in FY2016.

Share of profit (loss) of a joint venture

Decrease of our share of profit of a joint venture from HK\$29,000 for FY2015 to a share of loss of HK\$35,000 for FY2016 was due to decrease in net profit of our joint venture, KDIL in FY2016.

Finance costs

Our finance costs decreased by HK\$0.2 million or 20.1% from HK\$0.8 million for FY2015 to HK\$0.6 million for FY2016 primarily due to the decrease in interest expenses on bank borrowings by HK\$0.2 million as we repaid bank loan of HK\$40.8 million in FY2015.

Income tax

Our income tax expenses increased by HK\$6.1 million or 55.4% from HK\$11.0 million for FY2015 to HK\$17.1 million for FY2016 primarily due to increase in profit before tax after excluding non-taxable gain on disposal of several properties, from HK\$72.4 million for FY2015 and HK\$109.0 million for FY2016.

Profit for the year

Profit for the year decreased by HK\$12.1 million or 11.7% from HK\$104.0 million for FY2015 to HK\$91.9 million for FY2016 primarily due to the absence of one-off gains of HK\$42.6 million from the disposals of several properties located in Hong Kong to a related company owned by our Controlling Shareholders.

NON-HKFRS MEASURE

To supplement our combined financial statements which are presented in accordance with HKFRS, we also use adjusted profit as an additional financial measure, which is not required by, or presented in accordance with, HKFRS. We believe that such non-HKFRS measure facilitates comparisons of our operating performance from period to period by eliminating the potential financial impacts derived from items that our management do not consider to be relating to our ordinary course of business and indicative of our operating performance. We believe that this measure provides useful information to investors and others in understanding and evaluating our combined results of operations. The use of this non-HKFRS measure has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for analysis of, our results of operations or financial condition as reported under HKFRS.

The following table shows the reconciliation between the profit for the year as presented in accordance with HKFRS and the non-HKFRS adjusted profit. Information below is primarily derived from our Group's combined statements of profit or loss and other comprehensive income and notes 7 and 8 of the Accountants' Reports in Appendix I to this prospectus.

Voor anded 21 December

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Profit and total comprehensive income for			
the year as per the Accountants' Report			
in Appendix I to this prospectus	103,962	91,850	126,478
Adjusted for:			
Imputed interest income on amounts due from			
related companies	(13,602)	(20,169)	(20,383)
Gross rental income from investment properties	(639)	_	_
Gain on disposal of investment properties	(14,654)	_	_
Gain on disposal of property, plant and equipment	(33,639)	(535)	(1,876)
Listing expenses			5,315
Non-HKFRS adjusted profit	41,428	71,146	109,534

SUMMARY OF COMBINED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	44,789	56,914	93,415
Prepaid lease payments	1,664	1,611	19,081
Intangible assets	1,683	1,683	5,358
Goodwill			1,184
Interest in a joint venture	4,098	4,063	4,108
Restricted bank deposits	21,708	19,361	19,435
Structured bank deposits		7,800	7,800
Amounts due from related companies	252,103	254,789	
Time and them related companies		20 .,. 05	
Total non-current assets	326,045	346,221	150,381
Current assets			
Inventories	94,669	163,336	212,455
Trade and other receivables	44,545	42,380	77,732
Prepaid lease payments	53	53	647
Amount due from a joint venture			3,495
Amounts due from directors	4,363	14,471	5,380
Structured bank deposits	7,800		5,560
Bank balances and cash	126,046	111,428	153,957
Bank barances and cash	120,040	111,420	133,737
Total current assets	277,476	331,668	453,666
Current liabilities			
Trade and other payables	147,451	152,056	194,624
Amount due to a joint venture	1,417	446	_
Amounts due to related companies	3,119	7,875	739
Amounts due to directors	23,800	1,055	_
Tax liabilities	5,854	20,958	28,042
Obligations under finance leases	1,391	1,105	1,220
Bank borrowings	34,106	37,541	80,616
Total current liabilities	217,138	221,036	305,241
Net current assets	60,338	110,632	148,425
Total assets less current liabilities	386,383	456,853	298,806

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities			
Obligations under finance leases	1,214	109	1,153
Deferred tax liabilities	1,914	2,022	7,166
Total non-current liabilities	3,128	2,131	8,319
Net assets	383,255	454,722	290,487
Capital and reserves			
Share capital	1,510	1,510	1,605
Reserves	381,745	453,212	288,882
Equity attributable to owners of			
the Company and total equity	383,255	454,722	290,487

PRINCIPAL FINANCIAL POSITION ITEMS

Property, plant and equipment

Our property, plant and equipment consist of leasehold land and buildings, plant and machinery, motor vehicles, furniture and fixtures and other equipment. As at 31 December 2015, 2016 and 2017, the balance of our property, plant and equipment amounted to HK\$44.8 million, HK\$56.9 million and HK\$93.4 million, respectively.

The increase in property, plant and equipment by HK\$12.1 million or 27.0% from 31 December 2015 to 31 December 2016 was primarily attributable to the (i) replacement of 36 old machineries of HK\$16.2 million in relation to the weaving process in August 2016; and (ii) addition of motor vehicles, furniture and fixtures, and other equipment of HK\$1.4 million; which was partially offset by the depreciation of HK\$5.4 million.

Our property, plant and equipment increased by HK\$18.7 million in FY2017 as Hing Shing had become an indirect wholly-owned subsidiary of our Company pursuant to the acquisition of an aggregate of 57% shareholding interests by our Controlling Shareholders and the Reorganisation. In addition, our Group further replaced 36 weaving machineries together with the addition of plant and machinery, motor vehicles, furniture and fixtures, other equipment and leasehold land and buildings with an aggregate balance of HK\$29.7 million during FY2017. Therefore, our property, plant and equipment had eventually increased by HK\$36.5 million to HK\$93.4 million as at 31 December 2017, after deduction of the depreciation of HK\$10.7 million.

Prepaid lease payments

Our prepaid lease payments (including both current and non-current portions) represent the land use rights held by our Group in the PRC. Prepaid lease payments remained at HK\$1.7 million as at 31 December 2015 and 2016. As at 31 December 2017, our prepaid lease payments substantially increased by HK\$18.0 million to HK\$19.7 million, primarily due to the addition of land use right of HK\$18.4 million arising from the acquisition of Kingshine Investments on 7 July 2017.

Interest in a joint venture

The balance represents our equity interest in KDIL, which is owned as to 51% by our Group and as to 49% by Kurabo Industries. Since neither our Group nor Kurabo Industries is in a position to exercise unilateral control over KDIL, our equity interest in KDIL is classified as interest in a joint venture using equity accounting method.

As at 31 December 2015, 2016 and 2017, our interest in a joint venture remained at HK\$4.1 million.

Restricted bank deposits

Our restricted bank deposits represent the deposits placed to a licenced bank in Hong Kong to secure the banking facilities granted by such bank. The balance remained relatively stable at HK\$21.7 million, HK\$19.4 million and HK\$19.4 million as at 31 December 2015, 2016 and 2017, respectively.

Our structured bank deposits represent a note with principal protection at maturity, issued by a member company of a licenced bank in Hong Kong in the principal amount of US\$1 million (equivalent to HK\$7.8 million) linked to LIBOR per annum. As at 31 December 2015, 2016 and 2017, our structured bank deposits remained at HK\$7.8 million.

The following table sets out our structured bank deposits as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current asset:			
— Maturity on 1 September 2016	7,800	_	_
Non-current asset:			
— Maturity on 23 September 2020		7,800	7,800
	7,800	7,800	7,800
	7,000	7,000	7,000

The further details of structured bank deposits were set out in note 21 of the Accountants' report in Appendix I to this prospectus.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. We generally procure raw materials based on confirmed purchase orders from garment manufacturers and procurement projections provided by apparel brands, which generally leaves our raw material inventory at levels sufficient for our two to three months' production on average. We will deliver our finished goods to garment manufacturers based on the delivery schedule provided by apparel brands. As at 31 December 2015, 2016 and 2017, the balances of our inventories amounted to HK\$94.7 million, HK\$163.3 million and HK\$212.5 million, accounting for 34.1%, 49.2%, and 46.8% of our total current assets as at corresponding dates, respectively.

The following table sets out our inventories as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Raw materials	49,679	54,212	52,858
Work in progress	3,149	17,393	23,317
Finished goods	41,841	91,731	136,280
	94,669	163,336	212,455

Our inventories increased by HK\$68.6 million from HK\$94.7 million as at 31 December 2015 to HK\$163.3 million as at 31 December 2016, and further increased by HK\$49.2 million to HK\$212.5 million as at 31 December 2017, primarily due to the substantial growth of the purchase orders placed by garment manufacturers and procurement projections from apparel brands as a result of the increasing demand for the middle-to high-end denim garments in the retail market.

The following table sets out the inventories turnover days for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Inventories turnover days (1)	129.3	143.7	157.5

⁽¹⁾ Inventories turnover days equal to the average balance of inventories at the beginning and the end of the relevant year divided by cost of sales for such year and multiplied by 365 days in the year.

Our inventories turnover days increased from 129.3 days in 2015 to 143.7 days in 2016, and further increased to 157.5 days in 2017, primarily due to the increase in finished goods for the increasing demand for our denim fabrics.

As at 30 April 2018, an aggregate amount of HK\$177.1 million or 83.4% of our inventories as at 31 December 2017 had been used or sold subsequently.

Trade and other receivables

The following table sets out a breakdown of our trade and other receivables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Trade and bills receivables	37,908	29,436	46,113
Less: allowance for doubtful debts	(140)	(53)	(222)
	37,768	29,383	45,891
Prepayments	776	1,533	3,818
Deferred listing expenses	_	_	976
Value-added tax recoverable	4,620	9,729	24,023
Utility and rental deposits	897	1,292	1,676
Others	484	443	1,348
	44,545	42,380	77,732

Trade and bills receivables

Most of our customers settle their purchase by letter of credit, the terms of which normally range from at sight to 120 days. We offer credit periods of 60 days to only three customers who established long business relationship with us and have good payment record.

Our trade and bills receivables decreased by HK\$8.4 million from HK\$37.8 million as at 31 December 2015 to HK\$29.4 million as at 31 December 2016, primarily due to the fact that more customers used letter of credit at sight or with shorter credit terms to settle their purchases. Such balance increased by HK\$16.5 million to HK\$45.9 million as at 31 December 2017, mainly attributable to more sales recognised near the end of FY2017 as compared to the same period of FY2016.

The following table sets out the trade and bills receivables turnover days for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Trade and bills receivables turnover days (1)	32.0	25.8	21.2

⁽¹⁾ Trade and bills receivables turnover days equal to the average balance of trade and bills receivables (net of allowance for doubtful debts) at the beginning and the end of the relevant year divided by revenue for such year and multiplied by 365 days in the year.

The following table sets out the ageing analysis of trade and bills receivables, presented based on the invoice date and net of allowance for doubtful debts as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	23,533	15,190	27,790
31 to 60 days	12,378	9,110	9,275
61 to 120 days	1,725	3,958	5,558
121 to 180 days	84	1,043	3,036
181 to 365 days	48	82	232
	37,768	29,383	45,891

As at 31 December 2015, 2016 and 2017, our trade and bills receivables aged within 120 days accounted for 99.7%, 96.2% and 92.9%, respectively.

The following table sets out the ageing analysis of our trade receivables which are past due but not impaired as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Overdue by:			
Within 30 days	2,519	4,352	1,240
31 to 60 days	55	37	348
61 to 120 days	92	94	2,464
121 to 180 days	39	168	166
181 to 365 days	40	67	185
	2,745	4,718	4,403

As at 31 December 2015, 2016 and 2017, HK\$2.7 million, HK\$4.7 million and HK\$4.4 million of our trade receivables were past due but not impaired, respectively. Our Directors considered that such balance could be recovered.

The following table sets out the movement in the allowance for doubtful debts as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Balances at beginning of the year	_	140	53
Impairment losses recognised on trade			
receivables	140	17	191
Amounts recovered during the year		(104)	(22)
Balances at end of the year	140	53	222

During the Track Record Period, our Group fully provided the impairment for all receivables past due over 365 days. Our allowance for doubtful debts remained relatively stable at HK\$140,000, HK\$53,000 and HK\$222,000 as at 31 December 2015, 2016 and 2017, respectively.

Up to 30 April 2018, an aggregate amount of HK\$44.9 million or 97.9% of our trade and bills receivables as at 31 December 2017 had been settled subsequently.

Value-added tax recoverable

We generate input value-added tax in purchase and output value-added tax in sales of products. When there is an excess of accumulated input value-added tax over accumulated output value-added tax as at the year end, value-added tax recoverable arises. The value-added tax recoverable increased from HK\$4.6 million as at 31 December 2015 to HK\$9.7 million as at 31 December 2016, and further increased to HK\$24.0 million as at 31 December 2017, mainly due to the increase in purchases of raw materials, subcontracting fee and acquisition of new production machinery from FY2015 to FY2017.

The input value-added tax generally could be offset by the output value-added tax resulting from the revenue rendered in the PRC or reimbursed by the local tax authority upon expiry.

Amounts due from related companies/directors

The following table sets out a breakdown of our amounts due from related companies/directors as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Related companies	252,103	254,789	_
Directors	4,363	14,471	5,380
	256,466	269,260	5,380

Our Directors confirm that the amounts due from directors as at 31 December 2017 would be fully settled before the Listing.

Trade and other payables

The following table sets out a breakdown of our trade and other payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Trade and bills payables	122,652	124,927	167,424
Deposits received	14,597	14,597	8,346
Consideration payable for acquisition of			
subsidiaries	_	_	6,840
Advances from customers	1,154	1,102	208
Payroll payables	4,163	4,468	6,186
Others	4,885	6,962	5,620
	147,451	152,056	194,624

Trade and bills payables

Our trade and bills payables mainly relate to the purchase of raw materials from our suppliers and the subcontracting fee. We are usually granted a credit period of 30 days to 180 days by our suppliers and subcontractors. Our trade and bills payables remained relatively stable at HK\$122.7 million and HK\$124.9 million as at 31 December 2015 and 2016, respectively. Such balance rose to HK\$167.4 million as at 31 December 2017, primarily due to the increase in purchase of raw materials as a result of our sales growth.

The following table sets out the ageing analysis of our trade and bills payables as at the dates indicated:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within 30 days	69,043	56,223	78,133
31 to 60 days	28,855	34,558	46,349
61 to 180 days	24,598	34,146	42,942
181 to 365 days	156		
	122,652	124,927	167,424

The following table sets out the trade and bills payables turnover days for the years indicated:

	Year ended 31 December		
	2015	2016	2017
Trade and bills payables turnover days (1)	144.4	137.9	122.5

(1) Trade and bills payables turnover days equal to the average balance of trade and bills payables at the beginning and the end of the relevant year divided by cost of sales for such year and multiplied by 365 days in the year.

With reference to the above, our trade and bills payables turnover days for FY2015, FY2016 and FY2017 were 144.4 days, 137.9 days and 122.5 days, respectively. Our trade and bills turnover days were in line with the credit period granted by our suppliers and subcontractors. As at 30 April 2018, our trade and bills payables as at 31 December 2017 had been fully settled.

Deposits received

The balance mainly represents the deposits received from the top apparel brand we serve to secure our production of denim fabric based on its procurement projections before confirmed purchase orders were actually placed by the apparel brand's garment manufacturer. The deposit amount was approximately equivalent to the cost of such batch of fabric. At the request of the apparel brand, the delivery of such produced fabric was postponed in FY2015 and FY2016, and the deposit balance remained unchanged as at 31 December 2015 and 2016. During FY2017, the apparel brand requested the delivery of such fabric and the deposit balance was reduced to HK\$8.3 million as at 31 December 2017.

Advances from customers

Our advances from customers represent the payment made by our PRC customers. We normally require our PRC customers to pay deposits in advance and to fully settle the remaining balance before or upon delivery. Such balance remained relatively stable at HK\$1.2 million, HK\$1.1 million and HK\$0.2 million as at 31 December 2015, 2016 and 2017, respectively.

Consideration payable for acquisition of subsidiaries

On 7 July 2017, our Group had acquired 25% and 32% equity interest of Kingshine Investments from Ms. A and Mr. B in consideration of HK\$13.4 million and HK\$17.1 million, respectively, and the balance of the consideration would be settled by our Group in instalments. The balance represents the remaining instalments payable in relation to the aforesaid acquisition as at 31 December 2017.

The further details of the acquisition of Kingshine Investments were set out in note 45 of the Accountants' Report in Appendix I to this prospectus.

Payroll payables

Payroll payables relate to the accrued salary and bonus as well as provision for long services payment. Such balance remained relatively stable at HK\$4.2 million, HK\$4.5 million and HK\$6.2 million as at 31 December 2015, 2016 and 2017, respectively.

Others

The balance mainly consists of the amounts of unpaid contributions in respect of our social insurance fund and housing provident fund, interest payable and accruals of general expenses. For the historical non-compliance incidents in relation to social insurance fund and housing provident fund, please see "Business — Legal Compliance — Non-compliance" in this prospectus.

Amounts due to related companies/directors

The following table sets out a breakdown of our amounts due to related companies/directors as at the dates indicated:

		As at 31 December		
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Related companies	3,119	7,875	739	
Directors	23,800	1,055		
	26,919	8,930	739	

Our Directors confirm that the amounts due to related companies as at 31 December 2017 would be fully settled before the Listing.

Tax liabilities

Our tax liabilities represent our Hong Kong profits tax payable and PRC EIT payable. Such balance significantly increased by HK\$15.1 million from HK\$5.9 million as at 31 December 2015 to HK\$21.0 million as at 31 December 2016, primarily due to the provision of current income tax of HK\$17.0 million for FY2016, and partially offset by the income tax paid of HK\$1.9 million during FY2016. The balance further increased by HK\$7.0 million to HK\$28.0 million as at 31 December 2017, primarily due to the provision of current income tax of HK\$25.1 million for FY2017, and partially offset by the income tax paid of HK\$18.0 million during FY2017.

Reserves

The reserve balances included the retained earnings/losses of our subsidiaries in the PRC, namely Hing Shing and/or Hing Tak (the "PRC Subsidiaries"). According to the PRC Company Law, enterprise in the PRC is required to allocate 10% of its after-tax profit to statutory reserve (the "Contribution(s)"), which is not distributable as cash dividends, when such profit is distributed. Our Directors are given to understand that (i) foreign-owned enterprises in the PRC are mandatorily required to make Contributions only when they pay dividends to their shareholders, and such practise is prevalent at present; and (ii) the PRC Subsidiaries can make the Contributions out of their retained earnings at the time when they decided to pay dividends to their shareholders, taking into account the amount that should have been contributed from the after-tax profits for each of the preceding years. As such, the PRC Subsidiaries made no Contribution in the past because they have never paid dividends to their shareholders.

According to our PRC Legal Adviser, there is a lack of clarity with respect to the timing of making the Contributions when after-tax profits of the current year are not distributed pursuant to Article 166 of the PRC Company Law. Thus, while no after-tax profits of the PRC Subsidiaries, if any, have previously been distributed, as none of them has made any Contribution in the past either, each of the PRC subsidiaries may possibly be (1) ordered by the finance bureau at county level and above to make up for the Contribution; and (2) imposed a fine of not more than RMB200,000, pursuant to Article 203 of the PRC Company Law. Accordingly, (i) Hing Tak may be required to make up for the Contributions (in the sum of RMB1.5 million as at 31 December 2017) out of its retained earnings (in the amount of RMB15.4 million as at 31 December 2017) and subject to a maximum fine of RMB200,000; and (ii) Hing Shing is not subject to the requirement of making the Contributions for the years prior to FY2018 as retained losses were recorded at the end of those years. Our Directors are of the view that even if Hing Tak has been ordered to make up for the Contributions and/or such fine has been imposed, the business, financial condition and operating results of our Group will not be materially and adversely affected. Further, our Controlling Shareholders have agreed to indemnify our Group in full against such fines incurred or suffered by our Group, if any.

Up to the Latest Practicable Date, to the best knowledge of our Directors, the PRC Subsidiaries have neither received any notice or demand from relevant government authorities to make the Contribution for the years prior to FY2018, nor been fined for not making the Contributions for the abovementioned years.

PLEDGE OF ASSETS

For details of pledge of assets, please refer to note 42 of the Accountants' Report in Appendix I to this prospectus.

LIQUIDITY AND CAPITAL RESOURCES

Throughout the Track Record Period, we have fulfiled our working capital needs primarily through operating cash flows and bank financing. We derived our cash inflows from operating activities principally from sales of denim fabrics. The sources of our cash outflow from operations mainly included purchase of raw materials, various production costs such as electricity and water, salaries and allowances, selling and distribution expenses and income tax payment. We incurred capital expenditures mainly for the purchase of plant and machinery and motor vehicles and acquisition of Kingshine Investments and Hing Shing. We monitor our working capital positions from time to time to ensure that we maintain sufficient cash resources for our daily operations and capital expenditure needs.

Cash Flows

The following table sets forth the cash flows for the years indicated:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Net cash flows from operating activities	100,133	37,060	72,573
Net cash flows from/(used in) investing activities	14,066	(28,220)	(54,483)
Net cash flows from/(used in) financing activities	(65,918)	(23,228)	23,741
Net change in cash and cash equivalents	48,281	(14,388)	41,831
Cash and cash equivalents at the beginning of the year	77,867	126,046	111,428
Effect of foreign exchange rate changes	(102)	(230)	698
Cash and cash equivalents at the end of the year	126,046	111,428	153,957

Cash flows from operating activities

For FY2017, we had a net cash from operating activities of HK\$72.6 million. Such amount was primarily derived from our profit before income tax expenses generated from our operations of HK\$151.7 million, positively adjusted for (i) depreciation of property, plant and equipment of HK\$10.7 million, and (ii) the increase in trade and other payables of HK\$34.1 million; and negatively adjusted for (i) interest income of HK\$21.4 million, (ii) gain on disposal of property, plant and equipment of HK\$1.9 million, (iii) income tax paid of HK\$18.0 million, (iv) the increase in inventories of HK\$42.6 million, (v) the increase in trade and other receivables of HK\$33.8 million, and (vi) the decrease in amounts due to related companies of HK\$6.9 million.

For FY2016, we had a net cash from operating activities of HK\$37.1 million. Such amount was primarily derived from our profit before income tax expenses generated from our operations of HK\$109.0 million, positively adjusted for (i) depreciation of property, plant and equipment of HK\$5.4 million, (ii) net foreign exchange losses of HK\$2.0 million, (iii) the decrease in trade and other receivables of HK\$3.9 million, (iv) the increase in trade and other payables of HK\$4.6 million, and (v) the increase in amounts due to related companies of HK\$5.0 million; and negatively adjusted for (i) interest income of HK\$21.4 million, (ii) income tax paid of HK\$1.9 million, and (iii) the increase in inventories of HK\$68.7 million.

For FY2015, we had a net cash from operating activities of HK\$100.1 million. Such amount was primarily derived from our profit before income tax expenses generated from our operations of HK\$115.0 million, positively adjusted for (i) depreciation of property, plant and equipment of HK\$6.4 million, (ii) net foreign exchange losses of HK\$4.2 million, (iii) the increase in trade and other payables of HK\$26.7 million, and (iv) the decrease in inventories of HK\$19.0 million; and negatively adjusted for (i) gain on disposal of property, plant and equipment of HK\$33.6 million, (ii) gain on disposal of investment properties of HK\$14.7 million, (iii) interest income of HK\$16.4 million, (iv) income tax paid of HK\$4.3 million, and (v) the increase in trade and other receivables of HK\$2.2 million.

Cash flows from/(used in) investing activities

For FY2017, we had a net cash used in investing activities of HK\$54.5 million, which was primarily due to (i) the repayments to Ex-shareholders of Kingshine Investments of HK\$17.0 million, (ii) the payment for purchases of property, plant and equipment of HK\$26.3 million, (iii) the advance to directors of HK\$9.2 million, (iv) the advance to a joint venture of HK\$3.5 million, and (v) the advances to related companies of HK\$11.8 million; and partially offset by (i) net cash inflow on acquisition of Kingshine Investments of HK\$1.0 million, (ii) interest received of HK\$1 million, (iii) the proceeds on disposal of property, plant and equipment of HK\$3.0 million, and (iv) the repayments from directors of HK\$8.4 million.

For FY2016, we had a net cash used in investing activities of HK\$28.2 million, which was primarily due to (i) the payment for purchases of property, plant and equipment of HK\$17.6 million, (ii) the advances to directors of HK\$11.8 million, and (iii) the advances to related companies of HK\$2.9 million; and partially offset by (i) interest received of HK\$1.2 million, and (ii) the repayments from directors of HK\$1.7 million.

For FY2015, we had a net cash from investing activities of HK\$14.1 million, which was primarily due to (i) the proceeds on disposal of property, plant and equipment of HK\$9.6 million, (ii) the repayments from directors of HK\$24.6 million, and (iii) interest received of HK\$2.8 million; and partially offset by (i) the placement of restricted bank deposits of HK\$4.5 million, (ii) the payment for purchases of property, plant and equipment of HK\$4.1 million, and (iii) the advances to related companies of HK\$14.3 million.

Cash flows from/(used in) financing activities

For FY2017, our net cash from financing activities was HK\$23.7 million, which was mainly due to new bank borrowings raised amounting to HK\$67.4 million; and partially offset by (i) the repayments of bank borrowings of HK\$22.7 million, (ii) the repayment of finance leases of HK\$2.2 million, (iii) the interest paid of HK\$1.3 million, (iv) the prepayments of deferred listing expenses of HK\$1.0 million, and (v) the repayments to directors of HK\$16.4 million.

For FY2016, our net cash used in financing activities was HK\$23.2 million, which was mainly due to (i) the repayment of bank borrowings of HK\$4.5 million, (ii) the repayment of finance leases of HK\$1.4 million, and (iii) the repayments to directors of HK\$22.7 million; and partially offset by new bank borrowings raised amounting to HK\$6.3 million.

For FY2015, our net cash used in financing activities was HK\$65.9 million, which was mainly due to (i) the repayment of bank borrowings of HK\$40.8 million, (ii) the repayment of finance leases of HK\$1.7 million, and (iii) the repayments to directors of HK\$23.1 million.

WORKING CAPITAL

Analysis of net current assets

We recorded net current assets of HK\$60.3 million, HK\$110.6 million, HK\$148.4 million and HK\$184.8 million as at 31 December 2015, 2016 and 2017 and 30 April 2018, respectively. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated:

				As at
	As at 31 December			30 April
	2015	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)
Current assets				
Inventories	94,669	163,336	212,455	211,909
Trade and other receivables	44,545	42,380	77,732	131,982
Prepaid lease payments	53	53	647	654
Amount due from a joint venture	_	_	3,495	_
Amounts due from directors	4,363	14,471	5,380	20,997
Structured bank deposits	7,800	· —	_	_
Bank balances and cash	126,046	111,428	153,957	124,016
Total current assets	277,476	331,668	453,666	489,558
Current liabilities				
Trade and other payables	147,451	152,056	194,624	191,283
Amount due to a joint venture	1,417	446	_	_
Amounts due to related				
companies	3,119	7,875	739	167
Amounts due to directors	23,800	1,055	_	_
Tax liabilities	5,854	20,958	28,042	13,905
Obligations under finance leases	1,391	1,105	1,220	1,125
Bank borrowings	34,106	37,541	80,616	98,232
Tr. 4-1	217 120	221.026	205 241	204 712
Total current liabilities	217,138	221,036	305,241	304,712
NT 4	(0.222	110.622	140 427	104.046
Net current assets	60,338	110,632	148,425	184,846

Our net current assets increased from HK\$60.3 million as at 31 December 2015 to HK\$110.6 million as at 31 December 2016, primarily due to (i) an increase of HK\$68.6 million in inventories; (ii) an increase of HK\$10.1 million in amounts due from directors; and (iii) a decrease of HK\$22.7 million in amounts due to directors, partially offset by (i) a decrease of HK\$7.8 million in structured bank deposits; (ii) a decrease of HK\$14.6 million in bank balances and cash; (iii) an increase of HK\$4.6 million in trade and other payables; (iv) an increase of HK\$4.8 million in amounts due to related companies; (v) an increase of HK\$15.1 million in tax liabilities; and (vi) an increase of HK\$3.4 million in bank borrowings.

Our net current assets increased from HK\$110.6 million as at 31 December 2016 to HK\$148.4 million as at 31 December 2017, primarily due to (i) an increase of HK\$49.2 million in inventories; (ii) an increase of HK\$35.3 million in trade and other receivables; (iii) an increase of HK\$3.5 million in amount due from a joint venture; (iv) an increase of HK\$42.6 million in bank balances and cash; (v) a decrease of HK\$7.2 million in amounts due to related companies; and (vi) a decrease of HK\$1.1 million in amounts due to directors, partially offset by (i) a decrease of HK\$9.1 million in amounts due from directors; (ii) an increase of HK\$42.5 million in trade and other payables; (iii) an increase of HK\$7.0 million in tax liabilities; and (iv) an increase of HK43.1 million in bank borrowings.

Our net current assets increased from HK\$148.4 million as at 31 December 2017 to HK\$184.8 million as at 30 April 2018, primarily due to (i) an increase of HK\$54.3 million in trade and other receivables; (ii) an increase of HK\$15.6 million in amounts due from directors; (iii) a decrease of HK\$3.3 million in trade and other payables; and (iv) a decrease of HK\$14.1 million in tax liabilities, partially offset by (i) a decrease of HK\$3.5 million in amount due from a joint venture; (ii) a decrease of HK\$29.9 million in bank balances and cash; and (iii) an increase of HK\$17.6 million in bank borrowings.

Working capital sufficiency

Taking into account cash and cash equivalents on hand, our operating cash flows, banking facilities available to us and the estimated net proceeds from the Share Offer, our Directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this prospectus.

FINANCIAL RATIOS

	Year ended/as at 31 December		
	2015	2016	2017
Profitability:			
Gross profit margin ⁽¹⁾	26.6%	31.0%	32.8%
Net profit margin ⁽²⁾	26.0%	19.3%	19.5%
Return on assets ⁽³⁾	17.2%	13.5%	20.9%
Return on equity ⁽⁴⁾	27.1%	20.2%	43.5%
Liquidity:			
Current ratio ⁽⁵⁾	1.3 times	1.5 times	1.5 times
Quick ratio ⁽⁶⁾	0.8 times	0.8 times	0.8 times
Solvency:			
Interest coverage ratio ⁽⁷⁾	144.7 times	171.5 times	120.3 times
Net debt to equity ratio ⁽⁸⁾	Net cash	Net cash	Net cash
Gearing ratio ⁽⁹⁾	0.1 times	0.1 times	0.3 times
For illustrative purpose:			
Non-HKFRS adjusted net profit margin (10)	10.3%	15.0%	16.9%
Non-HKFRS adjusted return on assets ⁽¹¹⁾	6.9%	10.5%	18.1%
Non-HKFRS adjusted return on equity ⁽¹²⁾	10.8%	15.6%	37.7%

Notes:

- (1) Gross profit margin = gross profit ÷ revenue x 100%
- (2) Net profit margin = profit for the year ÷ revenue x 100%
- (3) Return on assets = profit for the year \div total assets x 100%
- (4) Return on equity = profit for the year \div total equity x 100%
- (5) Current ratio = total current assets ÷ total current liabilities
- (6) Quick ratio = (total current assets inventories) ÷ total current liabilities
- (7) Interest coverage ratio = profit before finance costs and income tax ÷ finance costs
- (8) Net debt to equity ratio = net debt (i.e. bank borrowings + obligations under finance leases bank balances and cash restricted bank deposits) ÷ total equity x 100%
- (9) Gearing ratio = total debt (i.e. bank borrowings + obligations under finance leases) ÷ total equity x 100%
- (10) Non-HKFRS adjusted net profit margin = non-HKFRS adjusted profit for the year ÷ revenue x 100%
- (11) Non-HKFRS adjusted return on assets = non-HKFRS adjusted profit for the year ÷ total assets x 100%
- (12) Non-HKFRS adjusted return on equity = non-HKFRS adjusted profit for the year ÷ total equity x 100%

Gross profit margin

Our gross profit margin increased from 26.6% for FY2015 to 31.0% for FY2016, and increased further to 32.8% for FY2017. See "Principal Income Statement Components — Gross profit and gross profit margin" in this section for our management discussion and analysis on our gross profit margin during the Track Record Period.

Net profit margin

If one-off gain on disposal of properties of HK\$42.6 million was excluded from the net profit, our net profit margin would grow from 15.3% for FY2015 to 19.3% for FY2016.

Net profit margin in FY2017 remained relatively stable at 19.5%. The slight increase from 19.3% for FY2016 was mainly attributable to the growth in our gross profit margin by 1.8% in FY2017.

Return on assets

Our return on assets decreased from 17.2% for FY2015 to 13.5% for FY2016 but then increased to 20.9% for FY2017. However, if excluding the gains on disposal of properties amounting to HK42.6 million for FY2015, the return on assets would be 10.2% for FY2015.

Significant increase in return on assets for FY2017 was primarily driven by (i) drop in total assets from HK\$677.9 million as at 31 December 2016 to HK\$604.0 million as at 31 December 2017; and (ii) growth in our net profit of HK\$34.6 million. The drop in our total assets by HK\$73.8 million was mainly a result of (i) decrease in amount due from related companies by HK\$254.8 million as such balances have been offset against dividend declared during FY2017; (ii) increase in working capital, including inventories, trade and other receivable and cash and cash equivalents, in supporting the growth in revenue.

Return on equity

Our return on equity declined from 27.1% for FY2015 to 20.2% for FY2016, then reversed to 43.5% in FY2017. The drop in return on equity in FY2016 was mainly attributable to the fact that a non-recurring gains on disposal of properties amounting to HK\$42.6 million was recorded in FY2015, which raised the net profit for the year. If excluding such gains on disposal of properties, the return on equity for FY2015 would be 16.0%. The increase in return on equity for FY2017 was mainly attributable to the growth in net profit by HK\$34.6 million and decrease in equity of HK\$164.2 million primarily as a result of distribution of dividend which was partly offset by profit recognised during the year.

Current ratio

Our current ratio improved from 1.3 times as at 31 December 2015 to 1.5 times as at 31 December 2016 mainly due to increase in inventories of HK\$68.7 million in response to growth in revenue. Our current ratio stayed at 1.5 times as at year ended 31 December 2016 and 2017.

Quick ratio

Our quick ratio remained stable at 0.8 times as at year ended 31 December 2015, 2016 and 2017.

Interest coverage ratio

Our interest coverage ratio increased from 144.7 times for FY2015 to 171.5 times for FY2016, and then decreased to 120.3 times for FY2017. The increase in the ratio for FY2015 was mainly due to decrease in finance costs from HK\$0.8 million for FY2015 to HK\$0.6 million for FY2016, representing a 20.1% drop. The decline in ratio for FY2017 was mainly due to the increase in finance costs from HK\$0.6 million for FY2016 to HK\$1.3 million for FY2017 owing to borrowing made during FY2017 for the acquisition of Kingshine Investments and production facilities.

Gearing ratio

Our gearing ratio remained stable at 0.1 times for FY2015 and FY2016, then increased to 0.3 times in FY2017 due to (i) increase in our bank borrowings by HK\$43.1 million for the acquisition of subsidiaries and production facilities during FY2017; and (ii) decrease in total equities after declaration of dividend during FY2017.

INDEBTEDNESS

The following table sets forth the components of our indebtedness as of the dates indicated.

				As at
	As at 31 December			30 April
	2015	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)
Current liabilities				
Amounts due to related				
companies	3,119	7,875	739	167
Amounts due to directors	23,800	1,055	_	_
Obligations under finance leases	1,391	1,105	1,220	1,125
Bank borrowings	34,106	37,541	80,616	98,232
Subtotal	62,416	47,576	82,575	99,524
Non-current liabilities				
Obligations under finance leases	1,214	109	1,153	773
Total	63,630	47,685	83,728	100,297

Bank borrowings

Our bank borrowings amounted to HK\$34.1 million, HK\$37.5 million, HK\$80.6 million and HK\$98.2 million, as at 31 December 2015, 2016 and 2017 and 30 April 2018, being the latest practicable date for the purpose of indebtedness, respectively. The balance remained relatively stable as at 31 December 2015 and 2016. As at 31 December 2017, our bank borrowings substantially increased to HK\$80.6 million, primarily due to the needs for financing the replacement of new production

machinery and acquisition of Kingshine Investments during FY2017. The balance further increased to HK\$98.2 million as at 30 April 2018, primarily due to the addition of new bank borrowings of HK\$17.6 million for the daily operations.

Our bank borrowings were interest-bearing at floating rates ranging from 1.11% to 2.24%, 1.11% to 2.38%, 1.26% to 2.42% and 2.53% to 2.78% per annum for FY2015, FY2016, FY2017 and four months ended 30 April 2018, respectively. All of our bank borrowings were denominated in HK\$ and secured by bills receivables, structured bank deposits and/or restricted bank deposits and guaranteed by the management of the Group and/or the related companies which are controlled by the Controlling Shareholders. As all of our bank borrowings contain a repayment on demand clause, all balances are classified as current liabilities.

Obligations under finance leases

Our Group had acquired certain motor vehicles under finance lease arrangements, which bear interest at the fixed rates ranging from 2.50% to 4.37% per annum in FY2015, FY2016, FY2017 and up to 30 April 2018. As at 31 December 2015, 2016 and 2017 and 30 April 2018, the balance of our obligations under finance leases (including both current and non-current portions) amounted to HK\$2.6 million, HK\$1.2 million, HK\$2.4 million and HK\$1.9 million, respectively, which were unguaranteed and secured by the lessor's charge over the leased assets. Our obligations under finance leases decreased from HK\$2.6 million as at 31 December 2015 to HK\$1.2 million as at 31 December 2016, mainly due to the repayment of the lease payment of HK\$1.4 million. Such balance increased by HK\$1.2 million as at 31 December 2016 to HK\$2.4 million as at 31 December 2017, mainly due to the addition of finance leases for motor vehicle of HK\$3.4 million, partially offset by the repayment of the lease payment of HK\$2.2 million. Our balance decreased from HK\$2.4 million to HK\$1.9 million as at 30 April 2018, due to the repayment of the lease payment of HK\$0.5 million.

Statement of indebtedness

Our amounts due to related companies amounted to HK\$0.2 million as at 30 April 2018, which were unsecured and unguaranteed.

As at 30 April 2018, we issued financial guarantees to a bank in respect of banking facilities granted to a related company of an amount of HK\$21.7 million.

Save as disclosed herein, we did not have any outstanding debt securities issued and outstanding or authorised or otherwise created but unissued, term loans, other borrowings or indebtedness in the nature of borrowing including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits, hire purchase commitments, mortgages and charges, material contingent liabilities or guarantees outstanding as at 30 April 2018.

During the Track Record Period and up to the Latest Practicable Date, we had not been in violation of any of the covenants pursuant to the applicable agreement we entered with each of the lenders mentioned above. Our Directors confirm that we are not subject to other material covenants under any agreements with respect to any bank borrowings or other loans. Our Directors also confirm that there was no delay or default in the repayment of borrowings during the Track Record Period. Taking into consideration our financial position, our Directors are of the opinion that our capital raising abilities were not materially affected as at 30 April 2018.

As at 30 April 2018, we had unutilised banking facilities of HK\$119.4 million.

CAPITAL EXPENDITURE AND COMMITMENTS

Our capital expenditure primarily comprises purchase of property, plant and equipment and acquisition of subsidiaries. Our capital expenditure was funded by our internal resources and bank borrowings during the Track Record Period. The following table sets forth our Group's capital expenditure during the Track Record Period:

	Y	Year ended 31 December		
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Property, plant and equipment	7,373	17,604	29,658	
Acquisition of subsidiaries			13,488	
	7,373	17,604	43,146	

As at the Latest Practicable Date, we did not have any significant capital commitments.

OPERATING LEASE COMMITMENTS

Our total future minimum lease payments under non-cancellable operating leases are due as follows:

	As at 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Within one year	3,729	2,368	6,240
In the second to the fifth year inclusive	474	1,220	5,626
	4,203	3,588	11,866

CONTINGENT LIABILITIES

As at 31 December 2015, 2016 and 2017, we issued financial guarantees to a bank in respect of banking facilities granted to Star Alliance of an amount of HK\$21.7 million, HK\$21.7 million and HK\$21.7 million, of which HK\$17.1 million, HK\$15.1 million and HK\$20.5 million has been utilised by Star Alliance, respectively. The said guarantees provided by our Group will be released upon Listing.

PROPERTY INTERESTS

Please refer to the section headed "Business — Properties" in this prospectus for further details.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

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

QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISKS

Foreign currency risk

Our functional currency is US\$ as the sales activities and the procurement of raw materials of our Group are mainly denominated in US\$. The management of our Group considers that the exposure of US\$ against HK\$ is limited as HK\$ is pegged to US\$ and our Group is mainly exposed to the currency risk of RMB against US\$. Our exposure to foreign currency risk is primarily related to our financial instruments (such as restricted bank deposits and bank balances and cash) and other production costs (such as subcontracting costs, direct labour and utilities) which are denominated in RMB. During the Track Record Period, the aforesaid other production costs denominated in RMB accounted for approximately 25% to 30% of our total cost of sales. If the RMB appreciates substantially against the US\$, our gross profit as well as gross profit margin would be affected. Our Group currently does not have any foreign currency hedging policy. However, our management will continue to closely monitor its exposure to foreign currency risk and will consider hedging significant foreign currency exposure should the need arise.

Interest rate risk

We are exposed to interest rate risk in relation to restricted bank deposits, structured bank deposits, bank balances and bank borrowings. Fluctuations of prevailing market interest rates would result in interest rate risks to our Group. Our Group currently does not have any interest rate hedging policy. However, our management closely monitors its exposure to interest rate risk as a result of change in market interest rate and will consider hedging changes in market interest rates should the need arise.

Credit risk

Our Group's exposure to credit risk is primarily attributable to the carrying amount of our financial assets as stated in the combined statements of financial position and the amount of contingent liabilities in relation to financial guarantee issued by our Group, which would cause a financial loss to our Group should there is any failure of the counterparties to discharge their obligations.

In order to minimise the credit risk, our management has a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, our Group reviews the recoverable amount of each individual receivable at the end of the reporting periods to ensure that adequate impairment losses are made for irrecoverable amounts. Our Group has concentration of credit risk as 34.89%, 18.71% and 18.90% of the total trade receivables was due from our Group's largest customer and 74.77%, 64.72% and 61.56% of the total trade receivables was due from our Group's five largest customers, as at 31 December 2015, 2016 and 2017, respectively.

Our Group has concentration of credit risk on liquid funds which are deposited with serval banks. However, the credit risk on bank balances is limited because the counterparties are banks with good reputation. In addition, our Group also has concentration credit risk from amounts due from a joint venture, related companies and directors. The management of our Group considers that the credit risk of those balances is limited because they continuously monitor the quality and financial conditions of the respective parties.

Liquidity risk

In order to manage liquidity risk, we maintain a level of cash and cash equivalents we considered adequate to finance our Group's operations and mitigate the effects of fluctuations in cash flows. Our management also monitors the utilisation of bank borrowings and ensures that our Group is in compliance with loan covenants. For details of the maturity profile of our Group's financial liabilities, see Note 40 of the Accountants' Report in Appendix I to this prospectus.

DIVIDENDS

Our Company was incorporated on 3 November 2017 and no dividend was paid or declared by our Company since its incorporation. During the year ended 31 December 2017, an interim dividend of HK\$300 million was declared by HWT to its then shareholders.

We may distribute dividends by way of cash or by other means that we consider appropriate. Our Directors currently intend to declare dividends of no less than 45% of our distributable profit for any particular financial year. Such intention does not amount to any guarantee, representation or indication that we must or will declare and pay dividends in such manner or at all. A decision to declare and pay any dividends would require the approval of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to shareholders' approval. Our Board will review dividend policy from time to time in light of our results of operations, our cash flows, our financial condition, our Shareholders' interest, our capital requirements, the general business conditions and strategies, and other factors our Board may deem relevant in determining whether dividends are to be declared and paid.

Any declaration and payment as well as the amount of dividends will be subject to the Articles and Cayman Companies Law. No dividend shall be declared or paid except out of our distributable profit and funds that are lawfully available for distribution under the Cayman Companies Law.

Our Group further declared a special dividend of HK\$100 million in early May 2018, which was settled by our internal resources by end of the same month.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 3 November 2017 as an investment holding company and had no reserve available for distributions to our Shareholders as at the Latest Practicable Date.

LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 (being the mid-point of the stated range of the Offer Price between HK\$1.10 and HK\$1.40) the total expenses for the Listing (including underwriting fees and commission payable by us) are estimated to be approximately HK\$33.0 million, of which approximately HK\$13.3 million is directly attributable to the issue of the Offer Shares in the Share Offer and to be accounted for as a deduction from equity (none had been accounted for as at 31 December 2017) and approximately HK\$14.4 million is to be charged as administrative expenses to our consolidated statements of comprehensive income for the year ending 31

December 2018 in which the expenses are incurred (HK\$5.3 million had been charged for FY2017). The above total Listing expenses are the latest practicable estimates for reference only, and the final amount to be recognised may differ from these estimates.

RELATED PARTY TRANSACTIONS

We enter into transactions with our related parties from time to time. Our Directors confirm that each of the related party transactions set out in Note 38 of the Accountants' Report in Appendix I to this prospectus were carried out in the ordinary course of business on an arm's length basis and confirm that all non-trade balances and guarantees with related parties will be settled and released upon Listing.

The related party transactions included our subcontracting fees paid to Hing Shing, a then related party, for dyeing and finishing works. Transactions with Hing Shing ceased to be related party transactions with our Group from 7 July 2017 when Hing Shing became an indirect wholly-owned subsidiary of our Company pursuant to the acquisition of an aggregate of 57% shareholding interests by our Controlling Shareholders and the Reorganisation. Our Directors confirm, and the Sole Sponsor concurs after reviewing the market rates of comparable transactions, that those transactions with Hing Shing had been conducted on an arm's length basis and on normal commercial terms.

Our Directors are of the view that the related party transactions, except for imputed interest income on amounts due from related companies and gain on disposal of properties to a related company, did not cause any distortion of our results of operations for the Track Record Period or make our historical results not reflective of our future performance. For better illustration of our Group's profitability, non-HKFRS adjusted profit and total comprehensive income for the year are presented under "Non-HKFRS Measure" in this section by excluding the aforesaid imputed interest income and disposal gain together with certain income and expense items which were not directly attributable to our ordinary course of business.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS

Please see the section headed "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus for further details.

NO MATERIAL ADVERSE CHANGE

Save for the expenses incurred in connection with the Listing, our Directors confirm that, since 31 December 2017 and up to the date of this prospectus, there had been no material adverse change in our financial or trading position and no event had occurred that would materially and adversely affect the information shown in our combined financial statements set out in the Accountants' Report in Appendix I to this prospectus.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Pursuant to Rule 13.18 of the Listing Rules, a general disclosure obligation arises where a listed issuer (or any of its subsidiaries) enters into a loan agreement that includes a condition imposing specific performance obligations on any controlling shareholder, such as a requirement to maintain a specific minimum holding in the share capital of the listed issuer.

Pursuant to the banking facilities granted by a bank in Hong Kong to HWT, one of our subsidiaries, the bank has granted HWT a number of bank loans and overdrafts in the aggregate sum of approximately HK\$117 million. The above banking facilities are subject to renewal by August 2018 and include a repayable on demand clause giving the bank an unconditional right to call the loan at any time. Such banking facilities also contain a condition whereby Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung shall remain to be the controlling shareholder collectively of our Company. This condition constitutes a specific performance obligation by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, three of our Controlling Shareholders, under the banking facilities entered into by our Group under Rule 13.18 of the Listing Rules.

Immediately following the Share Offer (assuming the Over-allotment Option is not exercised), Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung aggregately will be deemed to be interested in approximately 75% of shareholdings in our Company. For further details, please refer to the section headed "Substantial Shareholders" in this prospectus.

Our Directors confirm that, as at the Latest Practicable Date, save as disclosed above, they were not aware of any circumstances which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see "Business — Our Business Strategies" for further details of our future plans.

USE OF PROCEEDS

We estimate that the aggregate net proceeds to us from the Share Offer (after deducting underwriting fees and estimated expenses payable by us in connection with the Share Offer) (the "**Net Proceeds**"), assuming an Offer Price of HK\$1.25, being the mid-point of the indicative Offer Price range, will be approximately HK\$167.0 million, assuming that the Over-allotment Option is not exercised. We currently intend to apply the Net Proceeds in the following manner:

Has of Duccoods	Amount of	% of total
Use of Proceeds	net proceeds	net proceeds
	(HK\$ million)	(%)
To purchase production machinery and equipment		
including (i) weaving, slasher dyeing and shrinking		
lines for increasing our production capacity and		
efficiency; and (ii) ozone bleaching and washing		
machineries for enhancing our product development		
capability (Note 1, 2)	159.1	95.3
To attend overseas and PRC fabric exhibitions for		
enhancing our market penetration and expanding our		
customer base	3.7	2.2
For general working capital and other general corporate		
purposes	4.2	2.5

Notes:

- (1) For further details regarding the increase in our production capacity after completion of all the above purchases, please see "Business Production Our machinery purchase plan".
- (2) Among the purchases, HK\$127.6 million, or 76.4% of the Net Proceeds will be used for the replacement of existing production machinery and equipment. Purchase of new machinery and equipment will require HK\$31.5 million, which accounts for 18.9% of the Net Proceeds.

If the Offer Price is set at the highest or lowest point of the indicative Offer Price range, the Net Proceeds, assuming that the Over-allotment Option is not exercised, will increase to approximately HK\$190.0 million or decrease to approximately HK\$144.0 million, respectively; and in such event, we intend to increase or decrease, respectively, the Net Proceeds to be used for the above purposes on a pro-rata basis.

If the Over-allotment Option is exercised in full, the Net Proceeds will increase to approximately HK\$195.8 million, assuming an Offer Price of HK\$1.25, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the Net Proceeds including the proceeds from the exercise of the Over-allotment Option will increase to

FUTURE PLANS AND USE OF PROCEEDS

approximately HK\$222.3 million or decrease to approximately HK\$169.3 million, respectively; and in such event, we intend to increase or decrease, respectively, the allocation of the Net Proceeds to the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the Net Proceeds are not sufficient to fund the purposes as set forth above, we intend to fund the balance through a variety of means, including cash generated from operations, bank loans and other borrowings, as appropriate. Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that the Net Proceeds of the Share Offer are not immediately required for the above purposes and to the extent permitted by applicable law and regulations, if we are unable to effect any part of our future plans as intended, we may hold such funds in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

REASONS FOR THE SHARE OFFER AND LISTING

We financed our capital expenditures mainly by internal resources and bank loans in the past. As set out in "Use of Proceeds" in this section, we expect to incur capital expenditures in the sum of HK\$159.1 million for acquiring machinery and equipment to cater for the implementation of our future plans from the Latest Practicable Date to the year ending 31 December 2020 (the "Future Plans Period").

We had bank balances and cash in the amount of HK\$124.0 million as at 30 April 2018 and declared a special cash dividend of HK\$100 million in early May 2018. On the other hand, we had unutilised banking facilities of HK\$119.4 million as at 30 April 2018, but the applications of such facilities are mostly restricted to trade or short term working capital financing. Accordingly, our Directors have been considering to open up new financing channels and are of the view that it is in the interests of the Company and its shareholders to finance our future plans by way of the Share Offer and Listing after taking into account the following factors:

- Limited amount of our internal resources and restrictive applications of our existing bank facilities.
- The resultant rise in gearing level and interest expense of our Group by financing the capital expenditures by bank loans may, to the best knowledge of our Directors, undermine our ability in enlarging the trade finance facilities in the future and thus may impede our capability for ongoing business expansion.
- The Listing will broaden our shareholders base and fund raising channels which may enhance our ability in sourcing sufficient capital at competitive costs to facilitate our continuous business development.

FUTURE PLANS AND USE OF PROCEEDS

- Being a listed company on the Main Board will raise our corporate profile and thus our ability in soliciting new businesses with reputable apparel brands in the U.S., Europe and the PRC.
- Our corporate governance and internal control will be strengthened after the Listing which reinforces our foundation for further business expansion.
- The Listing will enable our Company to offer an equity-based incentive program (such as the Share Option Scheme) to motivate and retain our high-performing employees and key management personnel.

PUBLIC OFFER UNDERWRITERS

Shenwan Hongyuan Capital (H.K.) Limited SPDB International Capital Limited I Win Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offering

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, our Company is offering 16,000,000 Public Offer Shares for subscription by the public in Hong Kong on, and subject to, the terms and conditions set out in this prospectus and the Application Forms.

Subject to:

- (a) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked; and
- (b) certain other conditions set out in the Public Offer Underwriting Agreement (including but not limited to the Offer Price being agreed upon between us and the Sole Global Coordinator (for itself and on behalf of the other Underwriters)),

the Public Offer Underwriters have agreed severally, and not jointly, to subscribe for, or procure subscribers for, the Public Offer Shares which are being offered but are not taken up under the Public Offering, on the terms and conditions set out in this prospectus, the Application Forms and the Public Offer Underwriting Agreement. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters), the Share Offer will not proceed and will lapse.

The Public Offer Underwriting Agreement is conditional upon and subject to the Placing Underwriting Agreement having been signed and becoming unconditional and not having been terminated.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares will be subject to termination by notice in writing to our Company from the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters) with immediate effect if any of the following events occur at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator:
 - (i) that any statement contained in any of this prospectus and the Application Forms and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Share Offer (including

any supplement or amendments thereto) (collectively, the "Relevant Documents"), was, when it was issued, or has become, untrue, incorrect, misleading or deceptive in any respect or that any forecast, expression of opinion, intention or expectation expressed in any of the Relevant Documents is not, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters), fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the respective dates of the publication of the Relevant Documents, constitute an omission therefrom; or
- (iii) any breach of any of the obligations imposed or to be imposed upon any party to the Public Offer Underwriting Agreement or the Placing Underwriting Agreement (in each case, other than on the part of any of the Underwriters); or
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of our Company, our executive Directors and our Controlling Shareholders (the "Warrantors") pursuant to the indemnities given by them under the Public Offer Underwriting Agreement or under the Placing Underwriting Agreement; or
- (v) any change or development involving a prospective adverse change in the assets, liabilities, general affairs, management, business prospects, shareholders' equity, profits, losses, results of operations, position or conditions (financial, trading or otherwise) or performance of any member of our Group ("Group Company"); or
- (vi) any breach of, or any event or circumstance rendering untrue or incorrect in any respect, any of the representations, warranties, agreements and undertakings to be given by the Warrantors respectively in terms set out in the Public Offer Underwriting Agreement; or
- (vii) the approval by the Listing Committee of the listing of, and permission to deal in, the Shares (including any additional Shares that may be issued upon the exercise of the Over-allotment Option) is refused or not granted, or is qualified (other than subject to customary conditions), on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (viii) our Company withdraws any of the Relevant Documents or the Share Offer; or
- (ix) any person (other than the Public Offer Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (x) that a petition or an order is presented for the winding-up or liquidation of any Group Company or any Group Company makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the

- winding-up of any Group Company or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any Group Company or anything analogous thereto occurs in respect of any Group Company; or
- (xi) an authority or a political body or organisation in any relevant jurisdiction has commenced any investigation or other action, or announced an intention to investigate or take other action, against any of the Directors and senior management member of the Group as set out in the "Directors and Senior Management" section of this prospectus; or
- (xii) any loss or damage has been sustained by any Group Company (howsoever caused and whether or not the subject of any insurance or claim against any person) which is considered by the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters) in its sole absolute opinion to be material; or
- (b) there shall develop, occur, exist or come into effect:
 - (i) any local, national, regional, international event or circumstance, or series of events or circumstances, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a local, regional, national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases, pandemics or epidemics (including, without limitation, Severe Acute Respiratory Syndrome, avian influenza A (H5N1), Swine Flu (H1N1), Middle East Respiratory Syndrome or such related or mutated forms) or interruption or delay in transportation); or
 - (ii) any change or development involving a prospective change, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change, in any local, regional, national, international, financial, economic, political, military, industrial, fiscal, legal regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets); or

- (iii) any moratorium, suspension or restriction on trading in securities generally (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange; or
- (iv) any new law(s), rule(s), statute(s), ordinance(s), regulation(s), guideline(s), opinion(s), notice(s), circular(s), order(s), judgment(s), decree(s) or ruling(s) of any governmental authority ("Law(s)"), or any change or development involving a prospective change in existing Laws, or any event or circumstance or series of events or circumstances likely to result in any change or development involving a prospective change in the interpretation or application of existing Laws by any court or other competent authority, in each case, in or affecting any of Hong Kong, the PRC, the United States, Cayman Islands, the European Union (or any member thereof) or any other jurisdictions relevant to any Group Company or the Share Offer (the "Specific Jurisdictions"); or
- (v) any general moratorium on commercial banking activities, or any disruption in commercial banking activities, foreign exchange trading or securities settlement or clearance services or procedures or matters, in or affecting any of the Specific Jurisdictions; or
- (vi) the imposition of economic sanctions, in whatever form, directly or indirectly, by or for any of the Specific Jurisdictions; or
- (vii) a change or development involving a prospective change in or affecting taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment Laws (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a material fluctuation in the exchange rate of the Hong Kong dollar or the Renminbi against any foreign currency) in or affecting any of the Specific Jurisdictions or affecting an investment in the Shares; or
- (viii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or
- (ix) any litigation or claim of any third party being threatened or instigated against any Group Company or any of the Warrantors; or
- (x) any of the Directors and senior management member of our Company as set out in the "Directors and Senior Management" section of this prospectus being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his or her office; or

- (xii) the commencement by any governmental, regulatory or political body or organisation of any action against a Director in his or her capacity as such or an announcement by any governmental, regulatory or political body or organisation that it intends to take any such action; or
- (xiii) a contravention by any Group Company or any Director of the Listing Rules, the Companies Ordinance or any other Laws applicable to the Share Offer; or
- (xiv) a prohibition on our Company for whatever reason from allotting, issuing or selling the Offer Shares and/or the Over-allotment Shares pursuant to the terms of the Share Offer; or
- (xv) non-compliance of this prospectus and the other Relevant Documents or any aspect of the Share Offer with the Listing Rules or any other Laws applicable to the Share Offer; or
- (xvi) the issue or requirement to issue by our Company of a supplement or amendment to this prospectus and/or any other documents in connection with the Share Offer pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvii) a valid demand by any creditor for repayment or payment of any indebtedness of any Group Company or in respect of which any Group Company is liable prior to its stated maturity,

which in each case individually or in aggregate in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters):

- (a) has or is or will or may or could be expected to have a material adverse effect on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, results of operation, financial, trading or other condition or position or prospects or risks of our Company or our Group or any Group Company or on any present or prospective shareholder of our Company in his, her or its capacity as such; or
- (b) has or will or may have or could be expected to have a material adverse effect on the success, marketability or pricing of the Share Offer or the level of applications under the Public Offering or the level of interest under the Placing; or
- (c) makes or will make or may make it inadvisable, inexpedient or impracticable for any part of the Public Offer Underwriting Agreement or the Share Offer to be performed or implemented or proceeded with as envisaged or to market the Share Offer or shall otherwise result in an interruption to or delay thereof; or
- (d) has or will or may have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof.

Undertakings given to the Stock Exchange pursuant to the Listing Rules

By our Company

We have undertaken to the Stock Exchange that we shall not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to issue any such Shares or securities within six months from the Listing Date (whether or not such issue of Shares will be completed within six months from the Listing Date), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders, jointly and severally, has undertaken to us and to the Stock Exchange that except pursuant to the Share Offer, the Over-allotment Option or the Stock Borrowing Agreement, it shall not:

- (a) in the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our securities that it is shown to beneficially own in this prospectus (the "Relevant Shares"); or
- (b) in the period of a further six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it will cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to us and the Stock Exchange that, within the period commencing on the date by reference to which disclosure of its shareholdings in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (a) when it pledges or charges any securities in our Company beneficially owned by it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us in writing of such pledge or charge together with the number of our securities so pledged or charged; and
- (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of our pledged or charged securities beneficially owned by it will be disposed of, immediately inform us in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters mentioned in the paragraphs (a) and (b) above by any of our Controlling Shareholders and subject to the then requirements of the Listing Rules disclose such matters by way of an announcement which is published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Undertakings given to the Public Offer Underwriters

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Public Offer Underwriters that except pursuant to the Share Offer (including pursuant to the Overallotment Option) and the exercise of any options granted or to be granted under the Share Option Scheme, during the period commencing on the date of the Public Offer Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the "First Six-Month Period"), we will not, and will procure each other Group Company not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an pledge, charge, lien, mortgage, option, restriction, right of first refusal, security interest, claim, pre-emption rights, equity interest, third party rights or interests or rights of the same nature as that of the foregoing or other encumbrances or security interest of any kind or another type of preferential arrangement (including without limitation, retention arrangement) having similar effect ("Encumbrance") over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any other warrants or other rights to purchase, any Shares or any shares of such other Group Company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, with a depositary in connection with the issue of depositary receipts; or repurchase any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or other securities of our Company or any shares or other securities of such other Group Company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transactions specified in (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares or other securities of such other Group Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-Month Period).

Our Company has also undertaken that it will not, and will procure each other Group Company not to, enter into any of the transactions specified in (a), (b) or (c) above or offer to or agree to or announce any intention to effect any such transaction, such that our Controlling Shareholders would, as a group, cease to be the controlling shareholders (as defined in the Listing Rules) of our Company during the period of six months immediately following the expiry of the First Six-Month Period (the "Second Six-Month Period").

In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in any Shares or other securities of our Company.

By our Controlling Shareholders

Each of our Controlling Shareholders has undertaken jointly and severally to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the other Public Offer Underwriters that, except pursuant to the Stock Borrowing Agreement and in compliance with the requirements under Rule 10.07(3) of the Listing Rules, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the other Public Offer Underwriters):

- (i) at any time during the First Six-Month Period, it/he/she shall not, and shall procure that the relevant registered holder(s), any nominee or trustee holding on trust for it/him/her and the companies controlled by it/he/she (together, the "Controlled Entities") shall not,
 - (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares) beneficially owned by it/him/her directly or indirectly through its Controlled Entities (the "Relevant Securities"), or deposit any Relevant Securities with a depositary in connection with the issue of depositary receipts; or
 - (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Relevant Securities; or
 - (c) enter into or effect any transaction with the same economic effect as any of the transactions referred to in sub-paragraphs (a) or (b) above; or

- (d) offer to or agree to or announce any intention to enter into or effect any of the transactions referred to in sub-paragraphs (a), (b) or (c) above, which any of the foregoing transactions referred to in sub-paragraphs (a), (b), (c) or (d) is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);
- (ii) at any time during the Second Six-Month Period, it/he/she shall not, and shall procure that the Controlled Entities shall not, enter into any of the transactions referred to in (i)(a), (b) or (c) above or offer to or agree to or announce any intention to enter into any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he/she would cease to be a "controlling shareholder" (as defined in the Listing Rules) of our Company or would together with the other Controlling Shareholders cease to be "Controlling Shareholders" (as defined in the Listing Rules) of our Company;
- (iii) in the event that it/he/she enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction within the Second Six-Month Period, it/he/she shall take all reasonable steps to ensure that it/he/she will not create a disorderly or false market for any Shares or other securities of our Company; and
- (iv) it/he/she shall, and shall procure that the relevant registered holder(s) and other Controlled Entities shall, comply with all the restrictions and requirements under the Listing Rules on the sale, transfer or disposal by it/he/she or by the registered holder(s) and/or other Controlled Entities of any Shares or other securities of our Company.

Each of the Controlling Shareholders has further undertaken to each of our Company, the Stock Exchange, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the other Public Offer Underwriters that, within the period from the date by reference to which disclosure of their shareholding in our Company is made in this prospectus and ending on the date which is twelve months from the Listing Date, it/he/she will:

- (i) when it/he/she pledges or charges any securities or interests in the Relevant Securities in favour of an authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company and the Sole Sponsor in writing of such pledges or charges together with the number of securities and nature of interest so pledged or charged; and
- (ii) when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company and the Sole Sponsor in writing of such indications.

Underwriters' interests in our Group

Save for their respective obligations under the Public Offer Underwriting Agreement and the Placing Underwriting Agreement or as otherwise disclosed in this prospectus, as at the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Share Offer, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfiling their respective obligations under the Public Offer Underwriting Agreement and Placing Underwriting Agreement.

The Sole Sponsor's Independence

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

The Placing

Placing Underwriting Agreement

In connection with the Placing, we expect to enter into the Placing Underwriting Agreement on the Price Determination Date with, among others, the Placing Underwriters. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions, severally and not jointly, agree to purchase the Placing Shares or procure purchasers for the Placing Shares initially being offered pursuant to the Placing. Please see "Structure and Conditions of the Share Offer — The Placing" for further details.

Under the Placing Underwriting Agreement, we intend to grant to the Placing Underwriters the Over-allotment Option, exercisable in whole or in part at one or more times, at the sole and absolute discretion of the Sole Global Coordinator on behalf of the Placing Underwriters from the date of the Placing Underwriting Agreement until 30 days from the last day for the lodging of applications under the Public Offering to require us to issue and allot up to an aggregate of 24,000,000 additional Offer Shares, representing 15% of the Offer Shares initially available under the Share Offer and at the Offer Price, to cover any over-allocations in the Placing, if any.

Total Commission and Expenses

We will pay the Sole Global Coordinator (for itself and on behalf of the other Underwriters) an underwriting commission of 4.0% of the aggregate Offer Price of the Public Offer Shares initially offered under the Public Offering (excluding any Placing Shares reallocated to the Public Offering and any Public Offer Shares reallocated to the Placing), out of which the Underwriters will pay all sub-underwriting commission, if any. For unsubscribed Public Offer Shares reallocated to the Placing, we will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Sole Global Coordinator and the relevant Placing Underwriters, but not the Public Offer Underwriters.

Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$1.25 (being the mid-point of the stated range of the Offer Price between HK\$1.10 and HK\$1.40), the aggregate commissions and estimated expenses, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other fees and expenses relating to the Share Offer, are estimated to amount in aggregate to approximately HK\$33.0 million in total and are payable by us.

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Sponsor, the Sole Global Coordinator and the Public Offer Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Public Offer Underwriting Agreement and any breach by us of the Public Offer Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

THE SHARE OFFER

This prospectus is published in connection with the Public Offering as part of the Share Offer. The Share Offer comprises:

- the Public Offering of initially 16,000,000 Offer Shares (subject to reallocation as mentioned below) in Hong Kong; and
- the Placing of initially 144,000,000 Offer Shares (subject to reallocation and the Overallotment Option as described below).

Investors may either:

- apply for the Public Offer Shares under the Public Offering; or
- apply for or indicate an interest for the Placing Shares under the Placing,

but may not do both.

The 160,000,000 Offer Shares in the Share Offer will represent 25% of our enlarged share capital immediately after the completion of the Share Offer and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of our enlarged share capital immediately following the completion of the Share Offer and the Capitalisation Issue.

References to applications, application forms, application monies or procedure for applications relate solely to the Public Offering.

THE PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering for subscription by the public in Hong Kong 16,000,000 Offer Shares, representing 10% of the total number of Offer Shares initially available under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offering, the number of Offer Shares offered under the Public Offering will represent approximately 2.5% of our enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, assuming the Overallotment Option is not exercised.

The Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Public Offering is subject to the conditions as set forth below in "Conditions of the Share Offer".

Allocation

Allocation of Public Offer Shares to investors under the Public Offering will be based on the level of valid applications received under the Public Offering. The basis of allocation may vary depending on the number of Public Offer Shares validly applied for by applicants. We may, if necessary, allocate the Public Offer Shares on the basis of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

For allocation purposes only, the total number of Offer Shares available under the Public Offering is to be divided equally into two pools:

- **Pool A:** The Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of HK\$5 million or less (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable); and
- **Pool B:** The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for the Public Offer Shares with an aggregate subscription price of more than HK\$5 million and up to the value of pool B (excluding brokerage, SFC transaction levy and Stock Exchange trading fee payable).

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Public Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in the pool and be allocated accordingly. For the purpose of this subsection only, the "subscription price" for the Public Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications under the Public Offering and any application for more than 8,000,000 Public Offer Shares will be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offering and the Placing is subject to reallocation at the discretion of the Sole Global Coordinator, subject to the following:

- (a) where the Placing Shares are fully subscribed or oversubscribed:
 - (i) if the Public Offer Shares are undersubscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Sole Global Coordinator deems appropriate;
 - (ii) if the number of Offer Shares validly applied for under the Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Public Offering, then up to 16,000,000 Offer Shares may be reallocated to the Public Offering from the Placing, so that the total number of the Offer Shares available under the Public Offering will be increased to 32,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer;

- (iii) if the number of Offer Shares validly applied for under the Public Offering represents (1) 15 times or more but less than 50 times, (2) 50 times or more but less than 100 times, and (3) 100 times or more of the number of Offer Shares initially available under the Public Offering, the Offer Shares will be reallocated to the Public Offering from the Placing in accordance with the clawback requirements set forth in paragraph 4.2 of Practice Note 18 of the Listing Rules, so that the total number of Public Offer Shares will be increased to 48,000,000 Offer Shares (in the case of (1)), 64,000,000 Offer Shares (in the case of (3)), representing approximately 30%, 40% and 50% of the Offer Shares initially available under the Share Offer, respectively;
- (b) where the Placing Shares are undersubscribed:
 - (i) if the Public Offer Shares are also undersubscribed, the Share Offer will not proceed unless the Underwriters would subscribe for or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Share Offer on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Public Offer Shares are fully subscribed or oversubscribed (irrespective of the extent of over-subscription), then up to 16,000,000 Offer Shares may be reallocated to the Public Offering from the Placing, so that the total number of the Offer Shares available under the Public Offering will be increased to 32,000,000 Offer Shares, representing 20% of the total number of the Offer Shares initially available under the Share Offer.

In the event of reallocation of Offer Shares from the Placing to the Public Offering in the circumstances described in paragraph (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the bottom end of the Offer Price range (i.e. HK\$1.10 per Offer Share) according to HKEX Guidance Letter HKEX-GL91–18 issued by the Stock Exchange.

In all cases of reallocation of Offer Shares from the Placing to the Public Offering, the additional Offer Shares reallocated to the Public Offering will be allocated between pool A and pool B in equal proportion and the number of Offer Shares allocated to the Placing will be correspondingly reduced.

Applications

Each applicant under the Public Offering will be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Placing Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Placing Shares under the Placing.

Applicants under the Public Offering are required to pay, on application, maximum price of HK\$1.40 per Offer Share in addition to brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% on each Offer Share, amounting to a total of HK\$5,656.43 for one board lot of 4,000 Shares. If the Offer Price, as finally determined on the Price Determination Date in

the manner as described below in the paragraph headed "Pricing and Allocation", is less than the maximum price of HK\$1.40 per Offer Share, appropriate refund payments (including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. For further details, see "How to Apply for Public Offer Shares" in this prospectus.

THE PLACING

Number of Offer Shares Initially Offered

We will be initially offering for subscription under the Placing 144,000,000 Offer Shares, representing 90% of the Offer Shares under the Share Offer. Subject to the reallocation of Offer Shares between the Placing and the Public Offering, the number of Offer Shares offered under the Placing will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Share Offer and the Capitalisation Issue, assuming the Over-allotment Option is not exercised.

Allocation

The Placing Shares will be conditionally placed by the Placing Underwriter. The Placing Shares will be selectively placed to certain professional and institutional and other investors anticipated to have a sizeable demand for such Placing Shares in Hong Kong. This process, known as "book-building," is expected to continue up to the last day for lodging applications under the Public Offering. The Placing is subject to the Public Offer being unconditional.

Allocation of the Placing Shares pursuant to the Placing will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing and who has made an application under the Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Public Offering and to ensure that they are excluded from any applications of Public Offer Shares under the Public Offering.

Reallocation

The total number of Offer Shares to be issued pursuant to the Placing may change as a result of the clawback arrangement as described above in the paragraph headed "The Public Offering — Reallocation" or the Over-allotment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Share Offer, it is expected that we will grant the Over-allotment Option to the Placing Underwriters.

Pursuant to the Over-allotment Option, the Placing Underwriters will have the right, exercisable by the Sole Global Coordinator (on behalf of the Placing Underwriters) at any time from the date of the Placing Underwriting Agreement until 30 days from the last day for lodging applications under the Public Offering, to require our Company to issue up to 24,000,000 Shares, representing 15% of the Offer Shares initially available under the Share Offer, at the Offer Price under the Placing to cover overallocations in the Placing, if any.

If the Over-allotment Option is exercised in full, the additional Shares to be issued pursuant thereto will represent approximately 3.6% of our enlarged issued share capital immediately following the completion of the Share Offer and the Capitalisation Issue. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILISATION

Stabilisation is a practise used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements, including those of Hong Kong. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Share Offer, the Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or supporting the market price of our Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any persons acting for it, to conduct any such stabilising action. Such stabilising action, if taken, will be conducted at the absolute discretion of the Stabilising Manager or any person acting for it and may be discontinued at any time, and is required to be brought to an end within 30 days of the last day for lodging applications under the Public Offering.

Stabilisation action permitted in Hong Kong under the Securities and Futures (Price Stabilising) Rules of the SFO includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our Shares, (ii) selling or agreeing to sell our Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our Shares, (iii) purchasing, or agreeing to purchase, our Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of our Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases, and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in Shares should note that:

- the Stabilising Manager (or any person acting for it) may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty as to the extent to which and the time or period for which the Stabilising Manager (or any person acting for it) will maintain such a long position;
- liquidation of any such long position by the Stabilising Manager (or any person acting for it) and selling in the open market, may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on 3 August 2018, being the 30th day after the last day for lodging applications under the Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price, which means that stabilising bids or transactions effected may be made at a price below the price paid by applicants for, or investors in, the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

OVER-ALLOCATION

Following any over-allocation of Shares in connection with the Share Offer, the Stabilising Manager (or any person acting for it) may cover such over-allocations by (among other methods) exercising the Over-allotment Option in full or in part, using Shares purchased by the Stabilising Manager (or any person acting for it) in the secondary market at prices that do not exceed the Offer Price, or through the stock borrowing arrangement as detailed below or a combination of these means.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations in connection with the Share Offer, the Stabilising Manager may choose to enter into an agreement with Manford Investment, one of our Controlling Shareholders, to borrow, whether on its own or through its affiliates, up to 24,000,000 Shares, representing 15% of the total number of the Offer Shares initially available for the Share Offer. The stock borrowing arrangement under such an agreement, if entered into, will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules, provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with as follows:

- such stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option:
- the maximum number of Shares to be borrowed from Manford Investment by the Stabilising Manager (or any person acting for it) is the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Manford Investment or its nominee(s) within three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised, and (b) the day on which the Over-allotment Option is exercised in full;
- the stock borrowing arrangement will be effected in compliance with all applicable listing rules, laws and other regulatory requirements; and
- no payment will be made to Manford Investment by the Stabilising Manager (or any person acting for it) in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

Our Company and the Sole Global Coordinator (on behalf of the Underwriters) will determine the Offer Price and sign an agreement on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Thursday, 5 July 2018, and in any event, not later than Monday, 9 July 2018.

The Offer Price will not be more than HK\$1.40 per Offer Share and is expected to be not less than HK\$1.10 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Public Offering as further explained below. If you apply for the Offer Shares under the Public Offering, you must pay the maximum price of HK\$1.40 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

If the Offer Price, as finally determined in the manner described below, is lower than HK\$1.40, we will refund the respective difference, including brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies. We will not pay interest on any refunded amounts. For more details, see "How to Apply for Public Offer Shares" in this prospectus.

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as "book-building", is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may, where considered appropriate based on the level of interest expressed by prospective professional, institutional and other investors during a book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the Offer Price range below that stated in this prospectus prior to the morning of the last day for lodging applications under the Public Offering. In such a case, we will as soon as practicable following the decision to make such reduction and in any event not later than the morning of the last day for lodging applications under the Public Offering publish a notice in The Standard (in English) and Hong Kong Economic Journal (in Chinese) of the reduction. Such notice will also be posted on our website at www.hwtextiles.com.hk and the website of the Stock Exchange at www.hwtextiles.com.hk and the website of the Stock Exchange at www.hkexnews.hk (the contents of the website do not form a part of this prospectus). Upon issue of such a notice, the revised number of Offer Shares and/or offer price range will be final and conclusive and the Offer Price, if agreed upon by us, will be fixed within such revised offer price range.

Before submitting applications for the Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offering. Such notice will also confirm or revise, as appropriate, the working capital statement, the Share Offer statistics as currently set out in "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the Offer Price, if agreed upon with our Company and the Sole Global Coordinator (on behalf of the Underwriters) will under no circumstances be set outside the Offer Price range as stated in this prospectus.

If you have already submitted an application for the Public Offer Shares before the last day for lodging applications under the Public Offering, you will not be allowed to subsequently withdraw your application. However, if the number of Offer Shares and/or the Offer Price range is reduced, applicants will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

In the event of a reduction in the number of Offer Shares, the Sole Global Coordinator may, at its discretion, reallocate the number of Offer Shares to be offered in the Public Offering and the Placing, provided that the number of Offer Shares comprised in the Public Offering shall not be less than 10% of the total number of Offer Shares available under the Share Offer (assuming the Over-allotment Option is not exercised).

The final Offer Price, the level of indication of interest in the Placing, the basis of allotment of Offer Shares available under the Public Offering and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offering are expected to be made available in a variety of channels in the manner described in "How to Apply for Public Offer Shares — 10. Publication of Results" in this prospectus.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares is conditional on:

- the Listing Committee granting approval for the listing of, and permission to deal in, our Shares in issue and to be issued as described in this prospectus (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option);
- the Offer Price having been agreed between us and the Sole Global Coordinator (on behalf the Underwriters);
- the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement and the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the Public Offer Underwriting Agreement and/ or the Placing Underwriting Agreement, as the case may be (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Saturday, 28 July 2018, being the 30th date after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) on or before Monday, 9 July 2018, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offering and the Placing is conditional upon, among other things, each other offering becoming unconditional and not having been terminated in accordance with its respective terms. If the above conditions are not fulfiled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offering will be published by our Company in The Standard (in English) and Hong Kong Economic Journal (in Chinese) and our website at www.hwtextiles.com.hk and the website of the Stock Exchange at www.hkexnews.hk on the next day following such lapse. In such an event, all application monies will be returned, without interest, on the terms set out in "How to Apply for Public Offer Shares — 12. Refund of Application Monies" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

UNDERWRITING AGREEMENTS

The Public Offering is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to, among other conditions, us and the Sole Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price on the Price Determination Date.

We expect to enter into the Placing Underwriting Agreement relating to the Placing on the Price Determination Date.

Certain terms of the underwriting arrangements, the Public Offer Underwriting Agreement and the Placing Underwriting Agreement, are summarised in the section headed "Underwriting" in this prospectus.

DEALING ARRANGEMENTS

Assuming that the Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 16 July 2018, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 16 July 2018.

The Shares will be traded in board lots of 4,000 Shares each.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for Placing Shares.

To apply for Public Offer Shares, you may:

- use a WHITE or YELLOW Application Form; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Sole Global Coordinator and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a WHITE Application Form.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018:

(i) any of the following offices of the Public Offer Underwriters:

Shenwan Hongyuan Capital (H.K.) Limited

Level 19 28 Hennessy Road Hong Kong

SPDB International Capital Limited

Suite 3207–3212 One Pacific Place 88 Queensway Hong Kong

I Win Securities Limited

Room 1916 Hong Kong Plaza 188 Connaught Road West Sai Wan Hong Kong

(ii) any of the following branches of DBS Bank (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	United Centre Branch	Shops 1015–1018 on 1/F & Shops 2032–2034 on 2/F, United Centre, 95 Queensway, Admiralty
	Happy Valley Branch	G/F, 18A-22 King Kwong Street, Happy Valley
Kowloon	Kowloon Bay — SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Kowloon
New Territories	Ma On Shan Branch	Shops 205–206, Level 2, Ma On Shan Plaza, Ma On Shan
	Yuen Long Branch	G/F, 1-5 Tai Tong Road, Yuen Long

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable "**Ting Hong Nominees Limited** — **Hingtex Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Thursday, 28 June 2018 9:00 a.m. to 5:00 p.m.
- Friday, 29 June 2018 9:00 a.m. to 5:00 p.m.
- Saturday, 30 June 2018 9:00 a.m. to 1:00 p.m.
- Tuesday, 3 July 2018 9:00 a.m. to 5:00 p.m.
- Wednesday, 4 July 2018 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 4 July 2018, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- (vi) agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any Share certificate(s) and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you are eligible to collect the Share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
 (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC; and
 (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System (https://ip.ccass.com) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Center
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Sole Global Coordinator and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Public Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
- declare that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
- confirm that you understand that our Company, the Directors and the Sole Global Coordinator will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send Share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer

Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Public Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer

Share initially paid on application, refund of the application monies(including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and

• instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 4,000 Public Offer Shares. Instructions for more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Thursday, 28 June 2018 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, 29 June 2018 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 30 June 2018 8:00 a.m. to 1:00 p.m. (1)
- Tuesday, 3 July 2018 8:00 a.m. to 8:30 p.m. (1)
- Wednesday, 4 July 2018 8:00 a.m. (1) to 12:00 noon

Note:

 These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Thursday, 28 June 2018 until 12:00 noon on Wednesday, 4 July 2018 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Wednesday, 4 July 2018, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Application Lists" in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic

application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed "Personal Data" applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

6. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Directors, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, 4 July 2018.

7. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it
 which carries no right to participate beyond a specified amount in a distribution of either
 profits or capital).

8. HOW MUCH ARE THE PUBLIC OFFER SHARES

The WHITE and YELLOW Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form in respect of a minimum of 4,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 4,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed "Structure and Conditions of the Share Offer — Pricing and Allocation".

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warming signal number 8 or above; or
- a "black" rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 July 2018. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 4 July 2018 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

10. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offering and the basis of allocation of the Public Offer Shares on Friday, 13 July 2018 in The Standard (in English) and Hong Kong Economic Journal (in Chinese) on our Company's website at www.hwtextiles.com.hk and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company's website at www.hwtextiles.com.hk and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Friday, 13 July 2018;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Friday, 13 July 2018 to 12:00 midnight on Thursday, 19 July 2018;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 13 July 2018 to Wednesday, 18 July 2018 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 13 July 2018 to Tuesday, 17 July 2018 at all designated branches of the receiving bank.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed "Structure and Conditions of the Share Offer".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

11. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Public Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

• within three weeks from the closing date of the application lists; or

 within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Public Offering.

12. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum offer price of HK\$1.40 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Public Offering are not fulfiled in accordance with "Structure and Conditions of the Share Offer — Conditions of the Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 13 July 2018.

13. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one Share certificate for all Public Offer Shares allotted to you under the Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- Share certificate(s) for all the Public Offer Shares allotted to you (for YELLOW Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or around Friday, 13 July 2018. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

Share certificates will only become valid at 8:00 a.m. on Monday, 16 July 2018 provided that the Share Offer has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 13 July 2018 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on Friday, 13 July 2018, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above for collection of refund cheque(s). If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 13 July 2018, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Friday, 13 July 2018, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

• If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 July 2018 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply via Electronic Application Instructions to HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your Share certificate(s) will be
 issued in the name of HKSCC Nominees and deposited into CCASS for the credit of
 your designated CCASS Participant's stock account or your CCASS Investor Participant
 stock account on Friday, 13 July 2018, or, on any other date determined by HKSCC or
 HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offering in the manner specified in "Publication of Results" above on Friday, 13 July 2018. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 July 2018 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 13 July 2018. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially
 unsuccessful applications and/or difference between the Offer Price and the maximum
 Offer Price per Offer Share initially paid on application (including brokerage, SFC
 transaction levy and the Stock Exchange trading fee but without interest) will be
 credited to your designated bank account or the designated bank account of your broker
 or custodian on Friday, 13 July 2018.

14. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of

dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-60, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.

Deloitte.

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ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF HINGTEX HOLDINGS LIMITED AND SHENWAN HONGYUAN CAPITAL (H.K.) LIMITED

Introduction

We report on the historical financial information of Hingtex Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages I-4 to I-60, which comprises the combined statements of financial position as at 31 December 2015, 2016 and 2017, statement of financial position of the Company as at 31 December 2017 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the years then ended (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-60 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 June 2018 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants

consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 December 2015, 2016 and 2017, of the Company's financial position as at December 2017 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in Note 2 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-3 as were considered necessary.

Dividends

We refer to note 14 to the Historical Financial Information which contains information about the dividend declared by the Company's subsidiary in respect of the Track Record Period.

Historical financial statements for the Company

No financial statements have been prepared for the Company since its date of incorporation.

Deloitte Touche Tohmatsu

Certified Public Accountants Hong Kong 28 June 2018

HISTORICAL FINANCIAL INFORMATION OF THE GROUP

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the financial statements of H.W. Textiles Company Limited ("HWT"), consolidated financial statements of Kingstead Industrial Limited ("Kingstead Industrial") and its subsidiary for each of the years ended 31 December 2015, 2016 and 2017, and consolidated financial statements of Kingshine Investment Group Limited ("Kingshine Group") and its subsidiaries for the period from the date of its incorporation to 31 December 2017 ("Audited Financial Statements"), in which the Audited Financial Statements are prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA; management accounts of the Company and consolidated management accounts of Hingtex Group Limited ("Hingtex Group") and its subsidiaries for the period from the respective dates of incorporation of the Company and Hingtex Group to 31 December 2017 prepared in accordance with the accounting policies which conform with HKFRSs issued by the HKICPA (together with the Audited Financial Statements are collectively referred to as the "Underlying Financial Statements"). Details of the incorporation dates of these entities are set out in note 1 to the Historical Financial Information. The Audited Financial Statements were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 December		
		2015	2016	2017
	NOTES	HK\$'000	HK\$'000	HK\$'000
Revenue	6	400,556	475,039	648,219
Cost of sales	-	(294,111)	(327,691)	(435,402)
Gross profit		106,445	147,348	212,817
Other income	7	22,894	27,208	27,234
Other gains (losses)	8	44,490	(2,298)	2,530
Selling and distribution expenses		(12,840)	(17,771)	(24,487)
Administrative expenses		(45,248)	(44,857)	(59,857)
Listing expenses		_	_	(5,315)
Share of profit (loss) of a joint venture		29	(35)	45
Finance costs	9 _	(800)	(639)	(1,272)
Profit before tax	10	114,970	108,956	151,695
Income tax expense	11	(11,008)	(17,106)	(25,217)
Profit and total comprehensive income for				
the year	_	103,962	91,850	126,478

COMBINED STATEMENTS OF FINANCIAL POSITION

	At 31 December			
		2015	2016	2017
	NOTES	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment	15	44,789	56,914	93,415
Prepaid lease payments	16	1,664	1,611	19,081
Intangible assets	18	1,683	1,683	5,358
Goodwill	19	_	_	1,184
Interest in a joint venture	20	4,098	4,063	4,108
Restricted bank deposits	27	21,708	19,361	19,435
Structured bank deposits	21	_	7,800	7,800
Amounts due from related companies	25	252,103	254,789	
Total non-current assets	-	326,045	346,221	150,381
Current assets				
Inventories	22	94,669	163,336	212,455
Trade and other receivables	23	44,545	42,380	77,732
Prepaid lease payments	16	53	53	647
Amount due from a joint venture	24	_	_	3,495
Amounts due from directors	26	4,363	14,471	5,380
Structured bank deposits	21	7,800	_	
Bank balances and cash	27	126,046	111,428	153,957
Total current assets	-	277,476	331,668	453,666
Current liabilities				
Trade and other payables	28	147,451	152,056	194,624
Amount due to a joint venture	24	1,417	446	_
Amounts due to related companies	29	3,119	7,875	739
Amounts due to directors	30	23,800	1,055	_
Tax liabilities		5,854	20,958	28,042
Obligations under finance leases	31	1,391	1,105	1,220
Bank borrowings	32	34,106	37,541	80,616
Total current liabilities	-	217,138	221,036	305,241
Net current assets	=	60,338	110,632	148,425
Total assets less current liabilities		386,383	456,853	298,806

		At 31 December		
	2015 2016			2017
	NOTES	HK\$'000	HK\$'000	HK\$'000
Non-current liabilities				
Obligations under finance leases	31	1,214	109	1,153
Deferred tax liabilities	33	1,914	2,022	7,166
Total non-current liabilities	-	3,128	2,131	8,319
Net assets	=	383,255	454,722	290,487
Capital and reserves				
Share capital	34	1,510	1,510	1,605
Reserves	_	381,745	453,212	288,882
Equity attributable to owners of				
the Company and total equity	=	383,255	454,722	290,487

STATEMENT OF FINANCIAL POSITION OF THE COMPANY

		At 31 December 2017
	NOTES	HK\$'000
Current asset		
Deferred listing expenses	23	976
Current liability		
Amount due to a subsidiary	35	6,398
Net current liability		(5,422)
Capital and reserve		
Share capital	34	1
Reserve	34	(5,423)
Total equity		(5,422)

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Share capital HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000 (note iii)	Total HK\$'000
At 1 January 2015	1,510		297,952	299,462
Profit and total comprehensive income for the year Deemed distribution arising from imputed	_	_	103,962	103,962
interest on amounts due from related companies (note i)			(20,169)	(20,169)
At 31 December 2015	1,510	_	381,745	383,255
Profit and total comprehensive income for the year Deemed distribution arising from imputed	_	_	91,850	91,850
interest on amounts due from related companies (note i)	<u> </u>		(20,383)	(20,383)
At 31 December 2016	1,510	_	453,212	454,722
Shares issued on incorporation of the Company and its subsidiaries	5	_	_	5
New ordinary shares issued	90	_	(90)	_
Profit and total comprehensive income for the year	_	_	126,478	126,478
Deemed contribution from shareholders (note ii)	_	9,282	_	9,282
Dividend recognised as distribution (note 14)			(300,000)	(300,000)
At 31 December 2017	1,605	9,282	279,600	290,487

Notes:

- (i) As set out in note 25, the Group provided interest-free loans to related companies as at 31 December 2015, 2016 and 2017. As all these related companies are controlled by the Controlling Shareholders (as defined in note 1), the difference between the present value of the amounts due from related companies based on expected repayment term and the principal amounts is accounted for as deemed distribution to the Controlling Shareholders.
- (ii) The amount represents the 43% equity interest in Kingshine Investments Limited ("Kingshine Investments") owned by the Controlling Shareholders prior to Kingshine Investments first became a subsidiary of the Group following the acquisition of the 57% from the Ex-shareholders. Details of the acquisition and definitions are set out in note 45.

ACCOUNTANTS' REPORT

(iii) Throughout the Track Record Period, no dividend has been declared/paid by the Company or any of its subsidiaries in the People's Republic of China (the "PRC") since the respective dates of incorporation or acquisition, where there are shorter periods. As stipulated by the relevant laws and regulations for foreign investment enterprises in the PRC, the PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. The PRC subsidiaries are required to appropriate 10% of their profit after taxation as reported in the statutory financial statements to the statutory surplus reserve, upon distribution of such profit, and may cease until the statutory surplus reserve balance reaches 50% of the registered capital. As at 31 December 2017, approximately HK\$15,740,000 (RMB13,260,000) of retained earnings was contributed by the PRC subsidiaries, out of which approximately HK\$1,826,000 (RMB1,538,000) would be non-distributable pursuant to the aforesaid laws and regulations.

COMBINED STATEMENTS OF CASH FLOWS

		Year ended 31 December		
		2015	2016	2017
	Notes	HK\$'000	HK\$'000	HK\$'000
Operating activities				
Profit before tax		114,970	108,956	151,695
Adjustments for:				
Finance costs		800	639	1,272
Interest income		(16,424)	(21,375)	(21,414)
Share of (profit) loss of a joint venture		(29)	35	(45)
Depreciation of property, plant and				
equipment		6,360	5,427	10,692
Depreciation of investment properties		290	_	
Release of prepaid lease payments		53	53	350
Impairment losses recognised (reversed) on		140	(97)	160
trade receivables		140	(87)	169
Gain on disposal of property, plant and		(22,620)	(525)	(1.976)
equipment		(33,639)	(535)	(1,876)
Gain on disposal of investment properties		(14,654)	1 079	(608)
Net foreign exchange losses (gains)	-	4,211	1,978	(698)
Operating cash flows before movements in				
working capital		62,078	95,091	140,145
Decrease (increase) in inventories		19,048	(68,667)	(42,565)
(Increase) decrease in trade and other				
receivables		(2,203)	3,939	(33,792)
Increase in trade and other payables		26,744	4,605	34,117
Decrease in amount due to				
a joint venture		(632)	(971)	(446)
(Decrease) increase in amounts due to related				
companies	-	(601)	4,957	(6,907)
Cash generated from operations		104,434	38,954	90,552
Income tax paid	-	(4,301)	(1,894)	(17,979)
Net cash from operating activities		100,133	37,060	72,573
Titt tast II om operating activities	_	100,100	27,000	. =,0 10

	Notes	Year (2015) HK\$'000	2016 HK\$'000	2017 HK\$'000
Investing activities				
Interest received		2,822	1,206	1,031
Proceeds on disposal of property, plant and				
equipment		9,599	587	2,995
Net cash inflow on acquisition of subsidiaries	45	_	_	939
Repayments to Ex-shareholders of subsidiaries				
acquired		_	_	(16,971)
Purchase of property, plant and equipment		(4,140)	(17,604)	(26,320)
(Placement) proceeds on maturity of restricted		(4. - 40)		.=
bank deposits		(4,510)	599	(74)
Proceeds on maturity of structured			7.000	
bank deposits		_	7,800	_
Placement of structured bank deposits		_	(7,800)	(0.150)
Advances to directors		24.644	(11,836)	(9,158)
Repayments from directors		24,644	1,728	8,350
Advance to a joint venture Advances to related companies		(14,349)	(2,900)	(3,495) (11,780)
Advances to related companies		(14,349)	(2,900)	(11,700)
Net cash from (used in) investing activities		14,066	(28,220)	(54,483)
Financing activities				
Financing activities Proceeds from bank borrowings			6,255	67,420
Repayment of bank borrowings		(40,829)	(4,507)	(22,658)
Repayment of finance leases		(1,650)	(1,391)	(22,030) $(2,179)$
Interest paid		(800)	(639)	(1,272)
Prepayments of deferred listing expenses		_	_	(976)
Repayments to directors		(23,084)	(22,745)	(16,365)
Repayments to related companies		445	(201)	(229)
Net cash (used in) from financing activities	46	(65,918)	(23,228)	23,741
Net increase (decrease) in cash and cash				
equivalents		48,281	(14,388)	41,831
Cash and cash equivalents at the beginning of				
the year		77,867	126,046	111,428
Effect of foreign exchange rate changes		(102)	(230)	698
Cash and cash equivalents at the end of the				
year, represented by bank balances and				
cash		126,046	111,428	153,957
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NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL AND GROUP REORGANISATION

The Company was incorporated in the Cayman Islands under the Companies Law of the Cayman Islands as an exempted company with limited liability on 3 November 2017. The addresses of the Company's registered office and the principal places of business are disclosed in the section "Corporate Information" in the Prospectus. The immediate and ultimate holding company of the Company is Manford Investment Holdings Limited ("Manford Investment"), a company incorporated on 24 October 2017 in the British Virgin Islands ("BVI") under the laws of BVI with limited liability and is owned as to 30% by Mr. Tung Tsun Hong ("Mr. TH Tung"), 20% by Mr. Tung Wai Ting Stephen ("Mr. Stephen Tung"), 20% by Mr. Tung Cheuk Ming Stanley ("Mr. Stanley Tung"), 10% by Ms. Lau Chung Chau ("Mrs. Tung"), 10% by Ms. Tung Wei Ling Barbara ("Ms. Barbara Tung") and 10% by Tung Wai Lai Mabel ("Ms. Mabel Tung") (collectively referred to as the "Controlling Shareholders"). Mr. TH Tung and Mrs. Tung are the father and mother of Mr. Stephen Tung, Mr. Stanley Tung, Ms. Barbara Tung and Ms. Mabel Tung. Mr. TH Tung, Mr. Stephen Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung re-iterated that they are acting in concert, throughout the Track Record Period and beyond, on their ownership and exercise their control collectively over the companies now comprising the Group.

In preparation of the proposed listing of the Company's shares on the Main Board of the Stock Exchange (the "Listing"), the companies comprising the Group have carried out the Reorganisation which involved the following steps:

- (i) On 20 June 2017, Kingshine Group was incorporated under the laws of the BVI with limited liability. On 21 June 2017, 160 shares in Kingshine Group were issued and allotted to Mr. TH Tung and 135 shares were issued and allotted to each of Mr. Stephen Tung and Mr. Stanley Tung. As a result of the above allotments, Kingshine Group was owned as to 37.2% by Mr. TH Tung, 31.4% by Mr. Stephen Tung and 31.4% by Mr. Stanley Tung.
- (ii) Kingshine Investments was incorporated in Hong Kong with limited liability on 6 June 2001. Immediately prior to the acquisition of the shareholdings as more fully explained below, Kingshine Investments was owned as to 32% by Mr. B, 25% by Ms. A, 16%, the then existing shareholders of Kingshine Investments, by Mr. TH Tung, 13.5% by Mr. Stephen Tung and 13.5% by Mr. Stanley Tung.
 - On 7 July 2017, Kingshine Group entered into a sale and purchase agreement with each of Mr. B and Ms. A, pursuant to which Kingshine Group acquired 3,200,000 shares and 2,500,000 shares, representing 32.0% and 25.0% of the entire issued share capital of Kingshine Investments from Mr. B and Ms. A in consideration of HK\$17,100,000 and HK\$13,359,375, respectively.
- (iii) On 24 October 2017, Hingtex Group was incorporated under the laws of the BVI with limited liability. On 26 October 2017, (i) 30 shares of Hingtex Group were issued and allotted to Mr. TH Tung; (ii) 20 shares were issued and allotted to each of Mr. Stephen Tung and Mr. Stanley Tung; and (iii) 10 shares were issued and allotted to each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung. As a result of the above allotments, Hingtex Group was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.
 - On 24 October 2017, Manford Investment was incorporated under the laws of the BVI with limited liability. On 26 October 2017, (i) 30 shares of Manford Investment were issued and allotted to Mr. TH Tung; (ii) 20 shares were issued and allotted to each of Mr. Stephen Tung and Mr. Stanley Tung; and (iii) 10 shares were issued and allotted to each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung. As a result of the above allotments, Manford Investment was owned as to 30% by Mr. TH Tung, 20% by Mr. Stephen Tung, 20% by Mr. Stanley Tung, 10% by Mrs. Tung, 10% by Ms. Barbara Tung and 10% by Ms. Mabel Tung.

On 27 October 2017, H.W. Textiles Holdings Limited ("HW Holdings") and Kingstead Investment Group Limited ("Kingstead Group") were incorporated under the laws of the BVI with limited liability. On 27 October 2017, 100 shares of HW Holdings and 100 shares of Kingstead Group were issued and allotted to Hingtex Group.

- (iv) On 3 November 2017, the Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability. The initial authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. Upon incorporation, (i) one share was issued and allotted to the initial subscriber, which was in turn transferred to Manford Investment on the same day and (ii) 99,999 shares were issued and allotted to Manford Investment, and together with the one share transferred from the initial subscriber, being a total of 100,000 shares, represented 100% of the then entire issued share capital of the Company.
- (v) On 8 March 2018, through a share swap agreement, Hingtex Group acquired 160 shares, 135 shares and 135 shares, representing 37.2%, 31.4% and 31.4% of the entire issued share capital of Kingshine Group from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, respectively in consideration of and in exchange for (i) the allotment and issue of 30 shares in Hingtex Group to Mr. TH Tung; (ii) 20 shares in Hingtex Group to each of Mr. Stephen Tung and Mr. Stanley Tung; and (iii) 10 shares in Hingtex Group to each of Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all credited as fully paid.

On 9 March 2018, through a share swap agreement, the Company acquired 60 shares, 40 shares, 40 shares, 20 shares, 20 shares and 20 shares, representing 30%, 20%, 20%, 10%, 10% and 10% of the entire issued share capital of Hingtex Group from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for the allotment and issue of 100,000 shares in the Company to Manford Investment credited as fully paid.

As a result, each of Kingshine Group and Hingtex Group became a wholly-owned subsidiary of the Company.

(vi) On 23 March 2018, through a share swap agreement, Kingshine Group acquired 1,600,000 shares, 1,350,000 shares and 1,350,000 shares, representing 16.0%, 13.5% and 13.5% of the entire issued share capital of Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung, respectively in consideration of and in exchange for the allotment and issue of (i) 100 shares in Kingshine Group to Hingtex Group credited as fully paid; (ii) 100 shares in Hingtex Group to our Company credited as fully paid; and (iii) 100,000 shares in our Company to Manford Investment credited as fully paid.

As a result, Kingshine Investments became a wholly-owned subsidiary of the Company.

(vii) On 23 March 2018, through a share swap agreement, HW Holdings acquired 45,000 shares, 30,000 shares, 15,000 shares, 15,000 shares and 15,000 shares, representing 30%, 20%, 20%, 10%, 10% and 10% of the entire issued share capital of H.W. Textiles Company Limited ("HWT") from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for (i) the allotment and issue of 100 shares in HW Holdings to Hingtex Group credited as fully paid; (ii) the allotment and issue of 100 shares in Hingtex Group to the Company credited as fully paid; and (iii) the allotment and issue of 100,000 shares in the Company to Manford Investment credited as fully paid.

As a result, HWT became a wholly-owned subsidiary of the Company.

(viii) On 23 March 2018, through a share swap agreement, Kingstead Group acquired 3,000 shares, 2,000 shares, 1,000 shares, 1,000 shares and 1,000 shares, representing 30%, 20%, 20%, 10%, 10% and 10% of the entire issued share capital of Kingstead Industrial Limited ("Kingstead Industrial") from Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, respectively in consideration of and in exchange for (i) the allotment and issue of 100 shares in Kingstead Group to Hingtex Group credited as fully paid; (ii) the allotment and issue of 100 shares in Hingtex Group to the Company credited as fully paid; and (iii) the allotment and issue of 100,000 shares in the Company to Manford Investment credited as fully paid.

As a result, Kingstead Industrial became a wholly-owned subsidiary of the Company.

The steps described above are collectively referred to as the "Reorganisation".

2. BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Pursuant to the Reorganisation detailed in note 1 above, the Company became the holding company of the companies now comprising the Group on 23 March 2018. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period (or since their respective dates of incorporation or acquisition where there are shorter periods). Accordingly, the combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared using the principles of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combination" issued by the HKICPA to present the results, change in equity and cash flows of the companies now comprising the Group, as if the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period, or since the respective dates of incorporation or acquisition, where there are shorter periods. The combined statements of financial position of the Group as at 31 December 2015, 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates, taking into account the respective dates of incorporation or acquisition, where applicable.

The functional currency of the Company is United States Dollar ("US\$"), as the sales activities of the Group are mainly denominated in US\$, and the presentation currency of the Group is Hong Kong dollars ("HK\$"), as the management of the Group consider HK\$ can provide more meaningful information to the Company's investors.

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 4 which conform with the HKFRSs issued by the HKICPA.

No statutory financial statements of the Company have been prepared since its date of incorporation as it is incorporated in the jurisdiction where there are no statutory audit requirements.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently adopted the HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations issued by the HKICPA which are effective for the accounting periods beginning on 1 January 2017 throughout the Track Record Period.

At the date of this report, HKICPA has issued the following new standards, amendments and interpretations that are not yet effective. The Group has not early adopted these standards and amendments.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers, and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and	Sale or Contribution of Assets between an Investor and its Joint Venture ³
HKAS 28	
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle ¹
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle ²

- Effective for annual periods beginning on or after 1 January 2018
- ² Effective for annual periods beginning on or after 1 January 2019
- Effective for annual periods beginning on or after a date to be determined
- Effective for annual periods beginning on or after 1 January 2021

Except as described below, the management of the Group anticipate that the application of other new standards and amendments will have no material impact on the Group's future financial statements.

HKFRS 9 "Financial Instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include: a) impairment requirements for financial assets and b) limited amendments to classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that solely payments of principal and interest on the principal amount of outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the management of the Group anticipates the following potential impact on initial application of HKFRS 9:

- Structured bank deposits classified as loan receivables carried at amortised cost as disclosed in note 21: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9; and
- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the management of the Group anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

The impairment requirements are applied retrospectively by adjusting the opening retained earnings as at 1 January 2018, with no requirement to restate prior periods. The management of the Group do not intend to restate comparative information for the application of HKFRS 9 when preparing the consolidated financial statements of the Group for the year ending 31 December 2018.

Based on the assessment by the management of the Group, if the expected credit loss model were to be applied by the Group, the Group's net assets as at 1 January 2018 would decrease by less than 1% of the amount as at 31 December 2017 which is mainly attributable to expected credit losses provision on trade and bills receivables, net of deferred tax impact. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that may subject to change until the Group finalises its financial statements for the year ending 31 December 2018.

Except for abovementioned, the management of the Group anticipate that the adoption of HKFRS 9 in the future will not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2017.

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licencing application guidance.

The management of the Group intend to apply the limited retrospective method with cumulative effect of initial application adjusted in the opening retained earnings as at 1 January 2018. The management of the Group have performed an assessment on the impact of the financial performance and position of the Group in the application of HKFRS 15 and anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the management of the Group do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As set out in note 36, the total operating lease commitment of the Group in respect of rented premises as at 31 December 2017 amounted to HK\$11,866,000, in which HK\$5,626,000 were with original lease term over 1 year. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Under application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short term leases. The combination of straight-line depreciation of the right-to-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term, but there is no impact on the total expenses recognised over the lease term. The management of the Group anticipate that upon application of HKFRS 16, the Group's net assets would decrease, and there would be no material impact on the financial performance of the Group. These estimates are based on accounting policies, assumptions, judgements and estimation techniques that may subject to change until the Group finalises its financial statements for the year ending 31 December 2019.

In addition, as at 31 December 2017, the Group considers refundable rental deposits paid of HK\$1,178,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets.

4. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with accounting policies which conform to HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Historical Financial Information has been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Historical Financial Information is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted price (unadjusted) in active market for identical assets or liabilities that the entity can
 access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the assets or liability.

The principal accounting policies adopted are as follows:

ACCOUNTANTS' REPORT

Basis of combination

The Historical Financial Information incorporates the financial statements of the entities comprising the Group. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributable to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

Business combinations other than common control combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

 deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 and HKAS 19, respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquire or share-based payment arrangements of the Group entered into to replace the share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interests were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investment in a subsidiary

Investment in a subsidiary included in the Company's statement of financial position is at cost less any identified impairment loss.

Investment in a joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint ventures are incorporated in these Historical Financial Information using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the combined statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from transactions with the joint venture are recognised in the Group's Historical Financial Information only to the extent of interests in the joint venture that are not related to the Group.

Revenue recognition

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

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the combined statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Leasehold land for own use

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the combined statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement monetary items and retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rate prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the defined contribution retirement benefit plans including Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an assert.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

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

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

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

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

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

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

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

Current and deferred tax are recognised in profit or loss.

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

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the combined statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets acquired separately

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regards as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment on tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each assets in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of impairment loss that would otherwise have been allocated to the asset is allocated pro rata to other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Loans and receivables

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

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

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables and others.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

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

Equity instruments

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

Effective interest method

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

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, amount due to a joint venture, amounts due to related companies, amounts due to directors, obligations under finance leases and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair value and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial assets and financial liabilities

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or, when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid and payable is recognised in profit or loss.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following twelve months.

Estimated useful lives of property, plant and equipment

In applying the accounting policy on property, plant and equipment with respect to depreciation, the management of the Group estimates the useful lives of various categories of property, plant and equipment according to the experiences over the usage of them and also by reference to the relevant industrial norm. If the actual useful lives of them are less than the original estimated useful lives due to changes in commercial and technological environment, such difference will impact the depreciation charge for the remaining useful life.

As at 31 December 2015, 2016 and 2017, the carrying amount of property, plant and equipment was HK\$44,789,000, HK\$56,914,000 and HK\$93,415,000, respectively.

Estimated allowance for doubtful debts

Trade and bills receivables, amount due from a joint venture, amounts due from related companies and directors are carried at amortised cost using the effective interest method, less any identified impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and bills receivables, amount due from a joint venture, amounts due from related companies and directors. Allowances are applied to trade receivables and amounts due from related parties and a director where events or changes in circumstances indicate that the balances may not be collectible. The amount of the allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. Allowance for these receivables is made based on evaluation of collectability by reference to the estimation of the future cash flows discounted at an effective interest rate to calculate the present value. If the actual future cash flows were less than expected and where events or changes in circumstances indicate the balances may not be collectible, an allowance may be required.

As at 31 December 2015, 2016 and 2017, the carrying amount of trade and bills receivables, net of allowance for doubtful debt, was HK\$37,768,000, HK\$29,383,000 and HK\$45,891,000, respectively.

As at 31 December 2017, the carrying amounts of amount from a joint venture, without allowance for doubtful debt, was HK\$3,495,000.

As at 31 December 2015, 2016 and 2017, the carrying amount of amounts due from related companies, without allowance for doubtful debt, was HK\$252,103,000, HK\$254,789,000 and nil, respectively.

As at 31 December 2015, 2016 and 2017, the carrying amount of amounts due from directors, without allowance for doubtful debt, was HK\$4,363,000, HK\$14,471,000 and HK\$5,380,000, respectively.

Estimated allowance for inventories

The Group regularly reviews whether there are any indications of write-down of inventories if the carrying amount of an inventory is lower than its net realisable value. The net realisable value have been determined based on the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The Group also assessed the net realisable value by taking into account whether the cost of inventories may be recoverable by assessing if those inventories are damaged, wholly or partially obsolete, or if their selling prices have declined.

As at 31 December 2015, 2016 and 2017, the carrying amount of inventories, without allowance for write-down, was HK\$94,669,000, HK\$163,336,000 and HK\$212,455,000, respectively.

6. REVENUE AND SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, being the chief executive officer (the "CODM"), in order to allocate resources to segments and to assess their performance.

During the Track Record Period, the CODM assesses the operating performance and allocates the resources of the Group as a whole as the Group is primarily engaged in manufacture of the denim. Therefore, the management considers that the Group only has one operating segment. The Group mainly operates in Hong Kong and the People's Republic of China ("the PRC"), and the Group's non-current assets are mainly located in the PRC.

Revenue from major products

The following is an analysis of the Group's revenue from its major products and services:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Non-stretchable denim fabrics	67,717	55,230	38,921
Stretchable cotton denim fabrics	139,629	110,577	88,387
Stretchable blended denim fabrics	192,553	308,856	519,326
Others	657	376	1,585
	400,556	475,039	648,219

Geographical information

Information about the Group's revenue is presented based on the geographical location of the customers.

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Revenue			
Hong Kong	258,164	223,182	356,318
The PRC	37,797	110,981	104,200
Bangladesh	20,511	58,806	84,873
Vietnam	16,566	28,962	52,871
Taiwan	25,972	18,864	17,789
Macau	10,049	13,492	9,970
Other countries and regions	31,497	20,752	22,198
Total	400,556	475,039	648,219
Revenue from major customers			

The following illustrates the revenue from customers which contributing over 10% of the total revenue of the Group:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Customer A	122,188	66,993	124,724
Customer B	N/A ¹	N/A ¹	100,086

^{1:} The corresponding revenue did not contribute over 10% of the total revenue of the Group for the relevant year.

7. OTHER INCOME

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK'\$000
Interest income from bank deposits	2,822	1,206	1,031
Imputed interest income on amounts due from related companies			
(note i)	13,602	20,169	20,383
Services fee from a joint venture (note ii)	5,400	5,400	5,400
Gross rental income from investment properties	639	_	_
Storage income	380	420	420
Others	51	13	
	22,894	27,208	27,234

Notes: (i) The imputed interest income was calculated at an effective interest rate of 8% per annum. Details of the loans provided to related companies are set out in note 25.

(ii) Service fee represents income from provision of management service including the use of premises, office equipment, utilities, facilities and consumables at a monthly sum of HK\$450,000.

8. OTHER GAINS (LOSSES)

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Impairment losses (recognised) reversed on trade receivables	(140)	87	(169)
Gain on disposal of investment properties (Note)	14,654	_	_
Gain on disposal of property, plant and equipment (Note)	33,639	535	1,876
Net foreign exchange (loss) gain	(4,211)	(1,978)	698
Others	548	(942)	125
	44,490	(2,298)	2,530

Note: In December 2015, the Group disposed of certain land and buildings included in investment properties and property, plant and equipment as more fully explained in notes 15 and 17, respectively, to a related company at an aggregated consideration of HK\$74,300,000, resulting in a gain on disposal of investment properties of HK\$14,654,000 and a gain on disposal of property, plant and equipment of HK\$27,962,000. The consideration of the properties is determined by reference to the fair value arrived at on the basis of valuation carried out as at those dates by Greater China Appraisal Limited, an independent qualified professional valuer not connected with the Group.

9. FINANCE COSTS

	Year ended 31 December				
	2015	2015 2016	2015 2016 201	5 2016 2017	2017
	HK\$'000	HK\$'000	HK\$'000		
Interest expenses on bank borrowings	702	545	1,153		
Interest expenses on finance leases	98	94	119		
	800	639	1,272		

10. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

From before tax has been arrived at after charging (crediting).			
	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Directors' remuneration:			
Emoluments, salaries and other benefits	2,802	4,681	13,443
Retirement benefit scheme contributions	36	36	36
	2,838	4,717	13,479
Other staff salaries and allowances	22,069	25,101	34,973
Retirement benefit scheme contributions, excluding those of directors	983	1,044	2,119
Total employee benefits expenses	25,890	30,862	50,571
	(0.005)	(2.20.4)	(4.424)
Capitalised in inventories	(2,335)	(2,384)	(4,434)
	23,555	28,478	46,137
	23,333	20,476	40,137
Depreciation of property, plant and equipment	6,360	5,427	10,692
Release of prepaid lease payments	53	53	350
	6,413	5,480	11,042
Capitalised in inventories	(740)	(587)	(1,505)
	5,673	4,893	9,537
Depreciation of investment properties	290		
	5.062	4.002	0.525
	5,963	4,893	9,537
Auditor's remuneration	197	282	301
Auditor's remuneration	197	202	301
Cost of inventories recognised as an expense	294,111	327,691	435,402
Gross rental income from investment properties	(639)	_	_
Less: direct operating expenses from investment properties that	72		
generated rental income (excluding depreciation)	73		<u></u>
	(566)		
	(300)		

11. INCOME TAX EXPENSE

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Current tax:			
— Hong Kong profit tax	9,656	15,629	21,139
— PRC enterprise income tax	1,813	1,361	3,881
Under provision in prior years			
— PRC enterprise income tax	42	8	43
Deferred tax (note 33)	(503)	108	154
Total	11,008	17,106	25,217

Hong Kong

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit during the Track Record Period.

The PRC

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the Track Record Period.

The income tax expense for the Track Record Period can be reconciled to the profit before tax per the combined statements of profit or loss and other comprehensive income as follows:

	Year ended 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Profit before tax	114,970	108,956	151,695
Tax at Hong Kong Profit Tax rate of 16.5%	18,970	17,978	25,030
Tax effect of expenses not deductible for tax purposes	725	2,067	1,623
Tax effect of income not taxable for tax purposes (note)	(9,281)	(3,328)	(3,371)
Under provision in prior years	42	8	43
Effect of different tax rates of subsidiaries operating in the			
PRC	552	381	1,892
	11,008	17,106	25,217

The Group has no significant unrecognised deferred tax except that described in note 33.

Tax effect of income not taxable for tax purposes for the year ended 31 December 2015 mainly represented tax effect on disposal of certain land and buildings to a related company of approximately HK\$7,032,000 and imputed interest income on amounts due from related companies of approximately HK\$2,244,000. Tax effect of income not taxable for tax purposes for the year ended 31 December 2016 and 2017 mainly represented the tax effect of imputed interest income on amounts due from related companies of HK\$3,328,000 and approximately HK\$3,363,000, respectively.

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12. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors and chief executive's emoluments

Details of the emoluments paid or payable to the directors and the chief executive of the Company (including emoluments for services as employees/directors of the group entities prior to becoming the directors of the Company) during the years ended 31 December 2015, 2016 and 2017 are as follows:

			Retirement		
		Salaries	benefit		
		and other	scheme	Other	
	Fees	allowances	contributions	benefit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	пк\$ 000	пкэ 000	ПК\$ 000		HK\$ 000
				(Note iv)	
For the year ended 31 December 2015					
Executive directors					
Mr. TH Tung (Note i)	_	807	_	492	1,299
Mr. Stephen Tung (Note ii)	_	826	18	(Note v)	844
Mr. Stanley Tung (Note iii)	_	677	18	_	695
- In Stanley Tung (Note tit)		011			0,5
_		2,310	36	492	2,838
_		_			
			Retirement		
		Salaries	benefit		
		and other	scheme	Other	
	Fees	allowances	contributions	benefit	Total
	HK\$'000				HK\$'000
	HK\$ 000	HK\$'000	HK\$'000	HK\$'000	HK\$ 000
				(Note iv)	
For the year ended 31 December 2016					
Executive directors					
Mr. TH Tung (Note i)	_	1,056	_	598	1,654
Mr. Stephen Tung (Note ii)	_	1,076	18	720	1,814
Mr. Stanley Tung (Note iii)		917	18	314	1,249
wii. Stainey Tung (Note tit)		917	10	314	1,249
		2.040	26	1.600	4.717
=		3,049	36	1,632	4,717
			D -4!4		
		~	Retirement		
		Salaries	benefit		
		and other	scheme	Other	
	Fees	allowances	contributions	benefit	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Note iv)	
				(,	
For the year ended 31 December 2017					
Executive directors					
		2 725		922	A E A 7
Mr. TH Tung (Note i)	_	3,725		822	4,547
Mr. Stephen Tung (Note ii)	_	3,130	18	720	3,868
Mr. Stanley Tung (Note iii)		3,510	18	1,536	5,064
	_	10,365	36	3,078	13,479
=					

Notes:

 Mr. TH Tung was appointed as a director of the Company on 3 November 2017 and appointed as chairman of the Company on 16 January 2018.

ACCOUNTANTS' REPORT

- (ii) Mr. Stephen Tung was appointed as a director of the Company on 3 November 2017 and appointed as chief executive officer of the Company on 16 January 2018.
- (iii) Mr. Stanley Tung was appointed as a director of the Company on 3 November 2017.
- (iv) Other benefit represents rentals for directors' quarters
- (v) A residential property held by the Group was used by Mr. Stephen Tung for free in 2015.

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the group entities prior to becoming the directors of the Company.

Mr. Stephen Tung is the chief executive officer of the Company and his emolument for the role as chief executive officer is also included above.

During the Track Record Period, no emoluments were paid by the Group to any directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No director of the Company waived any emoluments during the Track Record Period.

(b) Employees' emoluments

The five highest paid individuals of the Company included three directors of the Company for the years ended 31 December 2015, 2016 and 2017, respectively. The emoluments of the remaining 2 individuals for the years ended 31 December 2015, 2016 and 2017 are as follows:

	Year ended 31 December		
	2015	2015 2016	2017
	HK\$'000	HK\$'000	HK\$'000
Salaries and other benefits	1,140	1,313	1,697
Retirement benefit scheme contributions	35	35	36
	1,175	1,348	1,733

The emoluments of these employees are within the following bands:

	Year ended 31 December		
	2015	2016	2017
Nil to HK\$1,000,000	2	2	2

During the years ended 31 December 2015, 2016 and 2017, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

13. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report and its inclusion is not meaningful having regard to the Reorganisation of the Group and the results of the Group for the Track Record Period that is prepared on a combined basis as set out in note 2.

14. DIVIDEND

No dividend has been paid or declared by the Company during the Track Record Period.

During the year ended 31 December 2017, an interim dividend of HK\$300,000,000 was recognised as distribution by HWT to its then shareholders, being the Controlling Shareholders. No rate of dividend is presented as it is not considered meaningful for the purpose of this report.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture and fixtures HK\$'000	Other equipment HK\$'000	Total HK\$'000
Cost						
At 1 January 2015	60,362	71,729	16,911	5,299	824	155,125
Additions	_	252	7,121	_	_	7,373
Disposals	(30,824)	(25,807)	(9,587)			(66,218)
At 31 December 2015	29,538	46,174	14,445	5,299	824	96,280
Additions	_	16,162	698	741	3	17,604
Disposals			(2,429)		(6)	(2,435)
At 31 December 2016	29,538	62,336	12,714	6,040	821	111,449
Additions	997	21,438	4,744	1,706	773	29,658
Acquired on acquisition of subsidiaries						
(note 45)	10,313	7,380	286	_	675	18,654
Disposals		(14,294)	(2,497)		(4)	(16,795)
At 31 December 2017	40,848	76,860	15,247	7,746	2,265	142,966
Accumulated depreciation						
At 1 January 2015	14,464	60,651	8,958	506	311	84,890
Charge for the year	1,306	1,379	2,547	997	131	6,360
Eliminated on disposals	(8,287)	(25,635)	(5,837)			(39,759)
At 31 December 2015	7,483	36,395	5,668	1,503	442	51,491
Charge for the year	591	1,491	2,237	1,016	92	5,427
Eliminated on disposals			(2,378)		(5)	(2,383)
At 31 December 2016	8,074	37,886	5,527	2,519	529	54,535
Charge for the year	1,656	4,971	2,622	1,199	244	10,692
Eliminated on disposals		(14,046)	(1,627)		(3)	(15,676)
At 31 December 2017	9,730	28,811	6,522	3,718	770	49,551
Carrying amount						
At 31 December 2015	22,055	9,779	8,777	3,796	382	44,789
At 31 December 2016	21,464	24,450	7,187	3,521	292	56,914
At 31 December 2017	31,118	48,049	8,725	4,028	1,495	93,415

The above items of property, plant and equipment are depreciated using the straight-line method after taking into account of their estimated residual values over the following estimated useful lives:

Leasehold land and buildingsOver the shorter of lease terms or 20 yearsPlant and machinery3–10 yearsMotor vehicles5–10 yearsFurniture and fixtures5 yearsOther equipment3–5 years

At 31 December 2015, 2016 and 2017, the net book value of motor vehicles included an amount of HK\$4,127,000, HK\$2,399,000 and HK\$4,746,000 in respect of motor vehicles held under finance leases, respectively.

APPENDIX I

In December 2015, the Group disposed of certain land and buildings to Gain Success International Limited ("Gain Success"), a company incorporated in Hong Kong and controlled by the Controlling Shareholders, for a consideration of HK\$50,500,000.

16. PREPAID LEASE PAYMENTS

	At 31 December			
	2015	2015 2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Analysed for the reporting purpose as:				
Current portion	53	53	647	
Non-current portion	1,664	1,611	19,081	
	1,717	1,664	19,728	

The amounts represent interest in land use rights located in the PRC. The Group has obtained all relevant land use right certificates as at 31 December 2015, 2016 and 2017.

17. INVESTMENT PROPERTIES

	HK\$'000
Cost	
At 1 January 2015	12,508
Disposals	(12,508)
At 31 December 2015, 2016 and 2017	
Accumulated depreciation	
At 1 January 2015	3,072
Charge for the year	290
Eliminated on disposals	(3,362)
At 31 December 2015, 2016 and 2017	
Carrying amount	
At 31 December 2015, 2016 and 2017	

The investment properties are a premise and car park located in Hong Kong.

The investment properties are depreciated using the straight-line method over the remaining lease terms of 43 years.

In December 2015, the Group disposed of all these investment properties to Gain Success for a consideration of HK\$23,800,000.

18. INTANGIBLE ASSETS

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Club memberships (Note i)	1,683	1,683	1,683	
Technical knowhow through acquisition of subsidiaries (Note ii and 45)			3,675	
	1,683	1,683	5,358	

Notes:

- (i) The club memberships represent corporate memberships with golf clubs which are lifetime memberships. As such, the golf club memberships are considered by the Group as having indefinite useful lives and will not be amortised until their useful lives are determined to be finite. Instead it will be tested for impairment annually and whenever there is an indication that it may be impaired. During the year ended 31 December 2015, 2016 and 2017, the management of the Group determined that there is no impairment on club membership as the recoverable amount, which is determined by reference of the fair value less costs of disposal, is higher than the carrying amount of the club memberships.
- (ii) Technical know how was purchased through acquisition of subsidiaries during the year and is amortised on a straight-line basis over 10 years. No amortisation is recognised during the year ended 31 December 2017 as the amount is immaterial.

19. GOODWILL

 Cost and carrying amount

 At 1 January 2015, 31 December 2015 and 2016
 —

 Acquisition of subsidiaries (note 45)
 1,184

 At 31 December 2017
 1,184

For the purposes of impairment testing, goodwill has been allocated to an individual cash generating unit (CGU), which is a subsidiary engaged in the spinning, dyeing, desizing, shrinking and finishing process of denim fabrics manufacturing. During the year ended 31 December 2017, management of the Group determines that there is no impairment of the CGU containing goodwill.

The basis of the recoverable amounts of the CGU and the major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and pre-tax discount rate of 15.43%. The cash flows beyond the five-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Sensitivity analysis has been performed by the management of the Group to measure the impact on the recoverable amount of this CGU by increasing the pre-tax discount rate by 10% while all other variables were held constant. If a pre-tax discount rate of 16.97% is to be applied, the recoverable amount of this CGU still exceeds its carrying amount by approximately 30% as of 31 December 2017. Management believes that any other reasonably possible change in any of these assumptions would not cause the aggregate carrying amount to exceed the aggregate recoverable amount.

20. INTEREST IN A JOINT VENTURE

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Cost of investment in a joint venture Share of post-acquisition profits and other comprehensive income,	3,978	3,978	3,978	
net of dividends received	120	85	130	
	4,098	4,063	4,108	

As at 31 December 2015, 2016 and 2017, the Group had interest in the following joint venture:

Name of entity	Place of incorporation/ principal business	Proportion of pai	of nomina			tion of vot	ing	Principal activities
		2015	2016	2017	2015	2016	2017	
Kurabo Denim International Limited ("KDIL")	Hong Kong	51%	51%	51%	50%	50%	50%	Trading and provision of technical support

21. STRUCTURED BANK DEPOSITS

		At 31 December		
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Current (note (i))	7,800	_	_	
Non-current (note (ii))	<u></u>	7,800	7,800	

Notes:

- (i) On 1 September 2011, HWT entered into a subscription agreement with a commercial bank in Hong Kong (the "Commercial Bank"), to subscribe for a note in the principal amount of US\$1,000,000, with a variable-interest rate linked to London Inter-bank Offered Rate ("LIBOR") per annum, payable annually in arrears. The note matured on 1 September 2016.
- (ii) On 23 September 2016, HWT entered into another subscription agreement with the Commercial Bank, to subscribe for a note in the principal amount of US\$1,000,000, with a variable-interest rate linked to LIBOR per annum, payable quarterly in arrears. The note will mature on 23 September 2020.

22. INVENTORIES

	At 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Raw materials	49,679	54,212	52,858
Work in progress	3,149	17,393	23,317
Finished goods	41,841	91,731	136,280
	94,669	163,336	212,455

23. TRADE AND OTHER RECEIVABLES

The Group

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Trade and bills receivables	37,908	29,436	46,113	
Less: allowance for doubtful debts	(140)	(53)	(222)	
	37,768	29,383	45,891	
Prepayments	776	1,533	3,818	
Deferred listing expenses	_	_	976	
Value-added tax recoverable	4,620	9,729	24,023	
Utility and rental deposits	897	1,292	1,676	
Others	484	443	1,348	
	44,545	42,380	77,732	

The Group generally allows credit periods ranging from 30 days to 120 days regarding different customers. The following is an age analysis of trade and bills receivables, presented based on the invoice date at the end of each reporting period:

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Within 30 days	23,533	15,190	27,790	
31 to 60 days	12,378	9,110	9,275	
61 to 120 days	1,725	3,958	5,558	
121 to 180 days	84	1,043	3,036	
181 to 365 days	48	82	232	
	37,768	29,383	45,891	

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. All of the trade receivables that are neither past due nor impaired have no history of default on repayments. The management of the Group considers that these trade receivables are of good quality given the continuous settlement from customers throughout the Track Record Period.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$2,745,000, HK\$4,718,000 and HK\$4,403,000 as at 31 December 2015, 2016 and 2017, respectively, which were past due at the end of each reporting period for which the Group has not provided for impairment loss. As the management of the Group considered such balances could be recovered based on historical experience.

ACCOUNTANTS' REPORT

The following is an aged analysis of trade receivables which are past due but not impaired at the end of the reporting period:

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Overdue by:				
Within 30 days	2,519	4,352	1,240	
31 to 60 days	55	37	348	
61 to 120 days	92	94	2,464	
121 to 180 days	39	168	166	
181 to 365 days	40	67	185	
	2,745	4,718	4,403	

The Group has provided fully for all receivables that are past due beyond 365 days because historical experience is such that these receivables are generally not recoverable.

Movement in the allowance for doubtful debts

	At 31 December		
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Balances at beginning of the year	_	140	53
Impairment losses recognised on trade receivables	140	17	191
Amounts recovered during the year		(104)	(22)
Balances at end of the year	140	53	222

Included in the Group's trade and bills receivables are amounts of nil, HK\$1,687,000 and nil as at 31 December 2015, 2016 and 2017, respectively, being transferred to certain banks by factoring the relevant bills receivable on a full recourse basis. If the bills receivable are not paid on maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the receivable, it continues to recognise the full carrying amount of the bills receivable and has recognised the cash received on the transfer as bank borrowings from factoring of bills receivable with full recourse (note 32). The financial asset is carried at amortised cost in the combined statement of financial position.

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Carrying amount of transferred asset	_	1,687	_	
Carrying amount of associated liability		(1,687)		

ACCOUNTANTS' REPORT

Analysis of trade and other receivables denominated in currencies other than the functional currencies of the relevant group entities is set out below:

		At 31 December			
	2015	2016	2017		
	HK\$'000	HK\$'000	HK\$'000		
HK\$	1,481	5,184	3,589		
RMB	655	526	2,886		
	2,136	5,710	6,475		

The Company

At 31 December 2017 HK\$'000

Deferred listing expenses 976

24. AMOUNT DUE FROM/TO A JOINT VENTURE

The amount due from a joint venture as at 31 December 2017 is non-trade in nature, which is unsecured, interest free and repayable on demand.

The amount due to a joint venture as at 31 December 2015 and 2016 was arising from purchases of raw materials and related service fee. The ageing of the outstanding amounts as at 31 December 2015 and 2016 are both within 30 days.

25. AMOUNTS DUE FROM RELATED COMPANIES

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Star Alliance Holdings Limited ("Star Alliance")	48,065	47,079	_	
Kingsway Trading Limited ("Kingsway")	17,212	17,428	_	
Gain Success	69,022	68,698	_	
Kingwood Management Limited ("Kingwood")	117,804	121,584		
	252,103	254,789		
	Maximum amou	nt outstanding d	uring the year	
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Star Alliance	52,301	52,268	65,050	
Kingsway	18,589	18,823	20,026	
Gain Success	74,544	74,574	73,194	
Kingwood	127,228	131,311	131,811	

The Controlling Shareholders have controlling interests in Star Alliance, Kingsway and Gain Success, while Mr. TH Tung, Mrs. Tung, Mr. Stephen Tung and Mr. Stanley Tung have controlling interests in Kingwood. Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from related companies of HK\$290,097,000 outstanding as at 31 December 2017 have been offset against the interim dividend of HK\$300,000,000 declared by HWT to the Controlling Shareholders.

The amounts due from related companies are interest free, unsecured and repayable on demand. In the opinion of the management of the Group, the amounts were to be settled after twelve months as at 31 December 2015 and 2016, and were therefore classified as non-current assets. These balances were carried at amortised cost using the effective interest method at an effective interest rate of 8.0% per annum throughout the Track Record Period.

The amounts due from Gain Success are mainly arising from the disposals of property, plant and equipment and investment properties in December 2015, details of which are set out in notes 15 and 17, respectively. The amounts with other related parties are mainly non-trade in nature.

The amounts due from related companies are denominated in HK\$, which is not the functional currencies of the relevant group entities.

26. AMOUNTS DUE FROM DIRECTORS

	At	31 December	
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Mr. TH Tung	_	4,335	2,354
Mr. Stephen Tung	4,363	10,136	1,138
Mr. Stanley Tung	<u> </u>		1,888
	4,363	14,471	5,380
	Maximum amount	outstanding dur	ing the year
	2015	2016	2017
	HK\$'000	HK\$'000	HK\$'000
Mr. TH Tung	_	4,355	3,439
Mr. Stephen Tung	4,363	11,844	11,791
Mr. Stanley Tung	_	_	3,023

The amounts due from directors are denominated in HK\$, which is not the functional currencies of the relevant group entities.

The above amounts are non-trade in nature, interest free, unsecured and repayable on demand. Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from directors of HK\$9,903,000 together with the amounts due from related companies of HK\$290,097,000(as disclosed in note 25) outstanding as at 31 December 2017 have been offset against the interim dividend of HK\$300,000,000 declared by HWT to the then shareholders, known as the Controlling Shareholders. The management of the Group have represented that the remaining amounts due from directors of HK\$5,380,000 outstanding at 31 December 2017 are expected to be settled before listing of the shares of the Company on the Stock Exchange.

27. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits represent deposits pledged to a bank for banking facilities granted to the Group. Restricted bank deposits carry interest at variable rates which range from 2.80% to 3.80%, 0.35% to 0.80% and 0.5% to 1.14% per annum, as at 31 December 2015, 2016 and 2017, respectively.

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Bank balances carry interest at variable rates which range from 0.00% to 3.90%, 0.00% to 0.01% and 0.00% to 0.01% per annum, as at 31 December 2015, 2016 and 2017, respectively.

ACCOUNTANTS' REPORT

Analysis of restricted bank deposits together with bank balances and cash denominated in currencies other than the functional currencies of the relevant group entities is set out below:

		At 31 December			
	2015	2016	2017		
	HK\$'000	HK\$'000	HK\$'000		
HK\$	39,274	18,197	22,797		
RMB	79,924	3,420	12,721		
	119,198	21,617	35,518		

The restricted bank deposits and bank balances and cash denominated in RMB are mostly held by the group entities incorporated in Hong Kong.

28. TRADE AND OTHER PAYABLES

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Trade and bills payables	122,652	124,927	167,424	
Deposits received	14,597	14,597	8,346	
Consideration payable for acquisition of subsidiaries* (note 45)	_	_	6,840	
Advances from customers	1,154	1,102	208	
Payroll payables	4,163	4,468	6,186	
Others	4,885	6,962	5,620	
	147,451	152,056	194,624	

^{*} The balance is repayable before 30 June 2018.

The age analysis of the trade and bills payables presented based on the goods receipt date at the end of each reporting period is as follows:

	At 31 December			
	2015	2015 2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Within 30 days	69,043	56,223	78,133	
31 to 60 days	28,855	34,558	46,349	
61 to 180 days	24,598	34,146	42,942	
181 to 365 days	156			
	122,652	124,927	167,424	

The average credit period on purchases of goods is ranging from 30 days to 180 days.

ACCOUNTANTS' REPORT

Analysis of trade and other payables denominated in currencies other than the functional currencies of the relevant group entities is set out below:

			At 31 December		
		2015	2016	2017	
		HK\$'000	HK\$'000	HK\$'000	
	HK\$	27,117	22,595	32,214	
	RMB	11,280	13,192	27,090	
		38,397	35,787	59,304	
29.	AMOUNTS DUE TO RELATED COMPANIES				
			At 31 December		
		2015	2016	2017	
		HK\$'000	HK\$'000	HK\$'000	
	Trade in nature:				
	Hing Shing (as defined in note 43) (note i)	1,950	6,907	_	
	Non-trade in nature:				
	Kingshine Investments (note i)	420	224	_	
	Asiabest Capital Venture (note ii)	749	744	739	
		3,119	7,875	739	

Notes:

- (i) Hing Shing is a wholly-owned subsidiary of Kingshine Investments whereby Kingshine Investments became a subsidiary of the Company since July 2017 as more fully explained in note 1(ii) above. Before the acquisition, Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung held a total of 43% equity interest in Kingshine Investments, as such, had significant influence over Kingshine Investments and Hing Shing. The ageing of the outstanding amounts as at 31 December 2015 and 2016 are both within 30 days.
- (ii) Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung have controlling interests in this entity. The management of the Group have represented that the amount outstanding at 31 December 2017 is expected to be settled before listing of the shares of the Company on the Stock Exchange.

The amounts due to related companies which are non-trade in nature are interest free, unsecured and repayable on demand.

Analysis of amounts due to related companies denominated in currencies other than the functional currencies of the relevant group entities is set out below:

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
HK\$	1,169	968	739	
RMB	1,950	6,907		
	3,119	7,875	739	

30. AMOUNTS DUE TO DIRECTORS

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Mr. TH Tung	13,204	_	_	
Mr. Stanley Tung	10,596	1,055		
	23,800	1,055		

The amounts due to directors are denominated in HK\$, which is not the functional currencies of the relevant group entities.

The above amounts are non-trade in nature, interest free, unsecured and repayable on demand.

31. OBLIGATIONS UNDER FINANCE LEASES

The Group leased its motor vehicles under several finance leases. The leases terms is 3 years. Interest rates underlying the obligation under the finance leases are fixed at respective contract dates ranging from 2.50% to 4.37% per annum. The leases have no terms of renewal and escalation clauses. All leases have purchase options, pursuant to which, the Group has rights to acquire these motor vehicles at pre-agreed prices upon the maturity of the leases terms.

			At 31 December			
				2015	2016	2017
			HK	\$'000	HK\$'000	HK\$'000
Analysed for the reporting purpose as: Current portion				1,391 1,214	1,105 109	1,220 1,153
Tion current portion				1,211	10)	1,133
				2,605	1,214	2,373
				Drosont v	alue of minim	um looso
	Minim	um lease payı	nonte	riesent v	payments	uiii iease
	31/12/2015	31/12/2016	31/12/2017	31/12/2015	31/12/2016	31/12/2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	1,485	1,136	1,271	1,391	1,105	1,220
Over 1 year but less than 2 years	1,136	109	1,163	1,105	109	1,153
Over 2 years but less than 5 years	109			109		
	2,730	1,245	2,434	2,605	1,214	2,373
Less: future finance charges	(125)	(31)	(61)	N/A	N/A	N/A
Present value of minimum lease						
payments receivable	2,605	1,214	2,373	2,605	1,214	2,373

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

32. BANK BORROWINGS

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Bank borrowings Bank borrowings from factoring of bills receivable with full recourse	34,106	35,854	80,616	
(note 23)		1,687		
	34,106	37,541	80,616	
Analysed as:				
Secured	34,106	37,541	80,616	
The carrying amounts of the above bank borrowings are repayable (note i):				
— within one year	29,752	25,141	49,794	
 — within a period of more than one year but not exceeding two years — within a period of more than two years but not exceeding five 	2,954	4,400	8,994	
years	1,400	8,000	21,828	
Amounts shown under current liabilities (note ii)	34,106	37,541	80,616	

Notes:

- (i) The amounts due are based on scheduled repayment dates set out in the loan agreements.
- (ii) All the above borrowings contain a repayment on demand clause and therefore are presented as current liabilities.

The ranges of effective interest rates per annum on the Group's bank borrowings are as follows:

	At 31 December		
	2015	2016	2017
Effective interest rates — Variable-rate borrowings	1.11% to 2.24%	1.11% to 2.38%	1.26% to 2.42%

All the bank borrowings are denominated in HK\$.

The secured bank borrowings are secured by structured bank deposits and restricted bank deposits of the Group as set out in notes 21 and 27 respectively and assets held by the related companies which are controlled by the Controlling Shareholders. Certain of the Group's bank borrowings are also guaranteed by the management of the Group and the related companies which are controlled by the Controlling Shareholders. The banks have given consent in writing to the Group or as represented by the management of the Group where no written consent was given, that those guarantees and securities from the management of the Group and the related companies will be released upon listing of the shares of the Company on the Stock Exchange.

33. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised and movements thereon during the Track Record Period:

	Temporary difference on land use rights HK\$`000 (note)	Accelerated tax depreciation HK\$'000	Total HK\$'000
At 1 January 2015	_	2,417	2,417
Credit to profit or loss		(503)	(503)
At 31 December 2015	_	1,914	1,914
Charge to profit or loss	<u> </u>	108	108
At 31 December 2016	_	2,022	2,022
Acquisition of subsidiaries (note 45)	4,990	_	4,990
(Credit) charge to profit or loss	(66)	220	154
	4,924	2,242	7,166

Note: The amounts arise from fair value adjustments on assets recognised in business combination.

Under the EIT Law of PRC, the dividends declared by PRC subsidiaries to investors that are non-resident enterprises is subject to PRC withholding tax at a preferential tax rate of 10.0%. As at 31 December 2015, 2016 and 2017, deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK\$6,299,000, HK\$7,697,000 and HK\$16,210,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

34. SHARE CAPITAL AND RESERVE

For the purposes of presentation of the combined statements of financial position, the share capital of the Group as at 1 January 2015, 31 December 2015 and 31 December 2016 represent the aggregate of share capital of HWT and Kingstead Industrial, while the share capital of the Group as at 31 December 2017 represents the aggregate of share capital of the Company, Hingtex Group, Kingshine Group, HWT and Kingstead Industrial prior to the completion of the Reorganisation.

Share capital of the Company:

	Number of shares	Share capital HK\$'000
Ordinary shares of HK\$0.01 each Authorised: At 3 November 2017 (date of incorporation) and 31 December 2017	38,000,000	380
Issued: Issued on date of incorporation and 31 December 2017	100,000	1

ACCOUNTANTS' REPORT

Reserve of the Company:

		Accumulated losses HK\$'000
	At 3 November 2017 (date of incorporation)	_
	Loss and total comprehensive expense for the period	(5,423)
35.	AMOUNT DUE TO A SUBSIDIARY	(5,423)
		At 31 December
		2017
		HK\$'000
	HWT	6,398

The amount due to a subsidiary is interest free, unsecured and repayable on demand.

36. OPERATING LEASE

The Group as lessee

Minimum lease payments paid under operating leases during the year ended 31 December 2015, 2016 and 2017 were HK\$3,364,000, HK\$5,003,000 and HK\$6,821,000, respectively. The Group leases various office premises and quarters under non-cancellable operating lease agreements. The lease terms are from 1 to 3 years. Certain office premises and director quarter were leased from related parties of the Group as detailed in note 38.

At the end of each reporting period, the Group had commitments for future minimum lease payments under noncancellable operating leases which fall due as follows:

	At 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Within one year	3,729	2,368	6,240	
In the second to the fifth year inclusive	474	1,220	5,626	
	4,203	3,588	11,866	

37. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes at the lower of HK\$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, which contribution is matched by the employee.

The Group also participates in a state-managed defined contribution retirement scheme organised by the relevant local governmental authority in the PRC. PRC employees of the Group eligible to participate in the retirement scheme are entitled to retirement benefits from the scheme. The Group is required to make monthly contributions to the retirement scheme for the eligible employees at specified percentage of the payroll and the local governmental authority is responsible for the pension liabilities to these employees upon their retirement.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Track Record Period, the total amounts contributed by the Group to the schemes and cost charged to the profit or loss represents contributions paid/payable to the schemes by the Group at rates specified in the rules of the schemes. The retirement benefits scheme contribution expense recognised by the Group amounted to HK\$1,019,000, HK\$1,080,000 and HK\$2,155,000, respectively, during the years ended 31 December 2015, 2016 and 2017.

38. RELATED PARTY TRANSACTIONS

(a) Related party transactions

The Group entered into the following transactions with its related parties during the Track Record Period:

Name of entities	Nature of transaction	2015 <i>HK</i> \$'000	2016 HK\$'000	2017 HK\$'000
Joint venture				
KDIL	Sales of goods	31,787	28,704	_
	Service fee income	5,400	5,400	5,400
	Purchase of raw materials and related			
	service fee	15,121	12,100	4,401
	Royalty fee expense	3,123	3,923	4,680
Related parties				
Gain Success	Disposal of properties	74,300	_	_
	Operating lease payments	_	1,320	1,320
Star Alliance	Operating lease payments	2,908	2,976	3,264
Hing Tak Weaving Factory Limited (note i)	Operating lease payments	223	223	223
Hing Shing (note ii)	Sub-contracting charges	25,176	32,223	22,815

The relationship with related parties are set out in notes 24, 25 and 29.

Notes:

- (i) The Controlling Shareholders have controlling interests in this entity.
- (ii) The amounts represent sub-contracting charges paid/payable prior to Hing Shing become a subsidiary of the Group in July 2017.

(b) Guarantees granted to a related party

As at 31 December 2015, 2016 and 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to Star Alliance of an amount of HK\$21,700,000, HK\$21,700,000 and HK\$21,700,000, of which HK\$17,138,000, HK\$15,056,000 and HK\$20,468,000 has been utilised by the related party, respectively. In the opinion of the directors of the Company, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound.

(c) Guarantees obtained from related parties

Certain of the secured bank borrowings of the Group are secured by assets held by the related companies which are controlled by the Controlling Shareholders. Certain of the secured bank borrowings of the Group are guaranteed by the management of the Group and the related companies which are controlled by the Controlling Shareholders. The banks have given consent in writing to the Group or as represented by the management of the Group where no written consent was

given, that those guarantees and securities from the management of the Group and the related companies will be released and replaced by the corporate guarantee to be given by the Company upon listing of the shares of the Company on the Stock Exchange.

(d) Compensation of directors and key management personnel

	Year ended 31 December			
	2015	2016	2017	
	HK\$'000	HK\$'000	HK\$'000	
Salaries and other allowances	3,981	5,358	13,382	
Retirement benefit scheme contributions	88	90	90	
Other benefits (note)	492	1,632	3,078	
	4,561	7,080	16,550	

Note:

Other benefit represents rentals for directors' quarters which include a residential property held by the Group and used by Mr. Stephen Tung for free in 2015.

The remuneration of directors and key management personnel are determined having regard to the performance of the individuals and contribution to the Group.

(e) Related party balances

Details of the outstanding balances with related parties are set out in the combined statements of financial position and in notes 24, 25, 26, 29 and 30.

39. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debts, which includes bank borrowings and obligations under finance leases net of bank balances and cash, and equity attributable to owners of the Company, comprising share capital and reserves.

The management of the Group review the capital structure regularly. As part of this review, the management of the Group consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends and new share issues as well as the issue of new debt or the redemption of existing debt.

40. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Year ended 31 December			
	2015 2016		2017	
	HK\$'000	HK\$'000	HK\$'000	
Financial assets:				
Loans and receivables (including cash and cash equivalents)	451,169	438,967	238,980	
Financial liabilities:				
Financial liabilities at amortised cost	200,661	189,489	265,207	
Obligations under finance leases	2,605	1,214	2,373	

(b) Financial risk management objectives and policies

The Group's major financial assets and liabilities include structured bank deposit, trade and other receivables, amounts due from related companies, amounts due from a joint venture, amounts due from directors, restricted bank deposits, bank balances and cash, trade and other payables, amounts due to related companies, amounts due to a joint venture, amounts due to directors, obligations under financial leases and bank borrowings. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to currency risk and interest rate risk. There has been no change in the Group's exposure to these risks or the manner in which it manages and measures the risks.

(i) Currency risk

The Group's exposure to foreign currency risk related primarily to trade and other receivables, amount due from/to a joint venture, amounts due from/to related companies, amounts due from/to directors, restricted bank deposits, bank balances and cash, trade and other payables, obligations under financial leases and bank borrowings that are denominated in RMB and HK\$. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of each reporting period are as follows:

	RMB		
	Assets	Liabilities	
	HK\$'000	HK\$'000	
As at 31 December 2015	80,579	13,230	
As at 31 December 2016	3,946	20,099	
As at 31 December 2017	15,607	27,090	
	HK\$		
	HK\$ Assets	Liabilities	
	,	Liabilities HK\$'000	
As at 31 December 2015	Assets		
As at 31 December 2015 As at 31 December 2016	Assets HK\$'000	HK\$'000	

Sensitivity analysis

The management of the Group considers that the exposure of US\$ against HK\$ is limited as HK\$ is pegged to US\$ and the Group is mainly exposed to the currency risk of RMB against US\$ during the Track Record Period. The following table details the Group's sensitivity to a 5% increase and decrease in RMB against US\$. 5% is the sensitivity rate used which represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the year end for a 5% change in foreign currency rates. A positive/negative number below indicates an increase/decrease in post-tax profit where RMB weakened 5% against US\$. For a 5% strengthening of RMB against US\$, there would be an equal and opposite impact on the profit or loss.

	At 31 December		
	2015	2017	
	HK\$'000	HK\$'000	HK\$'000
RMB	(2,812)	674	479

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

(ii) Interest risk

The Group is exposed to cash flow interest rate risk in relation to restricted bank deposits, structured bank deposits, bank balances and variable rate bank borrowings due to the fluctuation of the prevailing market interest rates. Currently, the Group does not have a specific policy to manage its interest rate risk in respect of the variable rates bank borrowings, but the management will closely monitor interest rate exposures and consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable rate bank borrowings at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the each of the years ended 31 December 2015, 2016 and 2017.

If interest rates had been 50 basis points higher and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2015, 2016 and 2017 would have decreased by:

	At 31 December		
	2015	2017	
	HK\$'000	HK\$'000	HK\$'000
Decrease in post-tax profit for the year	142	157	337

The post-tax profit for the year would have increased by the same amount as mentioned above if the interest rates on variable-rate bank borrowings had been 50 basis points lower and all other variables were held constant.

No sensitivity analysis for variable-rate restricted bank deposits, structured bank deposits and bank balances is presented as the management considers that the exposure to the Group is limited during the years ended 31 December 2015, 2016 and 2017 as the management does not anticipate a material change in interest rate.

Credit risk

As at 31 December 2015, 2016 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

- the carrying amount of the respective recognised financial assets as stated in the combined statement of financial position; and
- the amount of contingent liabilities in relation to financial guarantee issued by the Group as disclosed in note 41.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the management of the Group reviews the recoverability of each trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the counterparties are banks with good reputation.

The Group has concentration of credit risk as 34.89%, 18.71% and 18.90% of the total trade receivables was due from the Group's largest customer and 74.77%, 64.72% and 61.56% of the total trade receivables was due from the Group's five largest customers, as at 31 December 2015, 2016 and 2017, respectively.

As at 31 December 2015, 2016 and 2017, the Group also has concentration of credit risk from amounts due from a joint venture, related companies and directors. The management of the Group considers the credit risk of those balances is limited because they continuously monitor the quality and financial conditions of the joint venture, and related companies and directors. The outstanding balances due from related companies have been offset against amounts due to the Controlling Shareholders as more fully explained in note 25.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its financial liabilities and financial guarantee contract based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cashflows HK\$'000	Carrying amount HK\$'000
As at 31 December 2015						
Trade and other payables	_	69,176	69,043	_	138,219	138,219
Amount due to a joint						
venture	_	1,417	_	_	1,417	1,417
Amounts due to related		3,119			3,119	3,119
companies Amounts due to directors	_	23,800	_	_	23,800	23,800
Bank borrowings		23,000	_	_	23,000	23,000
— variable rate	1.96%	34,106	_	_	34,106	34,106
Financial guarantee contract	_	17,138	_	_	17,138	_
Obligations under finance						
leases	4.20%	371	1,114	1,245	2,730	2,605
		149,127	70,157	1,245	220,529	203,266
As at 31 December 2016						
Trade and other payables	_	86,339	56,233	_	142,572	142,572
Amount due to a joint						
venture	_	446	_	_	446	446
Amounts due to related						
companies	_	7,875	_	_	7,875	7,875
Amounts due to directors Bank borrowings	_	1,055	_	_	1,055	1,055
— variable rate	1.72%	37,541	_	_	37,541	37,541
Financial guarantee contract	1.7270	15,056	_	_	15,056	57,5 1 1
Obligations under finance		15,050			15,000	
leases	4.37%	284	852	109	1,245	1,214
		148,596	57,085	109	205,790	190,703

	Weighted average interest rate %	On demand or less than 3 months HK\$'000	3 months to 1 year HK\$'000	1 year to 5 years HK\$'000	Total undiscounted cashflows HK\$'000	Carrying amount HK\$'000
As at 31 December 2017						
Trade and other payables	_	105,719	78,133	_	183,852	183,852
Amounts due to related						
companies	_	739	_	_	739	739
Bank borrowings						
 variable rate 	1.90%	80,616	_	_	80,616	80,616
Financial guarantee contract	_	20,468	_	_	20,468	_
Obligations under finance						
leases	2.97%	399	872	1,163	2,434	2,373
		207,941	79,005	1,163	288,109	267,580

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 3 month" time band in the above maturity analysis. As at 31 December 2015, 2016 and 2017, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$34,106,000, HK\$37,541,000 and HK\$80,616,000, respectively. Taking into account the Group's financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management believes that such bank and other borrowings will be repaid after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements and accordingly, the aggregate principal and interest cash outflows will amount to HK\$34,407,000, HK\$38,282,000 and HK\$82,637,000, respectively details of which are set out in the table below:

Maturity Analysis — Bank loans with a repayment on demand clause based on scheduled repayments

					Total undiscounted	
	Less than 3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	cash outflows HK\$'000	Carrying amount HK\$'000
31 December 2015	21,361	8,617	3,020	1,409	34,407	34,106
31 December 2016	20,913	4,547	4,602	8,220	38,282	37,541
31 December 2017	33,203	17,381	9,580	22,473	82,637	80,616

The amount included above for financial guarantee contract is the maximum amount the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of each reporting period, the management of the Group considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amounts included above for variable rate instruments are subject to change if changes in variable rates differ to those estimates of interest rates determined at the end of the reporting period.

(c) Fair value measurements of financial instruments

The management of the Group considers that the carrying amounts of financial assets and financial liabilities of the Group measured at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values.

41. CONTINGENT LIABILITIES

As at 31 December 2015, 2016 and 2017, the Group issued financial guarantees to a bank in respect of banking facilities granted to a related party of an amount of HK\$21,700,000, HK\$21,700,000 and HK\$21,700,000, of which HK\$17,138,000, HK\$15,056,000 and HK\$20,468,000 has been utilised by the related party, respectively. In the opinion of the management of the Group, the fair value of the financial guarantee provided by the Group is not significant as the financial position of the related party is sound.

42. PLEDGED ASSETS

The Group's borrowings, obligations under finance leases and certain banking facilities are secured by assets of the Group and the carrying amounts of which at the end of each reporting period are stated below:

		At 31 December			
		2015 2016			
		HK\$'000	HK\$'000	HK\$'000	
	Property, plant and equipment	4,127	2,399	4,746	
	Bills receivable	_	1,687	_	
	Structured bank deposits	7,800	7,800	7,800	
	Restricted bank deposits	21,708	19,361	19,435	
42	DADENGLY AND OF CARCIDAL DATE	33,635	31,247	31,981	

43. PARTICULARS OF SUBSIDIARIES

During the Track Record Period and as at the date of this report, the Company has direct and indirect equity interests in the following subsidiaries:

					iterest attribu	
				th	ie Group as a	t
		Place and date of				31/12/2017
		incorporation/	Place of			and date of
Name of subsidiary	Principal activity	registration	operation	31/12/2015	31/12/2016	this report
Hingtex Group*	Investment holding	BVI 24 October 2017	Hong Kong	N/A	N/A	100%
H.W. Holdings	Investment holding	BVI 27 October 2017	Hong Kong	N/A	N/A	100%
Kingstead Group	Investment holding	BVI 27 October 2017	Hong Kong	N/A	N/A	100%
Kingshine Group	Investment holding	BVI 20 June 2017	Hong Kong	N/A	N/A	100%
HWT	Design, trading of denim fabric and investment holding	0 0	Hong Kong	100%	100%	100%
Kingstead Industrial	Trading of denim fabric and investment holding	Hong Kong 5 December 1995	Hong Kong	100%	100%	100%
Kingshine Investments**	Investment holding	Hong Kong 6 June 2001	Hong Kong	N/A	N/A	100%

Equity	interest attributable	to
	the Group as at	

				th	e Group as a	t
Name of subsidiary	Principal activity	Place and date of incorporation/ registration	Place of operation	31/12/2015	31/12/2016	31/12/2017 and date of this report
Zhongshan Hing Tak Wearing and Dyeing Limited 中山興德紡織漿染有限公司 ("Hing Tak")***	Manufacture of denim fabric	The PRC 25 November 2011	The PRC	100%	100%	100%
Zhongshan Hing Shing Finishing and Dyeing Limited 中山市興盛漿染整理有限公 司 ("Hing Shing")***	Manufacture of denim fabric	The PRC 30 September 2001	The PRC	N/A	N/A	100%

^{*:} Directly held by the Company.

All companies comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company and the subsidiaries incorporated in the BVI since their respective dates of incorporation as they were incorporated in jurisdictions where there are no statutory audit requirements.

The statutory financial statements of the following subsidiaries for the Track Record Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to the respective jurisdictions and were audited by the following Certified Public Accountants.

Name	Financial year ended	Name of auditor
HWT	31 December 2015	Raymond Y.L. Lai & Company CPA
	31 December 2016	ST Lo & Co., CPA
	31 December 2017	ST Lo & Co., CPA
Kingstead Industrial	31 March 2015*	Raymond Y.L. Lai & Company CPA
	31 March 2016*	ST Lo & Co., CPA
	31 December 2016*	ST Lo & Co., CPA
	31 December 2017	ST Lo & Co., CPA
Hing Tak	31 December 2015, 2016 and 2017	中山天盈會計師事務所有限公司
Kingshine Investments	31 December 2017	ST Lo & Co., CPA
Hing Shing	31 December 2017	中山天盈會計師事務所有限公司

^{*:} In 2016, Kingstead Industrial changed its financial year end date from 31 March to 31 December.

44. MAJOR NON-CASH TRANSACTIONS

In December 2015, the Group disposed certain land and buildings (recorded in investment properties and property, plant and equipment) to Gain Success for an aggregate consideration of HK\$ 74,300,000.

During the years ended 31 December 2015, 2016, and 2017, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$3,233,000, nil and HK\$3,338,000, respectively.

^{**:} The Group acquired Kingshine Investments, which is the immediate holding company of Hing Shing, in July 2017. Details of the acquisition are set out in note 45.

^{***:} The English name is for identification only. The official name of the entity is in Chinese.

ACCOUNTANTS' REPORT

Pursuant to the settlement agreements signed between the Group and the Controlling Shareholders, the amounts due from related companies of HK\$290,097,000 and amounts due from directors of HK\$9,903,000 outstanding as at 31 December 2017 have been offset against the interim dividend of HK\$300,000,000 declared by HWT to its then shareholders, known as the Controlling Shareholders.

45. ACQUISITION OF SUBSIDIARIES

Kingshine Investments was incorporated in Hong Kong with limited liability on 6 June 2001. Immediately prior to the acquisition of the shareholdings as more fully explained below, Kingshine Investments was owned as to 32% by Mr. B, 25% by Ms. A, 16% by Mr. TH Tung, 13.5% by Mr. Stephen Tung and 13.5% by Mr. Stanley Tung.

On 7 July 2017, Kingshine Group entered into a sale and purchase agreement with each of Mr. B and Ms. A, pursuant to which Kingshine Group acquired 3,200,000 shares and 2,500,000 shares, representing 32% and 25% of the entire issued share capital of Kingshine Investments from Mr. B and Ms. A (collectively the "Ex-Shareholders") at a consideration of HK\$17,100,000 and HK\$13,359,375, respectively (the "Acquisition"). The aforesaid consideration consists of HK\$13,488,432 for the acquisition of the 57% equity interest in Kingshine Investments and assumption of the amounts due to the Ex-Shareholders of HK\$16,970,943. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$1,184,000. Kingshine Investments is engaged in the dyeing and finishing processes and was acquired so as to strengthen the control over Kingshine Investments and streamline the whole denim fabric production process of the Group.

Fair value of assets and liabilities recognised at the date of acquisition are as follows:

	HK\$'000
Prepaid lease payments	18,414
Property, plant and equipment	18,654
Intangible assets	3,675
Inventories	6,554
Trade and other receivables (Note i)	2,440
Amount due from related companies (Note i)	3,144
Cash and cash equivalents	7,587
Trade and other payables	(1,611)
Amounts due to the directors of the Company	(15,310)
Amounts due to Ex-Shareholders	(16,971)
Deferred tax liabilities	(4,990)
Net assets	21,586

Note:

(i) The amounts represented the fair value of the receivables acquired in these transactions, which approximate the gross contractual amounts of these receivables. As at acquisition date, no contractual cash flows was expected to be unrecoverable.

Goodwill arising on acquisition:

	HK\$'000
Consideration for the 57% equity interest	13,488
Plus: non-controlling interests (note a)	9,282
Less: net assets acquired	(21,586)
Goodwill arising on acquisition	1,184

Note:

ACCOUNTANTS' REPORT

(a) The non-controlling interests represented the 43% equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung at the date of the Acquisition. On 23 March 2018, through a share swap agreement, Kingshine Group acquired their respective equity interest, representing 16.0%, 13.5% and 13.5% of the entire issued share capital of Kingshine Investments from Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung respectively. As such, the equity interest held by Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung prior to the Acquisition totaling HK\$9,282,000 was recognised as deemed contribution from shareholders in other reserve.

The acquisition-related costs are not material and have been recognised as an expense in the profit or loss for the year ended 31 December 2017.

Cash consideration 13,488
Less: Consideration payable (note 28) (6,840)
Less: Cash and cash equivalents balances acquired (7,587)

Net cash inflow on acquisition (939)
Repayments of amounts due to Ex-shareholders 16,971

Impact of the Acquisition on the results of the Group

Included in the profit for the year ended 31 December 2017 is a loss of HK\$3,000 attributable to the additional business generated by Kingshine Investments and its subsidiaries. Revenue for the year ended 31 December 2017 includes HK\$5,757,000 generated by Kingshine Investments and its subsidiaries.

Had the Acquisition been effected at the beginning of the year ended 31 December 2017, the total amount of revenue of the Group for the year ended 31 December 2017 would have been HK\$666,450,000, and the amount of the profit for the year ended 31 December 2017 would have been HK\$125,237,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed at the beginning of the year ended 31 December 2017, nor is it intended to be a projection of future results.

In determining the "pro-forma" information set out above, revenue and profit of the Group had the Acquisition been completed at the beginning of the year ended 31 December 2017, the directors of the Company calculated depreciation and amortisation of property, plant and equipment and land use rights based on the recognised amounts of property, plant and equipment at the date of the Acquisition.

46. RECONCILIATION OF (ASSETS) LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's (assets) liabilities arising from financing activities, including both cash and non-cash changes. (Assets) liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's combined statements of cash flows as cash flows from financing activities.

	1 January 2015 HK\$'000	Financing cash flows HK\$'000	Non-cash changes HK\$'000 (Note i)	Other changes HK\$'000 (Note ii)	31 December 2015 HK\$'000
Amounts due to related companies (non-trade)	724	445	_	_	1,169
Amounts due to directors	46,884	(23,084)	_	_	23,800
Bank borrowings (Note iii)	74,935	(41,531)	_	702	34,106
Obligations under finance leases (Note iv)	1,022	(1,748)	3,233	98	2,605
Total	123,565	(65,918)	3,233	800	61,680
	1 January	Financing	Non-cash	Other	31 December
	2016	cash flows	changes	changes	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note i)	(Note ii)	
Amounts due to related companies (non-trade)	1,169	(201)	_	_	968
Amounts due to directors	23,800	(22,745)	_	_	1,055
Bank borrowings (Note iii)	34,106	1,203	_	545	35,854
Obligations under finance leases (Note iv)	2,605	(1,485)		94	1,214
Total	61,680	(23,228)		639	39,091
	1 January	Financing	Non-cash		31 December
	2017	cash flows	changes	Other changes	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note i)	(Note ii)	
Amounts due to related companies (non-trade)	968	(229)	_	_	739
Amounts due to directors	1,055	(16,365)	15,310	_	_
Bank borrowings (note iii)	35,854	43,609	_	1,153	80,616
Obligations under finance leases (note iv)	1,214	(2,298)	3,338	119	2,373
Deferred listing expenses		(976)			(976)
Total	39,091	23,741	18,648	1,272	82,752

Notes:

- (i) Non-cash changes represent the effects of addition of property, plant and equipment through finance leases (note 30) and addition of amounts due to directors arising from acquisition of subsidiaries (note 45).
- (ii) Other changes represent the interest expenses of bank borrowings and obligations under finance leases recognised during the Track Record Period.
- (iii) The cash flows from bank borrowings comprise the net amount of new borrowings raised and repayment of principal and interest of bank borrowings paid during the Track Record Period.
- (iv) The cash flows of obligations under finance leases represent repayments of principal and interest during the Track Record Period.

47. SUBSEQUENT EVENTS

In May 2018, special dividend of HK\$1,000 per share amounting to HK\$100,000,000 was recognised as distribution of the Company to its shareholders.

48. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2017.

The following information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the year ended 31 December 2017 (the "Accountants' Report") from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I, to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared by the directors of the Company in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of Share Offer (as defined in this prospectus) on the audited combined net tangible assets of the Group attributable to the owners of the Company as at 31 December 2017 as if the Share Offer had taken place on 31 December 2017.

This statement of unaudited pro forma adjusted combined net tangible assets of the Group attributable to the owners of the Company has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined financial position of the Group had the Share Offer been completed as at 31 December 2017 or at any future dates.

			Unaudited pro	Unaudited pro
	Audited		forma adjusted	forma adjusted
	combined net		combined net	combined net
	tangible assets		tangible assets	tangible assets
	of the Group		of the Group	of the Group
	attributable to owners of the		attributable to owners of the	attributable to owners of the
	Company as at	Estimated net	Company as at	Company as at
	31 December	proceeds from	31 December	31 December
	2017	the Share Offer	2017	2017 per Share
	HK\$'000	HK\$'000	HK\$'000	HK\$
	(Note 1)	(<i>Note 2</i>)		(<i>Note 3</i>)
Based on Offer Price of				
HK\$1.10 per Share	283,945	149,275	433,220	0.68
Based on Offer Price of				
HK\$1.40 per Share	283,945	195,355	479,300	0.75

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Notes:

- The audited combined net tangible assets of the Group attributable to owners of the Company as at 31 December 2017 have been calculated based on the audited combined net assets of the Group attributable to the owners of the Company of HK\$290,487,000 as at 31 December 2017 as set out in the Accountants' Report set forth in Appendix I to this prospectus with an adjustment for goodwill and intangible assets attributable to owners of the Company as at 31 December 2017.
- 2. The estimated net proceeds from the Share Offer are based on 160,000,000 new Shares at indicative Offer Price of HK\$1.10 per Offer Share or HK\$1.40 per Offer Share, respectively, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the estimated underwriting fees and commissions and other listing related expenses paid or payable by the Group, other than those expenses which have been recognised in profit or loss in the period up to 31 December 2017. It does not take into account of any shares (i) which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme, (ii) which may be issued or repurchased by the Company pursuant to the general mandate to issue or repurchase of shares granted to the directors of the Company and (iii) which may be allotted and issued pursuant to the exercise of the Overallotment Option.
- 3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company per share is arrived at on the basis that 640,000,000 shares comprise of the shares in issue assuming that the Share Offer and the Capitalisation Issue (as defined in this prospectus) had been completed on 31 December 2017. It does not take into account of any shares (i) which may be allotted and issued pursuant to the exercise of the options which may be granted under the Share Option Scheme (ii) which may be issued or repurchased by the Company pursuant to the general mandates to issue or repurchase of shares granted to the directors of the Company and (iii) which may be allotted and issued pursuant to the exercise of the Over-allotment Option.
- 4. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company does not take into account the effect of any trading result or other transactions of the Group entered into subsequent to 31 December 2017. In particular, the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company has not taken into account the special dividend of HK\$100,000,000 in which the Directors have declared on 9 May 2018. Had such special dividend of HK\$100,000,000 been taken into account, the unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company would have been HK\$333,220,000 and HK\$379,300,000, respectively, and the unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company per Share would have been HK\$0.52 and HK\$0.59, respectively, based on Offer Price of HK\$1.10 per Share and HK\$1.40 per Share, respectively.

B. ASSURANCE REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte.



INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of Hingtex Holdings Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Hingtex Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets as at 31 December 2017 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 28 June 2018 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed Share Offer (as defined in the Prospectus) on the Group's financial position as at 31 December 2017 as if the Share Offer had taken place at 31 December 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for the three years ended 31 December 2017, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants Hong Kong 28 June 2018

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 19 June 2018 and states, inter alia, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix V in the section headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

2 Articles of Association

The Articles of Association of the Company were conditionally adopted on 19 June 2018 and include provisions to the following effect:

2.1 Classes of Shares

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$10,000,000 divided into 1,000,000,000 shares of HK\$0.01 each.

2.2 Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in

such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

(v) any contract or arrangement in which the Director or any of his close associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

(g) Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 Alteration to constitutional documents

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 Variation of rights of existing shares or classes of shares

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting

and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 Alteration of capital

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution — majority required

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or

loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.10 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and any extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.11 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four:
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.12 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong. Shares which have been repurchased will be treated as cancelled upon the repurchase.

2.13 Power of any subsidiary of the Company to own shares

There are no provisions in the Articles of Association relating to the ownership of shares by a subsidiary.

2.14 Dividends and other methods of distribution

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a share in advance of calls shall be treated as paid up on the share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members

of the Company entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.15 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.16 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all monies which at the date of forfeiture were payable by him to the Company in respect of the shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.17 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 10 business days' notice (or on 6 business days' notice in the case of a rights issue) being given by advertisement published on the Stock Exchange's website, or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association or by advertisement published in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.18 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.19 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.20 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. If in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company

APPENDIX III

SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANY LAW

(whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.21 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

SUMMARY OF CAYMAN ISLANDS COMPANY LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 November 2017 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3 Share Capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);
- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the articles of association or by an ordinary resolution of the company. The articles of association may provide that the manner of purchase may be determined by the directors of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase,

there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4 Dividends and Distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 3 above for details).

5 Shareholders' Suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in Foss v. Harbottle (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of Minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of Assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and Auditing Requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9 Register of Members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10 Inspection of Books and Records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11 Special Resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters

required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12 Subsidiary Owning Shares in Parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and Consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 Stamp Duty on Transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or

(ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2011 Revision).

The undertaking is for a period of twenty years from 21 November 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange Control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Maples and Calder (Hong Kong) LLP, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents delivered to the registrar of companies and available for inspection" in Appendix V. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company on 3 November 2017. Our Company has established a principal place of business in Hong Kong at Unit A6 on 31st floor of TML Tower and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 1 December 2017. Mr. Stephen Tung and Mr. Cheung Ka Chun have been appointed as the authorised persons of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, our corporate structure, the Memorandum of Association and the Articles of Association are subject to Cayman Islands law. A summary of relevant provisions of the Memorandum of Association and the Articles of Association and certain aspects of the Cayman Companies law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as of the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares with a par share of HK\$0.01 each. The following sets out the changes in the share capital of our Company since the date of incorporation:

- (a) on 3 November 2017, one Share was issued and allotted at par, credited as fully paid, to the initial subscriber, and such Share was transferred at par to Manford Investment on the same date;
- (b) on 3 November 2017, 99,999 Shares were issued and allotted to Manford Investment;
- (c) on 9 March 2018, 100,000 Shares were issued and allotted to Manford Investment;
- (d) on 23 March 2018, 300,000 Shares were issued and allotted to Manford Investment;
- (e) on 19 June 2018, the authorised share capital of our Company increased from HK\$380,000 to HK\$10,000,000.

Assuming that the Share Offer becomes unconditional, immediately following completion of the Capitalisation Issue and the Share Offer (assuming the Over-allotment Option is not exercised and excluding any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$6,400,000 divided into 640,000,000 Shares, all fully paid or credited as fully paid and 360,000,000 Shares will remain unissued.

Other than Shares to be issued pursuant to the exercise of the Over-allotment Option, Share Option Scheme and the general mandate to issue the Shares referred to in the paragraph headed "4. Written resolutions of our sole Shareholder passed on 19 June 2018" in this Appendix, our Directors do not have any present intention to issue any Share out of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

3. Changes in the share capital of our subsidiaries

Subsidiaries of our Company are referred to in the Accountants' Report set out in Appendix I. Save as set out above and disclosed in "History, Corporate Structure and Reorganisation", there has been no alteration in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

4. Written resolutions of our sole Shareholder passed on 19 June 2018

Pursuant to the resolutions in writing of our sole Shareholder passed on 19 June 2018:

- (a) conditional upon Listing, the Memorandum and the Articles were approved and adopted with effect from the Listing Date;
- (b) conditional upon the conditions stated in the section "Structure and Conditions of the Share Offer — Conditions of the Share Offer" in this prospectus being fulfiled or waived:
 - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares;
 - (ii) the Share Option Scheme was approved and adopted and the Directors were authorised to grant options thereunder, to allot and issue such number of Shares pursuant thereto, and to take all such steps as may be necessary, desirable or expedient to implement the Share Option Scheme;
 - (iii) condition on the share premium account of our Company being credited as a result of the Share Offer, our Directors were authorised to allot and issue a total of 479,500,000 Shares, credited as fully paid at par, to our Shareholders whose names appear on the register of members of our Company at 5:00 p.m. on 13 July 2018 (or such other time as our Directors may direct) in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in our Company by way of capitalisation of a sum of HK\$4,795,000 standing to the credit of the share premium account of our Company, and that the Shares to be allotted and issued shall rank pari passu in all respects with the then existing issued Shares:
 - (iv) a general unconditional mandate ("Issuing Mandate") was granted to our Directors to allot, issue and deal with Shares and to make or grant offers, agreements or options which might require such Shares to be allotted and issued

or dealt with, subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of (a) 20% of the total number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer; and (b) the aggregate number of Shares repurchased by our Company pursuant to the authority granted to our Directors referred to in "General Mandate to Repurchase Shares" in this section. The aggregate number of Shares which our Directors are authorised to allot and issue under this mandate will not be reduced by the allotment and issue of Shares under a rights issue, script dividend scheme or similar arrangement in accordance with the Articles, or pursuant to the exercise of any options which may be granted under the Share Offer or the Capitalisation Issue. Such Issuing Mandate will expire at the earliest of (a) the conclusion of our Company's next annual general meeting; or (b) the expiration of the period within which our Company is required by any applicable laws or the Articles to hold the next annual general meeting; or (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting;

- a general unconditional mandate (the "Repurchase Mandate") was granted to our Directors to exercise all the powers of our Company to repurchase such number of Shares representing not more than 10% of the aggregate number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer. This Repurchase Mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares may be listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and made in accordance with all applicable laws and regulations and the requirements of the Listing Rules. Please see "Appendix IV — Statutory and General Information — A. Further Information about our Group — 7. Repurchase by our Company of our own securities" for the further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares. Such Repurchase Mandate will expire at the earliest of (a) the conclusion of our Company's next annual general meeting; or (b) the expiration of the period within which our Company is required by any applicable laws or the Articles to hold the next annual general meeting; or (c) when varied or revoked by an ordinary resolution of our Shareholders in general meeting;
- (vi) the Issuing Mandate was extended by the addition to the aggregate number of Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under the Issuing Mandate of an amount representing the aggregate number of Shares repurchased by our Company under the Repurchase Mandate.

5. Reorganisation

In preparation for the Share Offer, our Group have undertaken the Reorganisation, details of which are set out in "History, Corporate Structure and Reorganisation — Reorganisation".

6. Particulars of our subsidiaries

Particulars of our subsidiaries are set forth in Note 43 to the Accountants' Report, the text of which is set forth in "Appendix I — Accountants' Report".

7. Repurchase by our Company of our own securities

This paragraph includes information relating to the repurchase of Shares, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) Relevant legal and regulatory requirements

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange (which must be fully paid up) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Trading restriction

The total number of shares which a listed company may repurchase on the Stock Exchange is the number of shares representing up to a maximum of 10% of the aggregate number of share in issue. A company may not issue or announce a proposed issue of new shares for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. The Listing Rules also prohibit a listed company from repurchasing its shares if that repurchase would result in the number of listed shares which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange. A company is required to procure that the broker appointed by it to effect a repurchase of shares discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(iii) Source of fund

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of Association and the Cayman Companies Law. A listed company may not repurchase its own securities on the Stock Exchange at a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange as amended from time to time.

(iv) Status of Repurchased Shares

The listing of all purchased securities (whether on the Stock Exchange or, otherwise) is automatically cancelled and the relative certificates must be cancelled and destroyed. Under the Cayman Companies Law, unless, prior to the purchase the directors of the Company resolve to hold the shares purchased by the Company as treasury shares, shares purchased by the Company shall be treated as cancelled and the amount of the Company's issued share capital shall be diminished by the nominal value of those shares. However, the purchase of shares will not be taken as reducing the amount of the authorised share capital under Cayman Companies Law.

(v) Suspension of Repurchase

A listed company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding the earlier of (a) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (b) the deadline for publication of an announcement of a listed company's results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), the listed company may not repurchase its shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a listed company has breached the Listing Rules.

(vi) Reporting Requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, a listed company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(vii) Core Connected Persons

The Listing Rules prohibit a company from knowingly purchasing securities on the Stock Exchange from a "core connected person", that is, a director, chief executive or substantial shareholder of the company or any of its subsidiaries or a close associate of any of them (as defined in the Listing Rules) and a core connected person shall not knowingly sell his securities to the company.

(b) Reasons for repurchases

Our Directors believe that it is in our and our Shareholders' best interests for our Directors to have general authority to execute repurchases of Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit us and our Shareholders.

(c) Funding of repurchases

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Memorandum of Association, the Articles of Association, the Listing Rules and the Cayman Companies Law.

If the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or the gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the general mandate to repurchase Shares to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) General

The exercise in full of the Repurchase Mandate, on the basis of 640,000,000 Shares representing the number of Shares in issue immediately following the completion of the Capitalisation Issue and the Share Offer, could accordingly result in up to 64,000,000 Shares being repurchased by us during the Relevant Period until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which our Company is required by any applicable laws or the Articles to hold the next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of our Shareholders in general meeting.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective close associates currently intends to sell any Share to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they shall exercise the general mandate to repurchase Shares in accordance with the Listing Rules and Cayman Islands Company Law.

If, as a result of any repurchase of the Shares, a Shareholder's proportionate interest in our voting rights is increased, the increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences of repurchases which would arise under the Takeovers Code.

None of the core connected persons of our Company has notified us that he or she or it has a present intention to sell his/her/its Shares to us, or has undertaken not to do so, if the general mandate to repurchase Shares is exercised.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts entered into in the ordinary course of our business) have been entered into by us within the two years preceding the date of this prospectus and are or may be material:

- (a) the memorandum of sale and purchase dated 28 December 2015 entered into between Kingstead Industrial Limited (興駿實業有限公司) as the vendor and Gain Success International Limited 成利國際有限公司 as the purchaser in relation to the disposal of all those 248 equal undivided 43,389th parts or shares of and in ALL THAT piece or parcel of ground registered in the Land Registry as KOWLOON INLAND LOT NO.2411 AND THE EXTENSION THERETO And of and in the messuages erections and buildings constructed thereon and now known as "NO.1 HO MAN TIN HILL (何文 田山1號)" (the "Development") TOGETHER with the sole and exclusive right and privilege to hold use occupy and enjoy ALL THAT FLAT B on the 8TH FLOOR and ALL THAT PARKING SPACE NO.20 on the BASEMENT 2 FLOOR of the Development in consideration of HK\$23,800,000.00;
- (b) the memorandum of sale and purchase dated 28 December 2015 entered into between Kingstead Industrial Limited (興駿實業有限公司) as the vendor and Gain Success International Limited 成利國際有限公司 as the purchaser in relation to the disposal of all those 201 equal undivided 43,389th parts or shares of and in ALL THAT piece or

parcel of ground registered in the Land Registry as KOWLOON INLAND LOT NO.2411 AND THE EXTENSION THERETO And of and in the messuages erections and buildings constructed thereon and now known as "NO.1 HO MAN TIN HILL (何文 田山1號)" (the "**Development**") TOGETHER with the sole and exclusive right and privilege to hold use occupy and enjoy ALL THAT FLAT D on the 25TH FLOOR and ALL THAT PARKING SPACE NO.18 on the BASEMENT 2 FLOOR of the Development in consideration of HK\$18,500,000.00;

- (c) the memorandum of sale and purchase dated 28 December 2015 entered into between Kingstead Industrial Limited (興駿實業有限公司) as the vendor and Gain Success International Limited 成利國際有限公司 as the purchaser in relation to the disposal of all those 280 equal undivided 43,389th parts or shares of and in ALL THAT piece or parcel of ground registered in the Land Registry as KOWLOON INLAND LOT NO.2411 AND THE EXTENSION THERETO And of and in the messuages erections and buildings constructed thereon and now known as "NO.1 HO MAN TIN HILL (何文 田山1號)" (the "Development") TOGETHER with the sole and exclusive right and privilege to hold use occupy and enjoy ALL THAT FLAT A on the 13TH FLOOR and ALL THAT PARKING SPACE NO.29 on the BASEMENT 2 FLOOR of the Development in consideration of HK\$32,000,000.00;
- (d) the share transfer agreement dated 7 July 2017 entered into between 陳志遠 (Chan Chi Yuen) as the vendor and 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the purchaser in relation to the sale of 3,200,000 shares in 興耀投資有限公司 (Kingshine Investments Limited) from 陳志遠 (Chan Chi Yuen) to 興耀投資集團有限公司 (Kingshine Investment Group Limited) in consideration of HK\$17,100,000;
- (e) the share transfer agreement dated 7 July 2017 entered into among 陳小霞 (Chen Xiao Xia) as the vendor, 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the purchaser and 郭耀榮 (Kwok Yiu Wing) as the guarantor in relation to the sale of 2,500,000 shares in 興耀投資有限公司 (Kingshine Investments Limited) from 陳小霞 (Chen Xiao Xia) to 興耀投資集團有限公司 (Kingshine Investment Group Limited) in consideration of HK\$13,359,375;
- (f) the deed of indemnity dated 7 July 2017 entered into between 陳志遠 (Chan Chi Yuen) as the vendor and 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the purchaser, pursuant to which, among others, 陳志遠 (Chan Chi Yuen) undertakes to fully indemnify 興耀投資集團有限公司 (Kingshine Investment Group Limited), 興耀投資有限公司 (Kingshine Investments Limited) and 中山市興盛漿染整理有限公司 against any damages or liability suffered by them resulting from claims in respect of income, revenue or profit of 興耀投資有限公司 (Kingshine Investments Limited) or 中山市興盛漿染整理有限公司 earned, received or accrued on or before the date of the deed of indemnity or any matters which occurred on or before the date of the deed of indemnity;

- (g) the deed of indemnity dated 7 July 2017 entered into among 陳小霞 (Chen Xiao Xia) as the vendor, 郭耀榮 (Kwok Yiu Wing) as the guarantor and 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the purchaser, pursuant to which, among others, 陳小霞 (Chen Xiao Xia) and 郭耀榮 (Kwok Yiu Wing) undertake to fully indemnify 興耀投資集團有限公司 (Kingshine Investment Group Limited), 興耀投資有限公司 (Kingshine Investments Limited) and 中山市興盛漿染整理有限公司 against any damages or liability suffered by them resulting from claims in respect of income, revenue or profit of 興耀投資有限公司 (Kingshine Investments Limited) or 中山市興盛漿染整理有限公司 earned, received or accrued on or before the date of the deed of indemnity or any matters which occurred on or before the date of the deed of indemnity;
- (h) the deed of loan assignment dated 7 July 2017 entered into among 陳志遠 (Chan Chi Yuen) as the assignor, 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the assignee and 興耀投資有限公司 (Kingshine Investments Limited), pursuant to which, among others, 陳志遠 (Chan Chi Yuen) transferred a shareholder's loan given to 興耀投資有限公司 (Kingshine Investments Limited) in the amount of HK\$9,527,546.99 and all of the absolute rights and interests thereunder to 興耀投資集團有限公司 (Kingshine Investment Group Limited) at nil consideration;
- (i) the deed of loan assignment dated 7 July 2017 entered into among 陳小霞 (Chen Xiao Xia) as the assignor, 興耀投資集團有限公司 (Kingshine Investment Group Limited) as the assignee and 興耀投資有限公司 (Kingshine Investments Limited), pursuant to which, among others, 陳小霞 (Chen Xiao Xia) transferred a shareholder's loan given to 興耀投資有限公司 (Kingshine Investments Limited) in the amount of HK\$7,443,396.08 and all of the absolute rights and interests thereunder to 興耀投資集團有限公司 (Kingshine Investment Group Limited) at nil consideration;
- (j) a share swap agreement dated 8 March 2018 entered into between Hingtex Group Limited (興紡集團有限公司), Kingshine Investment Group Limited (興耀投資集團有限 公司), Tung Tsun Hong, Tung Wai Ting Stephen and Tung Cheuk Ming Stanley pursuant to which Hingtex Group Limited (興紡集團有限公司) acquired 160 shares, 135 shares and 135 shares, representing 37.2%, 31.4% and 31.4% of all of the issued shares in Kingshine Investment Group Limited (興耀投資集團有限公司) from Tung Tsun Hong, Tung Wai Ting Stephen and Tung Cheuk Ming Stanley, respectively in consideration of and in exchange for the allotment and issue of (i) 30 shares in Hingtex Group Limited (興紡集團有限公司) credited as fully paid at par to Tung Tsun Hong; (ii) 20 shares in Hingtex Group Limited (興紡集團有限公司) credited as fully paid at par to Tung Wai Ting Stephen; (iii) 20 shares in Hingtex Group Limited (興紡集團有限 公司) credited as fully paid at par to Tung Cheuk Ming Stanley; (iv) 10 shares in Hingtex Group Limited (興紡集團有限公司) credited as fully paid at par to Ms. Lau Chung Chau; (v) 10 shares in Hingtex Group Limited (興紡集團有限公司) credited as fully paid at par to Ms. Tung Wei Ling Barbara; and (vi) 10 shares in Hingtex Group Limited (興紡集團有限公司) credited as fully paid to Ms. Tung Wai Lai Mabel, respectively;

- (k) a share swap agreement dated 9 March 2018 entered into between Hingtex Holdings Limited (興紡控股有限公司), Hingtex Group Limited (興紡集團有限公司), Tung Tsun Hong, Tung Wai Ting Stephen, Tung Cheuk Ming Stanley, Lau Chung Chau, Tung Wei Ling Barbara and Tung Wai Lai Mabel, pursuant to which Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen, Mr. Tung Cheuk Ming Stanley, Ms. Lau Chung Chau, Ms. Tung Wei Ling Barbara and Ms. Tung Wai Lai Mabel, transferred 60 shares, 40 shares, 40 shares, 20 shares, 20 shares and 20 shares, representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of all of the issued shares in Hingtex Group Limited (興紡集團有限公司), respectively to Hingtex Holdings Limited (興紡推及有限公司) in consideration of and in exchange for the allotment and issue of 100,000 Shares in Hingtex Holdings Limited (興紡推股有限公司) credited as fully paid to Manford Investment Holdings Limited;
- (I) a share swap agreement dated 23 March 2018 entered into between Hingtex Holdings Limited (興紡控股有限公司), Kingshine Investment Group Limited (興耀投資集團有限公司), Hingtex Group Limited (興紡集團有限公司), Kingshine Investments Limited (興耀投資有限公司), H.W. Textiles Holdings Limited (興威紡織控股有限公司), H. W. Textiles Company Limited (興威紡織有限公司), Kingstead Investment Group Limited (興駿投資集團有限公司), Kingstead Industrial Limited (興駿實業有限公司), Tung Tsun Hong (董信康), Tung Wai Ting Stephen (董章霆), Tung Cheuk Ming Stanley (董卓明), Lau Chung Chau (劉中秋), Tung Wei Ling Barbara (董慧玲) and Tung Wai Lai Mabel (董慧麗), pursuant to which:
 - (i) Mr. Tung Tsun Hong, Mr. Tung Wai Ting Stephen and Mr. Tung Cheuk Ming Stanley transferred 1,600,000 shares, 1,350,000 shares and 1,350,000 shares in the share capital of Kingshine Investments Limited (興耀投資有限公司), respectively, representing in aggregate 43% of the issued shares in Kingshine Investments Limited (興耀投資有限公司) to Kingshine Investment Group Limited (興耀投資集團有限公司) in consideration of and exchange for the allotment and issue of (a) 100 shares in Kingshine Investment Group Limited (興耀投資集團有限公司), credited as fully paid, to Hingtex Group Limited (興紡集團有限公司); (b) 100 shares in Hingtex Group Limited (興紡集團有限公司), credited as fully paid, to Hingtex Holdings Limited (興紡推股有限公司); and (c) 100,000 shares in Hingtex Holdings Limited (興紡推股有限公司), credited as fully paid, to Manford Investment Holdings Limited (萬豐投資控股有限公司), respectively;
 - (ii) Tung Tsun Hong (董信康), Tung Wai Ting Stephen (董章霆), Tung Cheuk Ming Stanley (董卓明), Lau Chung Chau (劉中秋), Tung Wei Ling Barbara (董慧玲) and Tung Wai Lai Mabel (董慧麗) transferred 45,000 shares, 30,000 shares, 15,000 shares, 15,000 shares and 15,000 shares, representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of the issued shares in H. W. Textiles Company Limited (興威紡織有限公司) to H.W. Textiles Holdings Limited (興威紡織控股有限公司), respectively in consideration and exchange for the allotment and issue of (a) 100 shares in H.W. Textiles Holdings Limited (興威紡織控股有限公司), credited as fully paid, to Hingtex Group Limited (興紡集團有限公司); (b) 100 shares in Hingtex Group Limited (興紡集團有限公司), credited as fully paid, to Hingtex Holdings Limited (興紡集團有限公司); and (c)

100,000 shares in Hingtex Holdings Limited (興紡控股有限公司), credited as fully paid, to Manford Investment Holdings Limited (萬豐投資控股有限公司), respectively; and

- (iii) Tung Tsun Hong (董信康), Tung Wai Ting Stephen (董韋霆), Tung Cheuk Ming Stanley (董卓明), Lau Chung Chau (劉中秋), Tung Wei Ling Barbara (董慧玲) and Tung Wai Lai Mabel (董慧麗) transferred 3,000 shares, 2,000 shares, 1,000 shares, 1,000 shares and 1,000 shares in Kingstead Industrial Limited (興駿實業有限公司), representing 30.0%, 20.0%, 20.0%, 10.0%, 10.0% and 10.0% of the issued shares in Kingstead Industrial Limited (興駿實業有限公司), respectively in consideration and exchange for the allotment and issue of (a) 100 shares in Kingstead Investment Group Limited (興駿投資集團有限公司), credited as fully paid, to Hingtex Group Limited (興紡集團有限公司); (b) 100 shares in Hingtex Group Limited (興紡集團有限公司); credited as fully paid, to Hingtex Holdings Limited (興紡控股有限公司); and (c) 100,000 shares in Hingtex Holdings Limited (興紡控股有限公司), credited as fully paid, to Manford Investment Holdings Limited (萬豐投資控股有限公司), respectively;
- (m) a deed of indemnity dated 19 June 2018 and executed by Manford Investment Holdings Limited (萬豐投資控股有限公司), Tung Tsun Hong (董信康), Tung Wai Ting Stephen (董章霆), Tung Cheuk Ming Stanley (董卓明), Lau Chung Chau (劉中秋), Tung Wei Ling Barbara (董慧玲) and Tung Wai Lai Mabel (董慧麗) in favour of Hingtex Holdings Limited (興紡控股有限公司) (for itself and as trustee for its subsidiaries) to provide certain indemnities, particulars of which are set forth in the paragraph headed "E. Other Information 1. Tax and other indemnity" in this Appendix;
- (n) a deed of non-competition dated 19 June 2018 and executed by Manford Investment Holdings Limited (萬豐投資控股有限公司), Tung Tsun Hong (董信康), Tung Wai Ting Stephen (董韋霆), Tung Cheuk Ming Stanley (董卓明), Lau Chung Chau (劉中秋), Tung Wei Ling Barbara (董慧玲) and Tung Wai Lai Mabel (董慧麗) in favour of Hingtex Holdings Limited (興紡控股有限公司) (for itself and as trustee for its subsidiaries), particulars of which are set forth in "Relationship with Controlling Shareholders Non-competition undertaking" in this prospectus; and
- (o) the Public Offer Underwriting Agreement.

2. Intellectual property rights of our Group

As at the Latest Practicable Date, we have registered or have applied for the registration of the following intellectual property rights.

(a) Trademarks

(i) Trademark for which registration has been granted

As at the Latest Practicable Date, we were the registered owner of and had the right to use the following trademark which we consider to be or may be material to our business:

No.	Trademark	Place of registration	Trademark No.	Registered owner	Class ^{Note}	Valid Period
1	TOTALES CO. 15.0	Hong Kong	304360248	HWT	24, 25	7 December 2017 to 6 December 2027

(ii) Trademarks under application

As at the Latest Practicable Date, we have made application for the registration of the following trademarks which we consider to be or may be material to our business:

No.	Trademark	Place of Application	Application No.	Applicant	Class	Application Date
1	THE TILES CO. I. O. I. O	United States	87715967	HWT	IC 024. US042 050, IC 025. US022 039	11 December 2017
2	THE THES CO I TO THE	PRC	28228335/ 28243058	HWT	24, 25	21 December 2017
3	兴盛	PRC	29137946/ 29143443	HWT	24, 25	5 February 2018
4	兴德	PRC	29134943/ 29128727	HWT	24, 25	5 February 2018

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(b) Domain Names

As at the Latest Practicable Date, we are the registrant of the following domain name which we consider to be or may be material to our business:

Domain Name	Registrant	Expiry Date
hwtextiles.com.hk	HWT	1 September 2018
hingtexholdings.com.hk	Our Company	25 April 2019

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Interests and/or short positions of our Directors in the Shares, underlying Shares and debentures of our Company or any associated corporation

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Overallotment Option and any option which may be granted under the Share Option Scheme), the interests and short positions of each Director and the chief executive of our Company in the shares, underlying shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) once the Shares are listed on the Stock Exchange, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, once the Shares are listed on the Stock Exchange, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to our Company and the Stock Exchange once the Shares are listed on the Stock Exchange, will be as follows:

(a) Interests and/or short positions in our Company

Director	Nature of interest	Number of Shares held ¹	Percentage of Interest in our Company
Mr. TH Tung	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Stephen Tung	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%
Mr. Stanley Tung	Interest in controlled corporation ⁽²⁾	480,000,000 (L)	75%

Notes:

1. The letter "L" denotes a long position in the Shares.

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- 2. Mr. TH Tung, Mr. Stephen Tung, Mr. Stanley Tung, Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, Manford Investment is deemed to be accustomed and/or obliged to act in accordance with their directions and/or instructions and that, among others, each of Mr. TH Tung, Mr. Stanley Tung and Mr. Stephen Tung is deemed to be interested in all the Shares held by Manford Investment under the SFO.
- (b) Interests and/or short positions in associated corporation(s)

Director	Company concerned	Nature of interests	Number of shares held in the company concerned ¹	Percentage of interest in the company concerned
Mr. TH Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100(L)	100%
Mr. Stephen Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100(L)	100%
Mr. Stanley Tung	Manford Investment ²	Beneficial owner; a concert party to an agreement to buy shares described in s. 317(1)(a) of the SFO ³	100(L)	100%

Note:

- 1. The letter "L" denotes long position in the shares held.
- 2. Manford Investment is interested in 75% of the issued Shares immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Share which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme) and, accordingly, is the holding company of our Company within the meaning of the SFO.
- 3. Manford Investment is owned as to 30% by Mr. TH Tung, 20% each by Mr. Stephen Tung and Mr. Stanley Tung and 10% each by Mrs. Tung, Ms. Barbara Tung and Ms. Mabel Tung, all of whom have entered into the Deed of Concert Parties, pursuant to which, the parties confirmed that they have been acting in concert with each other in exercising and implementing the management and operations of our subsidiaries and that it is their intention to continue to act in the above manner upon the Listing. Accordingly, each of Mr. TH Tung, Mr. Stephen Tung and Mr. Stanley Tung is deemed to be interested in the shares of Manford Investment held by the other parties to the Deed of Concert Parties under the SFO.

2. Interests and/or short positions discloseable under the SFO and our substantial shareholders

Save as disclosed in "Substantial Shareholders" and below, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group:

(a) Interests in other member(s) of our Group

			Number of	Percentage of
			shares of held in	interest in the
	Company		the company	company
Shareholder	concerned	Nature of interests	concerned ¹	concerned
Kurabo Industries	KDIL	Beneficial owner	490,000(L)	49%

Note:

1. The letter "L" denotes long position in the shares held.

3. Particulars of service contracts and appointment letters

(a) Executive Directors

Each of our executive Directors has entered into a service agreement with our Company under which they have agreed to act as our executive Directors for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than three months' written notice to terminate the service agreement.

(b) Independent non-executive Directors

Each of our independent non-executive Directors has entered into an appointment letter with our Company under which each of them has agreed to act as independent non-executive Director for an initial term of three years commencing from the Listing Date. Either party has the right to give not less than one month's written notice to terminate the service agreement.

(c) Remuneration of our Directors

(i) During FY2015, FY2016 and FY2017, total remuneration (including salaries and bonus, allowances, and pension costs) paid by us to our Directors amounted to approximately HK\$2.8 million, HK\$4.7 million and HK\$13.5 million, respectively.

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- (ii) Under the arrangements currently in force, the aggregate remuneration (including benefits in kind but excluding any commission or discretionary bonus payable to our Directors) in respect of the year ending 31 December 2018 is estimated to be approximately HK\$16.7 million.
- (iii) During the Track Record Period, no remuneration was paid by us to, or receivable by, our Directors or the five highest paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, former Directors, or the five highest paid individuals for each of the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.
- (iv) None of our Directors had waived or agreed to waive any remuneration during the Track Record Period.
- (v) Save as disclosed in this prospectus, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

D. SHARE OPTION SCHEME

The followings are the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our sole Shareholder passed on 19 June 2018.

1. Conditions

- (a) The Share Option Scheme is conditional upon:
 - the Listing Committee granting the listing of and permission to deal in such number of Shares representing the General Scheme Limit (as defined in paragraph 7(b)) to be allotted and issued by our Company pursuant to the exercise of options in accordance with the terms and conditions of the Share Option Scheme;
 - (ii) the passing of the necessary resolution to approve and adopt the Share Option Scheme in general meeting or by way of written resolution of our Shareholders;
 - (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver(s) of any conditions by the Sole Global Coordinator (as defined in the Prospectus) (acting for and on behalf of the Underwriters (as defined in the Prospectus)) and not being terminated in accordance with its terms or otherwise; and
 - (iv) the commencement of dealings in the Shares on the Stock Exchange.
- (b) If the conditions referred to in paragraph 1(a) are not satisfied on or before the date falling 30 days after the date of this prospectus:
 - (i) the Share Option Scheme shall forthwith determine;

- (ii) any Option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.
- (c) Reference in paragraph 1(a)(i) to the Listing Committee formally granting the listing and permission referred to therein shall include any such listing and permission which are granted subject to the fulfilment of any condition precedent or condition subsequent.

2. Purpose, duration and administration

- (a) The purpose of the Share Option Scheme is to enable our Company to grant options to the Eligible Participants (as defined in paragraph 3(a) below) as incentives or rewards for their contribution to our Group.
- (b) The Share Option Scheme shall be subject to the administration of our Directors whose decision on all matters arising in relation to the Share Option Scheme or their interpretation or effect shall (save for the grant of options referred to in paragraph 3(b) which shall be approved in the manner referred to therein and save as otherwise provided herein) be final and binding on all persons who may be affected thereby.
- (c) Subject to paragraphs 1 and 13, the Share Option Scheme shall be valid and effective until the close of business of our Company on the date which falls 10 years (the "Termination Date") after the date on which the Share Option Scheme is adopted upon fulfilment of the condition set out in paragraph 1(a)(ii) (the "Adoption Date"), after which period no further options may be issued but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme.
- (d) An Eligible Participant who accepts the offer in accordance with the terms of the Share Option Scheme or (where the context so permits and as referred to in paragraph 5(d)(i)) his/her personal representative (the "Grantee") shall ensure that the acceptance of an offer, the holding and exercise of his/her option in accordance with the Share Option Scheme, the allotment and issue of Shares to him upon the exercise of his/her option and the holding of such Shares are valid and comply with all laws, legislation and regulations including all applicable exchange control, fiscal and other laws to which he is subject. Our Directors may, as a condition precedent of making an offer and allotting Shares upon an exercise of an option, require an Eligible Participant or a Grantee (as the case may be) to produce such evidence as it may reasonably require for such purpose.

3. Grant of options

(a) Subject to paragraph 3(b), our Directors shall, in accordance with the provisions of the Share Option Scheme and the Listing Rules, be entitled but not be bound, at any time within a period of 10 years commencing from the Adoption Date to make an offer to

any person belonging to the following classes of participants (the "Eligible Participants") to subscribe, and no person other than the Eligible Participant named in such offer may subscribe, for such number of Shares (being a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof) at such Exercise Price (as defined in paragraph 4), as our Directors shall, subject to paragraph 4, determine:

- (i) any employee (the "Eligible Employee") (whether full time or part time, including any executive director but excluding any non-executive director) of our Company, any subsidiary or any entity in which any member of our Group holds any equity interest (the "Invested Entity");
- (ii) any non-executive directors (including independent non-executive directors) of our Company, any subsidiary or any Invested Entity;
- (iii) any supplier of goods or services to any member of our Group or any Invested Entity;
- (iv) any customer of any member of our Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (vi) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (viii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group

and, for the purposes of the Share Option Scheme, the offer may be made to any company wholly-owned by one or more Eligible Participants.

For the avoidance of doubt, the grant of any option by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

(b) Without prejudice to paragraph 7(d) below, the making of an offer to any Director, chief executive of our Company or substantial shareholder, or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who or whose associate is the proposed Grantee of an option).

- (c) The eligibility of any of the Eligible Participants to an offer shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his/her contribution to the development and growth of our Group.
- (d) An offer shall be made to an Eligible Participant in writing (and unless so made shall be invalid) in such form as our Directors may from time to time determine, either generally or on a case-by-case basis, specifying the number of Shares under the option and the "Subscription Period" (which means, in respect of any particular option, a period (which may not expire later than 10 years from the offer date of that option) to be determined and notified by our Directors to the Grantee thereof and, in the absence of such determination, from the offer date to the earlier of (i) the date on which such option lapses under the provisions of paragraph 6; and (ii) 10 years from the offer date of that option) in respect of which the offer is made and further requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Eligible Participant concerned (and by no other person) for a period determined by our Directors (which may not be more than 21 days from the offer date).
- (e) An offer shall state, in addition to the matters specified in paragraph 3(d), the following:
 - (i) the name, address and position of the Eligible Participant;
 - (ii) the number of Shares under the option in respect of which the offer is made and the Exercise Price for such Shares:
 - (iii) the Subscription Period in respect of which the offer is made or, as the case may be, the Subscription Period in respect of separate parcels of Shares under the option comprised in the offer;
 - (iv) the last date by which the offer must be accepted;
 - (v) the procedure for acceptance;
 - (vi) the performance target(s) that must be attained by the Eligible Participant before any option can be exercised (if any);
 - (vii) such other terms and conditions of the offer as may be imposed by our Directors as are not inconsistent with the Share Option Scheme; and
 - (viii) a statement requiring the Eligible Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme including, without limitation, the conditions specified in, inter alia, paragraphs 2(d) and 5(a).
- (f) An offer shall have been accepted by an Eligible Participant in respect of all Shares under the option which are offered to such Eligible Participant when the duplicate letter comprising acceptance of the offer duly signed by the Eligible Participant together with

- a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the offer. Such remittance shall in no circumstances be refundable.
- (g) Any offer may be accepted by an Eligible Participant in respect of less than the number of Shares under the option which are offered provided that it is accepted in respect of a board lot for dealings in the Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate letter comprising acceptance of the offer duly signed by such Eligible Participant and received by our Company together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof within such time as may be specified in the offer. Such remittance shall in no circumstances be refundable.
- (h) Upon an offer being accepted by an Eligible Participant in whole or in part in accordance with paragraph 3(f) or 3(g), an option in respect of the number of Shares in respect of which the offer was so accepted will be deemed to have been granted by our Company to such Eligible Participant on the offer date. To the extent that the offer is not accepted within the time specified in the offer in the manner indicated in paragraph 3(f) or 3(g), it will be deemed to have been irrevocably declined.
- (i) The Subscription Period of an option may not end later than 10 years after the offer date of that option.
- (j) Options will not be listed or dealt in on the Stock Exchange.
- (k) For so long as the Shares are listed on the Stock Exchange:
 - (i) our Company may not grant any option after inside information has come to our knowledge until we have announced the information. In particular, we may not grant any option during the period commencing one month immediately before the earlier of:
 - (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
 - (bb) the deadline for our Company to announce our results for any year or halfyear under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement; and

(ii) our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which our Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

4. Exercise Price

The Exercise Price in respect of any option shall, subject to any adjustments made pursuant to paragraph 8, be at the discretion of our Directors, provided that it shall not be less than the highest of:

- (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the offer date;
- (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the offer date; and
- (c) the nominal value of the Share,

except that for the purpose of calculating the Exercise Price under paragraph 4(b) above for an option offered within five Business Days of the Listing Date, the price at which the Shares are to be offered for subscription under the Share Offer shall be used as the closing price for any Business Day falling within the period before the Listing Date.

5. Exercise of options

- (a) An option shall be personal to the Grantee and shall not be transferable or assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or otherwise dispose of or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement so to do. Any breach of the foregoing by a Grantee shall entitle our Company to cancel any option granted to such Grantee to the extent not already exercised.
- (b) Unless otherwise determined by our Directors and stated in the offer to a Grantee, a Grantee is not required to hold an option for any minimum period nor achieve any performance targets before the exercise of an option granted to him.
- Subject to, inter alia, paragraph 2(d) and the fulfilment of all terms and conditions set out in the offer, including the attainment of any performance targets stated therein (if any), an option shall be exercisable in whole or in part in the circumstances and in the manner as set out in paragraphs 5(d) and 5(e) by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised (which, except where the number of Shares in respect of which the option remains unexercised is less than one board lot or where the option is exercised in full, must be for a board lot for dealings in Shares on the Stock Exchange or an integral multiple thereof). Each such notice must be accompanied by a remittance for the full amount of the Exercise Price for Shares in respect of which the notice is given. Within 21 days (seven days in the case of an exercise pursuant to paragraph 5(d)(iii)) after receipt of the notice and, where appropriate, receipt of the certificate of the auditors or the independent financial advisers pursuant to paragraph 8, our Company shall accordingly allot and issue the relevant number of Shares to the Grantee (or, in the event of an exercise of option by a personal representative pursuant to paragraph 5(d)(i), to the estate of the Grantee) fully paid and issue to the Grantee (or

his/her estate in the event of an exercise by his/her personal representative as aforesaid) a share certificate for every board lot of Shares so allotted and issued and a share certificate for the balance (if any) of the Shares so allotted and issued which do not constitute a board lot.

- (d) Subject as hereinafter provided, an option may (and may only) be exercised by the Grantee at any time or times during the Subscription Period provided that:
 - (i) if the Grantee is an Eligible Employee and in the event of his/her ceasing to be an Eligible Employee by reason of his/her death, ill-health or retirement in accordance with his/her contract of employment before exercising the option in full, his/her personal representative(s) or, as appropriate, the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the Grantee was at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not, or such longer period as our Directors may determine or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively;
 - (ii) if the Grantee is an Eligible Employee and in the event of his/her ceasing to be an Eligible Employee for any reason other than his/her death, ill-health or retirement in accordance with his/her contract of employment or the termination of his/her employment on one or more of the grounds specified in paragraph 6(a)(iv) before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless our Directors otherwise determine in which event the Grantee may exercise the option (to the extent not already exercised) in whole or in part in accordance with the provisions of paragraph 5(c) within such period as our Directors may determine following the date of such cessation or termination or, if any of the events referred to in paragraph 5(d)(iii) or 5(d)(iv) occur during such period, exercise the option pursuant to paragraph 5(d)(iii) or 5(d)(iv) respectively. The date of cessation or termination as aforesaid shall be the last day on which the Grantee was actually at work with our Company or the relevant subsidiary or the Invested Entity whether salary is paid in lieu of notice or not;
 - (iii) if a general or partial offer, whether by way of take-over offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all our Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavors to procure that such offer is extended to all the Grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to our Shareholders, the Grantee shall, notwithstanding any other terms on which his/her options were granted, be

entitled to exercise the option (to the extent not already exercised) to its full extent or to the extent specified in the Grantee's notice to our Company in accordance with the provisions of paragraph 5(c) at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be;

- (iv) in the event of a resolution being proposed for the voluntary winding-up of our Company during the Subscription Period, the Grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of paragraph 5(c) and our Company shall allot and issue to the Grantee the Shares in respect of which such Grantee has exercised his/her option not less than one day before the date on which such resolution is to be considered and/or passed whereupon he shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation pari passu with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up; and
- (v) if the Grantee is a company wholly-owned by one or more Eligible Participants:
 - (aa) the provisions of paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall apply to the Grantee and to the options granted to such Grantee, mutatis mutandis, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in paragraphs 5(d)(i), 5(d)(ii), 6(a)(iv) and 6(a)(v) shall occur with respect to the relevant Eligible Participant; and
 - (bb) the options granted to the Grantee shall lapse and determine on the date the Grantee ceases to be wholly-owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.
- (e) Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association for the time being in force and will rank pari passu in all respects with the then existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise

STATUTORY AND GENERAL INFORMATION

Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the name of the Grantee has been duly entered on the register of members of our Company as the holder thereof.

6. Early termination of the Subscription Period

- (a) The Subscription Period in respect of any option shall automatically terminate
 - (i) the expiry of the Subscription Period;
 - (ii) the expiry of any of the periods referred to in paragraph 5(d);
 - (iii) the date of commencement of the winding-up of our Company;
 - (iv) in respect of a Grantee who is an Eligible Employee, the date on which the Grantee ceases to be an Eligible Employee by reason of a termination of his/her employment on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his/her creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the Grantee or our Group or the Invested Entity into disrepute);
 - (v) in respect of a Grantee other than an Eligible Employee, the date on which our Directors shall at their absolute discretion determine that (aa) (1) such Grantee or his/her close associate has committed any breach of any contract entered into between such Grantee or his/her close associate on the one part and our Group or any Invested Entity on the other part; or (2) such Grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his/her creditors generally; or (3) such Grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by any other reason whatsoever; and (bb) the Option shall lapse as a result of any event specified in sub-paragraph (1), (2) or (3) above; and
 - (vi) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph 5(a) by the Grantee in respect of that or any other option.
- (b) A resolution of our Directors to the effect that the employment of a Grantee has been terminated on one or more of the grounds specified in paragraph 6(a)(iv) or that any event referred to in paragraph 6(a)(v)(aa) has occurred shall be conclusive and binding on all persons who may be affected thereby.
- (c) Transfer of employment of a Grantee who is an Eligible Employee from one member of our Group to another member of our Group shall not be considered a cessation of employment. It shall not be considered a cessation of employment if a Grantee who is

an Eligible Employee is placed on such leave of absence which is considered by the directors of the relevant member of our Group not to be a cessation of employment of the Grantee.

7. Maximum number of Shares available for subscription

- (a) The maximum number of Shares which may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes adopted by our Group shall not exceed 30% of the share capital of our Company in issue from time to time. No options may be granted under the Share Option Scheme or any other share option scheme adopted by our Group if the grant of such option will result in the limit referred to in this paragraph 7(a) being exceeded.
- (b) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue at the time dealings in the Shares first commence on the Stock Exchange, i.e. 64,000,000 Shares (the "General Scheme Limit") provided that:
 - (i) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(ii), our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted; and
 - (ii) subject to paragraph 7(a) and without prejudice to paragraph 7(b)(i), our Company may seek separate Shareholders' approval in general meeting to grant options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in paragraph 7(b)(i) to Eligible Participants specifically identified by our Company before such approval is sought.
- (c) Subject to paragraph 7(d), the total number of Shares allotted and issued and which may fall to be allotted and issued upon exercise of the options and the options granted under any other share option scheme of our Group (including both exercised or outstanding options) to each Grantee in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being. Where any further grant of options to a Grantee under the Share Option Scheme would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under

the Share Option Scheme and any other share option schemes of our Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by our Shareholders in general meeting with such Grantee and his/her close associates (or his/her associates if such Grantee is a connected person of our Company) abstaining from voting.

- (d) Without prejudice to paragraph 3(b), where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares allotted and issued and to be allotted and issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by our Shareholders in general meeting and the Grantee, his associate and all core connected persons of our Company must abstain from voting in favour at such general meeting.

- (e) For the purpose of seeking the approval of our Shareholders under paragraphs 7(b), 7(c) and 7(d), our Company must send a circular to our Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.
- (f) The circular to be issued by the Company to its shareholders pursuant to paragraph 7(e) shall contain the following information:
 - (i) the details of the number and terms (including the Exercise Price) of the Options to be granted to each Eligible Participant which must be fixed before the shareholders' meeting and the offer date (which shall be the date of the Board meeting at which the Board proposes to grant the proposed Options to that Eligible Participant);
 - (ii) a recommendation from the independent non-executive directors of the Company (excluding any independent non-executive director who is the relevant Grantee) to the independent shareholders of the Company as to voting;
 - (iii) the information required under Rules 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
 - (iv) the information required under Rule 2.17 of the Listing Rules.

8. Adjustments to the Exercise Price

- (a) In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation or sub-division of the Shares, or reduction of the share capital of our Company, then, in any such case our Company shall instruct the auditors or an independent financial adviser to certify in writing the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular Grantee, to:
 - (i) the number or nominal amount of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised); and/or
 - (ii) the Exercise Price of any option; and/or
 - (iii) (unless the relevant Grantee elects to waive such adjustment) the number of Shares comprised in an option or which remain comprised in an option,

and an adjustment as so certified by the auditors or such independent financial adviser shall be made, provided that:

- any such adjustment shall give the Grantee the same proportion of the issued share capital of our Company for which such Grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment;
- (ii) no such adjustment shall be made the effect of which would be to enable a Share to be allotted and issued at less than its nominal value;
- (iii) the issue of Shares or other securities of our Group as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and
- (iv) any such adjustment shall be made in compliance with such rules, codes and guidance notes of the Stock Exchange from time to time.

In respect of any adjustment referred to in this paragraph 8(a), other than any adjustment made on a capitalisation issue, the auditors or such independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(b) If there has been any alteration in the capital structure of our Company as referred to in paragraph 8(a), our Company shall, upon receipt of a notice from a Grantee in accordance with paragraph 5(c), inform the Grantee of such alteration and shall either inform the Grantee of the adjustment to be made in accordance with the certificate of the auditors or the independent financial adviser obtained by our Company for such

purpose or, if no such certificate has yet been obtained, inform the Grantee of such fact and instruct the auditors or the independent financial adviser as soon as practicable thereafter to issue a certificate in that regard in accordance with paragraph 8(a).

(c) In giving any certificate under this paragraph 8, the auditors or the independent financial adviser appointed under paragraph 8(a) shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on our Company and all persons who may be affected thereby.

9. Cancellation of options

- (a) Subject to paragraph 5(a) and Chapter 17 of the Listing Rules, any option granted but not exercised may not be cancelled except with the prior written consent of the relevant grantee and the approval of our Directors.
- (b) Where our Company cancels any option granted to a Grantee but not exercised and issues new option(s) to the same Grantee, the issue of such new option(s) may only be made with available unissued options (excluding, for this purpose, the options so cancelled) within the General Scheme Limit or the limits approved by our Shareholders pursuant to paragraph 7(b) (i) or 7(b)(ii).

10. Share capital

The exercise of any option shall be subject to our Shareholders in general meeting approving any necessary increase in the authorised share capital of our Company. Subject thereto, our Directors shall make available sufficient authorised but unissued share capital of our Company to allot and issue the Shares on the exercise of any option.

11. Disputes

Any dispute arising in connection with the number of Shares the subject of an Option, or any adjustment under paragraph 8(a) shall be referred to the decision of the auditors who shall act as experts and not as arbitrators and whose decision shall, in the absence of manifest error, be final, conclusive and binding on all persons who may be affected thereby.

12. Alteration of the Share Option Scheme

- (a) Subject to paragraphs 12(b) and 12(d), the Share Option Scheme may be altered in any respect by a resolution of our Directors except that:
 - (i) the provisions of the Share Option Scheme as to the definitions of "Eligible Participants", "Grantee", "Subscription Period" and "Termination Date"; and
 - (ii) the provisions of the Share Option Scheme relating to the matters governed by Rule 17.03 of the Listing Rules; shall not be altered to the advantage of Grantees or prospective Grantees except with the prior sanction of a resolution of our Shareholders in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the Grantees as would be required of our Shareholders under the Articles of Association for a variation of the rights attached to the Shares.
- (b) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall be approved by our Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (c) Any change to the authority of our Directors or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.
- (d) The amended terms of the Share Option Scheme and/or the options must continue to comply with the relevant rules, codes and guidance notes of the Stock Exchange from time to time.

13. Termination

Our Company by resolution in general meeting may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option (to the extent not already exercised) granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

14. Present status of the Share Option Scheme

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares which may be allotted and issued upon the exercise of the options granted under the Share Option Scheme. As at the date of this prospectus, no option had been granted by our Company under the Share Option Scheme.

E. OTHER INFORMATION

1. Tax and other indemnity

Each of our Controlling Shareholders entered into the Deed of Indemnity in favour of our Group on 19 June 2018 to provide the following indemnities.

Tax indemnities

Under the Deed of Indemnity, among others, the Controlling Shareholders unconditionally and irrevocably agree with us that they will jointly and severally indemnify and at all times keep us fully indemnified on demand against taxation and taxation claim, together with all necessary necessary costs (including all legal costs), expenses, all interests, penalties or other liabilities which we may properly and reasonably incur in connection with:

- (a) the investigation, assessment, contesting or the settlement of any claim under the Deed of Indemnity;
- (b) any legal proceedings in which we claims under or in respect of the Deed of Indemnity and in which judgment is given for us;
- (c) the enforcement of any such settlement or judgment referred to in (a) and (b) above, falling on us resulting from or by reference to any income, profits or gains earned, accrued or received, entered into on or before the date of the Deed of Indemnity, or any event, act or omission occurring or deemed to occur on or before the date of the Deed of Indemnity, or any event, act or omission occurring or deemed to occur on or before the date of the Deed of Indemnity whether alone or in conjunction with any other event, act, omission or circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company, or arising from the withholding tax obligation or the reorganisation of our Group described in the paragraph headed "Reorganisation" in the section headed "History, Corporate Structure and Reorganisation" on or before the date of Deed of Indemnity, whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company.

Our Controlling Shareholders will, however, not be liable under the Deed of Indemnity:

- (a) to the extent that provision or reserve has been made for such taxation in the audited accounts of any of the members of our Group for the Track Record Period and to the extent that such taxation is incurred or accrued in our ordinary course of business; or
- (b) to the extent that such taxation claim or liability for such taxation falls on us in respect of the accounting period commencing on or after 1 January 2018 unless such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, the Controlling Shareholders or us (whether

alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Listing Date; or

- (c) to the extent that such taxation claim or liability for such taxation would not have arisen but for a voluntary act or transaction carried out or effected (other than pursuant to a legally binding commitment created on or before the date of the Deed of Indemnity) by us after the date of the Deed of Indemnity; or
- (d) to the extent that such taxation claims or liability for such taxation arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practise thereof by the Inland Revenue Department of Hong Kong or the taxation authority of the PRC or any other relevant authority (whether in Hong Kong or the PRC or any part of the world) coming into force after the date of the Deed of Indemnity or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
- (e) to the extent of any provision or reserve made for taxation in the audited accounts of our Group up to 31 December 2017, which is finally established to be an or an excessive reserve in which case the Controlling Shareholders' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Controlling Shareholders' liability in respect of taxation shall not be available in respect of any such liability arising thereafter.

Estate duty indemnities

Under the Deed of Indemnity, among others, the Controlling Shareholders unconditionally and irrevocably agree with us that they will jointly and severally indemnify and at all times keep us fully indemnified on demand against any depletion in or reduction in value of our respective assets or increase in our respective liabilities, or any loss or depreciation of any relief of us, as a consequence of, and in respect of any amount which we become liable to pay, being:

- (a) any duty which is or hereafter payable by us by virtue of section 35 and/or 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) (or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) by reason of the death of any person and by reason of the assets of us or any of such assets being deemed for the purpose of estate duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to us at any time on or prior to the date of the Deed of Indemnity; or
- (b) any amount recovered against us under the provision of section 43(7) of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) by reason of the death of any person and by reason of the asset of our Group or any of such assets for the purpose of estate duty to be

included in the property passing on his death by reason of that person making or having made a relevant transfer to us on or prior to the date of the Deed of Indemnity; or

- (c) any amount of duty which we are obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance (or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) in respect of the death of any person in any case where the assets of another company or any of them are deemed for the purpose of estate duty to be included in the property passing on that person's death by reason of that person making or having made a relevant transfer to that other company and by reason of us having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance, in each case at any time on or prior to the date of the Deed of Indemnity, but only to the extent to which we are unable to recover an amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance; or
- (d) any claim which has arisen or may arise wholly or partly in respect of or in consequence of any act or omission occurring on or before the Deed of Indemnity.

Notwithstanding any other provision of the Deed of Indemnity, the Controlling Shareholders will not be liable for any penalty imposed on us under section 42 of the Estate Duty Ordinance (or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) by reason of the relevant company defaulting in any obligation to give information to the Commissioner of Estate Duty under section 42(1) of the Estate Duty Ordinance (or the equivalent thereof under the laws of any jurisdiction outside Hong Kong), but the Controlling Shareholders shall be liable for any interest on unpaid duty.

2. Material claims or litigation

As at the Latest Practicable Date, no member of our Group was subject to any actual, pending or threatened litigation or claims of material importance which would have a material impact on our operations, financials and reputation.

3. No Material Adverse Change

Save as disclose in this prospectus, the Directors confirm that there has been no material adverse change in our financial or trading position, indebtedness, mortgage, contingent liabilities, guarantees or prospects of our Group since 31 December 2017, the date of the latest audited combined financial statements of our Group.

4. The Sole Sponsor

Save for the advisory fees in the amount of approximately HK\$4.8 million to be paid to the Sole Sponsor as the sponsor in connection with the Listing, the advisory fees to be paid to the Sole Sponsor as our compliance adviser with effect from the Listing Date and the commission as disclosed in the section "Underwriting" in this prospectus to be paid to the Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers for its obligations under the Underwriting

Agreements, neither the Sole Sponsor, the Sole Global Coordinator, Joint Bookrunners and Joint Lead Managers nor any of their respective close associates has or may, as a result of the Listing, have any interest in any class of securities of our Company or any of our subsidiaries (including options or rights to subscribe for such securities).

The Sole Sponsor has confirmed that it satisfies the independence criteria applicable to sponsors set forth in Rule 3A.07 of the Listing Rules.

5. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company relating to the incorporation of our Company are approximately HK\$170,000 and are payable by our Company.

6. Promoter

Our Company has no promoter for the purpose of the Listing Rules.

7. Agency fees or commission

Save as disclosed in this prospectus, within two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of any member of our Group.

8. Qualifications of experts

The qualifications of the experts (as defined under the Companies (Winding Up and Miscellaneous Provisions) Ordinance, (Chapter 32 of the Laws of Hong Kong) and the Listing Rules) who have given their opinions or advice in this prospectus are as follows:

Name	Qualifications		
Shenwan Hongyuan Capital (H.K.) Limited	Licenced corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activity		
Deloitte Touche Tohmatsu	Certified Public Accountants		
Maples and Calder (Hong Kong) LLP	Cayman Islands legal adviser to the Company		
Frost & Sullivan Limited	Industry consultant		
King & Wood Mallesons	Legal advisers as to PRC law		

9. Consent of Experts

Each of the experts as referred to in the paragraph headed "8. Qualifications of experts" above in this appendix has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of values and/or valuation certificates and/or legal opinion (as the case may be) and references to its name included herein in the form and context in which it respectively appears.

None of the experts as referred to in the paragraph headed "8. Qualifications of experts" has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

10. Miscellaneous

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph "8. Qualifications of experts" in this appendix has any direct or indirect interest in the promotion of, or in any asset which have been, acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (b) none of our Directors nor any of the parties listed in the paragraph "Qualifications of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group;
- (c) none of the Directors has any existing or proposed services contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than payment of statutory compensation);
- (d) no capital of any member of our Group is under option, or agreed conditionally or unconditionally to be put under option;
- (e) we have not issued or agreed to issue any founder or management or deferred Shares nor any outstanding debentures;
- (f) within the two years preceding the date of this prospectus, there has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group;
- (g) within the two years preceding the date of this prospectus, no share or loan capital or debentures of our Company or of any of our principal operating subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly either for cash or for a consideration other than cash;
- (h) we have no outstanding debentures or convertible debt securities;

- (i) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (j) no commissions, discounts, brokerages or other special terms were granted within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group, and none of our Directors nor any of the parties listed in the paragraph "8. Qualifications of experts" in this Appendix has received any such payment or benefit;
- (k) no commission (but not including commission to the Underwriters) had been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Share in or debentures of our Company.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Bilingual prospectus

The English version and the Chinese version of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

1. Documents Delivered to the Registrar of Companies in Hong Kong

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the Application Forms; (b) the written consents referred to in "Appendix IV — Statutory and General Information — E. Other information — 9. Consent of Experts" to this prospectus; (c) copies of the material contracts referred to in "Appendix IV — Statutory and General Information — B. Further information about our business — 1. Summary of material contracts" to this prospectus; and (d) the statement of adjustments in relation to the Accountants' Report as set out in Appendix I in this prospectus received from Deloitte Touche Tohmatsu.

2. Documents Available for Inspection

Copies of the following documents will be available for inspection at the offices of P. C. Woo & Co. of Room 1225, Prince's Building, 10 Chater Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) the accountants' report from Deloitte Touche Tohmatsu, the text of which is set out in "Appendix I Accountants' Report";
- (c) the audited consolidated financial statements of our Company for each of the three years ended 31 December 2017;
- (d) the independent reporting accountants assurance report on unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in "Appendix II Unaudited Pro Forma Financial Information";
- (e) the statement of adjustments for each of the three years ended 31 December 2017.
- (f) the Frost & Sullivan Report;
- (g) the legal opinion issued by King & Wood Mallesons, our legal advisers as to PRC law;
- (h) the letter of advice prepared by Maples and Calder (Hong Kong) LLP summarising certain aspects of the Cayman Islands company law referred to in "Appendix III — Summary of the Constitution of our Company and Cayman Islands Company Law";
- (i) the Cayman Companies Law;
- (j) the material contracts referred to in "Appendix IV Statutory and General Information B. Further information about our business 1. Summary of material contracts";

APPENDIX V

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

- (k) the service agreements and appointment letters referred to in "Appendix IV Statutory and General Information C. Further Information about our Directors and Substantial Shareholders 3. Particulars of service contracts and appointment letters" to this prospectus;
- (1) the written consents referred to in "Appendix IV Statutory and General Information E. Other information 9. Consent of Experts"; and
- (m) the rules of the Share Option Scheme.

HINGTEX HOLDINGS LIMITED

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