Runway Global Holdings Company Limited

時尚環球控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code: 8309

PLACING

BLANC NOIR

SINCE 1989

Sugarfly

Sponsor

大有融資有限公司
MESSIS CAPITAL LIMITED

Bookrunner and Lead Manager

KINGSTON SECURITIES LTD

Co-Manager

RaffAello Securities (HK) Ltd.

IMPORTANT

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

RUNWAY GLOBAL HOLDINGS COMPANY LIMITED
時尚環球控股有限公司

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF PLACING

Number of Placing Shares	**:**	**150,000,000 Placing Shares (subject to the Offer Size Adjustment Option)**
Placing Price	**:**	**HK$0.35 per Placing Share (payable in full on application plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% and subject to refund)**
Nominal value	**:**	**HK$0.01 each**
Stock code	**:**	**8309**

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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 section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required under Section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Pursuant to the termination provisions contained in the Underwriting Agreement in respect of the Placing, the Lead Manager (for itself and on behalf of the Underwriter) has the right in certain circumstances, at its sole and absolute discretion (for itself and on behalf of the Underwriter), to terminate the obligations of the Underwriter pursuant to the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be on Tuesday, 3 December 2013). Further details of the terms of the termination provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

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

27 November 2013

CHARACTERISTICS OF GEM

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

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

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

	2013 *(Note 1)*
Announcement of the level of indication of interests in the Placing to be published on the Company's website (www.runwayglobal.com) and the Stock Exchange's website (www.hkexnews.hk) *(Note 2)*	Monday, 2 December
Allotment of Placing Shares to placees (or their designated person(s))	Monday, 2 December
Despatch of share certificates for the Placing Shares into CCASS *(Notes 3 and 4)*	Monday, 2 December
Dealings in the Shares on GEM to commence at 9:00 a.m. on	Tuesday, 3 December

Notes:

1. All times and dates refer to Hong Kong local time and date. If there is any change to the above expected timetable, the Company will make a separate announcement to inform investors accordingly. Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" in this prospectus.

2. None of the Company's website or any of the information contained in the Company's website forms part of this prospectus.

3. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as designated by the Underwriter and/or the placing agents. Share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on Monday, 2 December 2013 for credit to the respective CCASS Participant's stock accounts designated by the Underwriter, the placees or their agents, as the case may be. No temporary documents or evidence of title will be issued.

4. Share certificates for the Placing Shares will only become valid certificates of title at 8:00 a.m. (Hong Kong time) on the Listing Date (such date is currently expected to be on Tuesday, 3 December 2013) provided that (i) the Placing becomes unconditional in all respects; and (ii) the right of termination as described in the section headed "Underwriting — Grounds for termination" in this prospectus has not been exercised thereto and has lapsed.

Pursuant to the force majeure provisions contained in the Underwriting Agreement in respect of the Placing, the Lead Manager (for itself and on behalf of the Underwriter) has the right in certain circumstances, subject to its sole and absolute opinion (for itself and on behalf of the Underwriter), to terminate the obligations of the Underwriter under the Underwriting Agreement at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is currently expected to be on Tuesday, 3 December 2013). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting" in this prospectus.

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You should rely only on the information contained in this prospectus to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained or made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Lead Manager, the Underwriter, any of their respective directors, affiliates, employees or representatives or any other person or party involved in the Placing.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS MODEL

The Group, founded in Hong Kong in 2001, principally designs, manufactures and sells apparel products with a focus on women's fashion outerwear such as coats and jackets, dresses, activewear, pants and jeans. The Group is headquartered in Hong Kong and operates its owned Jiaxing Factory in the PRC. The Group also operates four showrooms in New York, Los Angeles, Hong Kong and the Jiaxing Factory respectively.

The Group's turnover is principally derived from the sales of apparel products. The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels. The table below sets out the breakdown by product category of the Group's turnover during the Track Record Period:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products *(note)*	275,258	89.9	293,249	88.6	57,372	85.0	53,355	87.7
Own brand products	31,056	10.1	37,839	11.4	10,154	15.0	7,504	12.3
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: All of the Group's sales of private label products can be regarded as OEM sales as the designs of private label products are generally modified based on customers' request even though the original designs or inspirations are provided by the Group.

For the Group's private label products operation, the Group provides and recommends new product designs and inspirations to its customers on a continuous basis. The Group's customers may develop and/or make modifications to a design based on the Group's recommendations or inspirations, or alternatively, provide their own designs to the Group. After confirming a design with its customer and receiving a purchase order from the customer, the Group will either manufacture the products at its Jiaxing Factory or outsource the whole or the core parts of the manufacturing process to third-party product suppliers.

For own brand products operation, the Group, on the one hand, presents new product designs to its customers and arranges for the manufacture of the products upon receiving customers' purchase orders, and, on the other hand, the Group also maintains a certain level of inventory for various pre-selected styles of products based on projected sales volume and anticipated fashion trends.

The table below sets out the relevant breakdown of the Group's turnover during the Track Record Period attributable to products manufactured by the Group's Jiaxing Factory and products supplied by third-party product suppliers:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Jiaxing Factory	177,026	57.8	182,806	55.2	25,198	37.3	28,824	47.4
Third-party product suppliers *(note)*	129,288	42.2	148,282	44.8	42,328	62.7	32,035	52.6
	306,314	100.0	331,088	100.0	67,526	100.0	60,859	100.0

Note: Such figures include the Group's turnover attributable to products supplied by third-party product suppliers with raw materials supplied by the Group to the third-party product suppliers for further processing and/or with raw materials procured by the third-party product suppliers themselves.

When determining whether to manufacture the products at the Group's Jiaxing Factory or to outsource to third-party product suppliers, the Group will take into consideration the level of utilisation of capacity of the Jiaxing Factory, the economic efficiency and opportunity cost of carrying out the production of the order at the Jiaxing Factory, and the type of materials involved in the products.

SALES AND MARKETING AND SALES CHANNELS

To maintain close relationship with existing customers and foster new business relationships with potential customers of the Group, the Group pays regular visits to existing customers in the United States and Canada in attempt to keep pace with their requirements, development trends and directions. The Group also showcases to potential customers the Group's product designs and production capability through face-to-face presentations or by inviting them to visit the production facilities of the Group located at the Jiaxing Factory and/or the Group's showrooms in New York, Los Angeles, Hong Kong and Jiaxing, where the Group presents product samples and conducts face-to-face presentations of new product designs to its customers. Once the Group's products are sold to its customers, the products are typically retailed by the Group's customers at their respective retail stores and department stores. The Group does not have its own retail operation. The Group's business model involves no distributorship, franchising or consignment arrangements.

MAJOR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

The Group's customers for private label products mainly include well-known apparel brand owners and fashion specialty chain retailers located in the United States as well as a Canadian-based apparel brand owner and wholesaler. The Group's customers for own brand products range from well-known retail chain department stores to independent fashion boutiques in the United States. For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group had not less than 32, 43 and 24 customers respectively.

Set out below is a breakdown of the Group's turnover during the Track Record Period by location of the customers:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
The USA	216,102	70.6	217,669	65.7	25,840	38.3	29,050	47.7
Canada	80,942	26.4	109,495	33.1	40,487	60.0	30,600	50.3
Others *(Note)*	9,270	3.0	3,924	1.2	1,199	1.7	1,209	2.0
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: Other locations include the PRC, Australia and countries in Europe and the Middle East.

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the percentage of the Group's sales attributable to the Group's largest customer amounted to approximately 26.4%, 33.1% and 50.3% respectively, while the percentage of the Group's sales attributable to the Group's five largest customers combined amounted to approximately 83.2%, 84.7% and 94.7% respectively.

Suppliers of the Group include (i) third-party raw material suppliers; and (ii) third-party product suppliers. During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group had engaged approximately 349, 324 and 184 third-party raw material suppliers and approximately 40, 40 and 19 third-party product suppliers respectively. The major raw materials used for the Group's production include fabric and leather. The Group also requires other raw materials including buttons, zippers, packing materials, labels and other accessories for its production. Third-party product suppliers are apparel traders or manufacturers in the PRC to which the Group outsources the whole or the core parts of the manufacturing process of some of the Group's products.

The Group also subcontracts certain auxiliary procedures, such as washing and embossing, to external specialised subcontractors when the Group does not have the capability or capacity to complete such auxiliary procedures at its Jiaxing Factory. For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group engaged approximately 101, 95 and 46 subcontractors for auxiliary procedures respectively.

COMPETITIVE LANDSCAPE

There are a large number of market players in the fashion and apparel industry and competition in the PRC apparel manufacturing industry is intense. Apparel manufacturers such as the Group targeting international apparel groups and specialty chain retailers in the United States and Canada compete mainly on (i) product design and development capabilities and the ability to anticipate fashion trends; (ii) reliability of product quality and timely delivery; (iii) price competitiveness; and (iv) ability to operate under various social compliance requirements set out by the customers. For details of the competitive landscape and the future opportunities and challenges faced by the Group, please refer to the section headed "Industry overview" in this prospectus.

COMPETITIVE STRENGTHS

The Group believes that it has several business strengths that set it apart from its competitors and enables it to continue in its growth and enhance its profitability. The competitive strengths of the Group include: (i) strong and innovative product design and development capabilities; (ii) vertically integrated front-to-back-end operation; (iii) technical ability to manufacture complex apparel; (iv) established relationship with international fashion retailers; and (v) stringent quality control measures to that ensure high quality of products.

BUSINESS STRATEGIES

The principal business objective of the Group is to further strengthen its position as an established vertically integrated apparel designer, manufacturer and supplier. The Group intends to achieve its future expansion plans by (i) further developing its own brand products operation; (ii) enhancing its manufacturing facilities; and (iii) further strengthening its design capability.

SHAREHOLDERS

Immediately after the Reorganisation and before the Placing and the Capitalisation Issue, the Company is owned (i) as to 50% by All Divine, which is an investment holding company wholly and beneficially owned by Mr. Tien; and (ii) as to 50% by Fortune Zone, which is an investment holding company wholly and beneficially owned by Mr. Gozashti.

Mr. Tien and Mr. Gozashti are founders of the Group. Mr. Tien is the chairman of the Board and an executive Director. Mr. Gozashti is an executive Director and the chief marketing officer of the Group. Mr. Tien and Mr. Gozashti do not, directly or indirectly, carry on, participate or engage in, nor are they otherwise interested in, any other business which is or may be in competition with the business of the Group. For details of the background of Mr. Tien and Mr. Gozashti, please refer to the section headed "Directors and senior management" in this prospectus.

NON-COMPLIANCES

A summary of the Group's historical non-compliances during the Track Record Period is set out as below:

Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Runway Jiaxing failed to make certain housing provident fund contributions into the designated bank accounts for the benefits of its employees.	The Group did not possess sufficient knowledge on and did not engage external adviser to provide professional advice on the relevant requirements under the relevant PRC laws and regulations before the preparation for the Listing. Also, some of the Group's employees at the time had no intention to participate in the scheme as they did not want to bear their part of the housing provident fund contribution.	Since June 2013, the Group has made the required contributions to the housing provident fund for employees of Runway Jiaxing. The Group has adopted the measures as set out in the paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" under the section headed "Business" in this prospectus to ensure the continuous compliance with the relevant PRC laws and regulations in relation to making contributions to the housing provident fund.	The PRC Legal Advisers have advised that under the relevant PRC laws and regulations, the relevant authorities may order the Group to settle the outstanding contributions within a prescribed period for failing to make contributions to the housing provident fund or apply to the local court for compulsory enforcement when such period expires, and impose a fine ranging from RMB10,000 to RMB50,000 for failing to comply with the requirement in relation to the registration of housing provident fund and accounts opening within a time limit.

Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Runway HK failed to notify the Companies Registry, in the prescribed form, of the change of particulars (including residential address and passport number) of Mr. Tien and Mr. Gozashti within 14 days of such changes.	The former company secretary of Runway HK was responsible for all the statutory filings of Runway HK with the Companies Registry. Although Runway HK had made the corresponding updates of Mr. Tien's and Mr. Gozashti's particulars in its annual returns filed with the Companies Registry in 2004 and 2010 respectively, Runway HK did not use the specified form to notify the Companies Registry within the prescribed time limit for each of the changes since the former company secretary of Runway HK misbelieved that Runway HK only had to update the directors' particulars in the next annual return and no separate notification was required.	Upon discovery of the non-compliance incidents in 2013, Runway HK submitted the prescribed forms to the Companies Registry on 13 May 2013 and 15 July 2013 respectively for the purpose of notifying the Companies Registry of the changes in directors' particulars pursuant to section 158(4) of the Companies Ordinance. The Group has adopted the measures as set out in the paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" under the section headed "Business" in this prospectus to ensure the due delivery of the requisite notifications to the Companies Registry pursuant to the Companies Ordinance.	According to the relevant provisions of the Companies Ordinance, Runway HK, Mr. Tien and Mr. Gozashti as directors of Runway HK and the former company secretary of Runway HK at the material times shall be liable to a maximum penalty of HK$10,000 for each default and, for each continued default, to a daily default fine of HK$300. Each of Runway HK, Mr. Tien, Mr. Gozashti and the former company secretary of Runway HK is therefore liable to a maximum penalty of HK$1,254,200 for all the above non-compliance incidents in relation to the Companies Ordinance in case of successful prosecution.

KEY OPERATIONAL AND FINANCIAL DATA

The table below sets forth selected information and analysis from the combined statements of comprehensive income of the Group:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2012	Five months ended 31 May 2013
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue				
— Private label products	275,258	293,249	57,372	53,355
— Own brand products	31,056	37,839	10,154	7,504
	306,314	331,088	67,526	60,859
Gross profit				
— Private label products	57,769	69,094	9,459	10,892
— Own brand products	8,794	12,128	2,248	1,964
	66,563	81,222	11,707	12,856
Gross profit margin				
— Private label products	21.0%	23.6%	16.5%	20.4%
— Own brand products	28.3%	32.1%	22.1%	26.2%
— Overall	21.7%	24.5%	17.3%	21.1%
Sales quantity (in thousands of pieces)	2,257	2,498	678	553
Average unit selling price (in HK$)	135.7	132.5	99.6	110.1
Profit/(loss) before income tax	11,748	28,301	(3,765)	(4,862)
Profit/(loss) for the year/period attributable to the owners of the Company	9,417	23,152	(3,100)	(4,524)

The Group's turnover increased from approximately HK$306.3 million for the year ended 31 December 2011 to approximately HK$331.1 million for the year ended 31 December 2012 due to the increase in the Group's sales quantities while the turnover for the five months ended 31 May 2013 slightly decreased as compared to the corresponding period in 2012 which was mainly due to the delay in placing orders by certain customers of the Group in 2013 (as further explained in the section headed "Financial information" in this prospectus).

The Group's gross profit amounted to approximately HK$66.6 million, HK$81.2 million and HK$12.9 million for each of the two years ended 31 December 2012 and five months ended 31 May 2013 respectively. The Group's overall gross profit margin was approximately 21.7%, 24.5% and 21.1% for each of the two years ended 31 December 2012 and five months ended 31 May 2013 respectively. Due to the effect of seasonality, the Group generally recorded a relatively lower gross profit margin in the slack season before July each year. In addition, the Group's overall gross profit margin is subject to the proportion of sales of different type of products. The Directors consider that the gross profit margin of sales of own brand products is generally higher than that of sales of private label products.

The Group's profit for the year increased by approximately 146.8% or HK$13.8 million from approximately HK$9.4 million for the year ended 31 December 2011 to approximately HK$23.2 million for the year ended 31 December 2012, which was mainly due to the combined effect of increase in turnover and improvement in gross profit margin during the year ended 31 December 2012.

The losses recorded by the Group for the five months ended 31 May 2012 and 2013 were mainly attributable to seasonal fluctuation. Generally, demand for the Group's apparel products is relatively higher in winter. In preparation for the peak season in winter, customers normally place orders with the Group for winter collection in the second to the third quarter of the year while the Group delivers the corresponding finished goods to customers in the second half of the calendar year. During each of the two years ended 31 December 2012, the Group's sales recognised were higher during the period from July to November, which accounted for approximately 67.7% and 65.1% of the Group's annual turnover for each of the two years ended 31 December 2012 respectively. In contrast, the Group's sales recognised were lower during the period from January to May, which accounted for approximately 18.5% and 20.4% of the Group's annual turnover for each of the two years ended 31 December 2012 respectively.

The following table sets forth selected information from the Group's combined statements of financial position:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Current assets	107,597	137,883	131,388
Current liabilities	88,264	101,245	99,028
Non-current assets	23,042	20,513	20,286
Non-current liabilities	649	418	317
Total equity	41,726	56,733	52,329

The table below sets forth selected information from the Group's combined statements of cash flows:

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Five months ended 31 May 2012**	**Five months ended 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net cash generated from/(used in) operating activities	40,399	29,795	(33,716)	(24,964)
Net cash (used in)/generated from investing activities	(6,080)	2,607	(6,247)	(4,615)
Net cash (used in)/generated from financing activities	(22,696)	(8,916)	29,674	23,967
Net increase/(decrease) in cash and cash equivalents	11,623	23,486	(10,289)	(5,612)

Inventory

The following table sets out a summary of the Group's inventory balance as at the respective financial position dates below:

	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*
Raw materials and consumables	7,728	8,983	16,875
Work in progress	1,731	813	1,522
Finished goods	14,331	17,479	23,663
	23,790	27,275	42,060

The increase in the Group's inventory balance was mainly attributable to the Group's business growth as well as seasonal factors. For details, please refer to the sub-section headed "Inventory analysis" under the section headed "Financial information" in this prospectus.

Inventories are initially recognised at cost and subsequently stated at the lower of cost and net realisable value. The Group reviews the inventories at each reporting date and makes allowance for impairment of obsolete, slow-moving and impaired items. For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group recorded write-down of inventories of approximately HK$293,000, nil and nil.

The following table sets out an ageing analysis of the Group's finished goods inventory as at 31 May 2013 and the amount of subsequent sales up to 31 October 2013:

Age group	Finished goods inventory balance as at 31 May 2013	Subsequent sales up to 31 October 2013	
	HK$'000	*HK$'000* (unaudited)	*%*
0–30 days	8,591	7,839	91.2
31–90 days	1,214	982	80.9
91–180 days	864	551	63.8
181–365 days	3,884	2,606	67.1
Over 1 year	9,110	5,082	55.8
Total	23,663	17,060	72.1

Although approximately HK$9.1 million of the Group's finished goods inventory (which is primarily the Group's own brand products) was aged over 1 year, the Directors consider that no provision should be made as at 31 May 2013 because (i) the style and design of the relevant series of winter clothing are classic and universal in nature which are not considered to be easily outmoded and could be sold in two or three peak seasons (i.e. in two or three years); (ii) the Group usually aims at selling its finished goods inventory within 2 years (i.e. 2 peak seasons) before making any impairment; (iii) leveraged on the Group's strategy on developing its own brand products operation, the Group's sales of own brand products increased by 21.5% from HK$31.1 million for the year ended 31 December 2011 to HK$37.8 million for the year ended 31 December 2012, while the gross profit margin increased from 28.3% to 32.1% over the same period, and as such, the Directors consider that this series of inventory can be sold at price above its cost in the peak season in 2013; and (iv) approximately 55.8% of the Group's finished goods inventory that was aged over 1 year as at 31 May 2013 were subsequently sold up to 31 October 2013 as illustrated in the above table. Based on the above, the Directors consider that the write-down of inventories of approximately HK$293,000, nil and nil for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 were adequate.

For a detailed inventory analysis of the Group, please refer to the sub-section headed "Inventory analysis" under the section headed "Financial information" in this prospectus.

FOREIGN EXCHANGE STRUCTURED FORWARD CONTRACTS

During the Track Record Period, the Group entered into certain foreign exchange structured forward contracts with two banks in Hong Kong to hedge against the currency risk in relation to the appreciation of RMB to US$. According to the terms of such foreign exchange structured forward contracts, a certain amount of money will be payable by the bank to the Group and/or by the Group to the bank on roughly a monthly basis, depending on the exchange rate of RMB/US$ at the various valuation dates specified in each foreign exchange structured forward contract. In essence, the foreign exchange structured forward contracts worked in such a way that the more the RMB appreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group will receive from the banks subject to certain ceiling; and the more the RMB depreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group would be required to pay to the banks.

As at the Latest Practicable Date, the Group had 3 outstanding foreign exchange structured forward contracts. In view of the substantial downside risk of the foreign exchange structured forward contracts, the Directors confirm that other than the 3 outstanding foreign exchange structured forward contracts, the Group will not enter into any additional foreign exchange structured forward contracts in the future unless advance approval by the Shareholders has been obtained after Listing while Mr. Tien, Mr. Gozashti and their respective associates shall abstain from voting on the relevant resolution(s). Please refer to the sub-section headed "Hedging of currency risk" under the section headed "Business" in this prospectus for further information.

RECENT DEVELOPMENTS SUBSEQUENT TO THE TRACK RECORD PERIOD

Notwithstanding the decrease in sales and increase in net loss of the Group recorded in the five months ended 31 May 2013, the Directors confirm that the Group has not encountered or experienced any material adverse changes in its business and financial performance in 2013 up to the date of this prospectus. In particular, as the delayed orders from the Group's customers during the first five months of 2013 (as further explained in the section headed "Financial information" in this prospectus) gradually picked up subsequent to 31 May 2013, based on the Group's unaudited management accounts, the Group's revenue for the ten months ended 31 October 2013 and the Group's total amount of orders received for the ten months ended 31 October 2013 have both already surpassed the corresponding figures for the ten months ended 31 October 2012:

	Ten months ended 31 October 2012	**Ten months ended 31 October 2013**	**Change**
	HK$'000	*HK$'000*	%
	(unaudited)	(unaudited)	
Revenue	285,745	297,378	4.1
Total amounts of orders received	321,160	335,686	4.5

For the ten months ended 31 October 2013, the Group recorded a gross profit of approximately HK$69,997,000 based on its unaudited management accounts, with gross profit margin of approximately 23.5%. The total sales quantity increased from approximately 553,000 pieces for the five months ended 31 May 2013 to approximately 2,366,000 pieces for the ten months ended 31 October 2013, with the average unit selling price slightly increased from approximately HK$110.1 per piece for the five months ended 31 May 2013 to approximately HK$125.7 per piece for the ten months ended 31 October 2013. The Group's liquidity position remained healthy as at 31 October 2013 with its current ratio at approximately 1.24.

In view of the above and in particular the growth in the Group's revenue recognised as well as total amount of orders received for the ten months ended 31 October 2013 compared to the ten months ended 31 October 2012, the Directors consider that the Group did not experience any weakening of order book or deterioration of liquidity position.

Based on the unaudited financial information prepared by the management of the Group, up to 31 October 2013, out of the Group's trade receivables of approximately HK$23.1 million as at 31 May 2013, approximately HK$23.0 million was settled. Also, up to 31 October 2013, the Group has settled approximately HK$39.3 million out of the HK$41.5 million in trade payables as at 31 May 2013.

The Group expects that its total listing expense, which is non-recurring in nature, will amount to approximately HK$18.0 million (assuming the Offer Size Adjustment Option is not exercised). Out of the total HK$18.0 million in listing expense, the Group has incurred approximately HK$3.5 million (including approximately HK$2.6 million recognised as expense in the combined statements of comprehensive income) during the five months ended 31 May 2013. For the remaining amount of approximately HK$14.5 million, the Group expects to further recognise approximately HK$8.7 million in the combined statements of comprehensive income for the year ending 31 December 2013.

The Directors confirm that subsequent to the Track Record Period and up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group.

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be approximately HK$34.5 million (assuming the Offer Size Adjustment Option is not exercised). The Directors presently intend to apply the net proceeds as follows:

(i) as to approximately HK$8.0 million for the further development of the Group's own brand products operation, including expanding the Group's marketing team, participating in trade fairs and fashion shows, setting up new showrooms or expanding existing showrooms, and developing online product demonstration and ordering platform for enhanced interaction with customers;

(ii) as to approximately HK$16.5 million for the enhancement of the Group's manufacturing facilities in order to cope with customers' increasing demand in terms of production volume, efficiency, quality and technical difficulty, and to reduce cost and the Group's dependence on the availability of labour, including replacing old machineries and purchasing more efficient and technically advanced production facilities such as automated computerised fabric cutting machines, automated apparel product hanging systems, computerised sewing machines and automated computerised fabric spreading machines; and

(iii) as to approximately HK$7.5 million for the further strengthening of the Group's design capability, including recruiting additional designers, revamping the Group's online product development platform, and purchasing various design and sketching software.

	From the Latest Practicable Date to 31 December 2013	**For the period from 1 January 2014 to 30 June 2014**	**For the period from 1 July 2014 to 31 December 2014**	**For the period from 1 January 2015 to 30 June 2015**	**For the period from 1 July 2015 to 31 December 2015**	**Total**
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Further development of own brand products operation	0.5	1.5	3.0	1.5	1.5	8.0
Enhancement of manufacturing facilities	—	1.0	5.5	5.5	4.5	16.5
Further strengthening of design capability	0.5	1.0	2.0	2.0	2.0	7.5

Approximately HK$2.5 million (approximately 7.2% of the net proceeds) will be used as general working capital of the Group.

DIVIDENDS

During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, Runway HK distributed interim dividends of approximately HK$3.9 million, HK$8.3 million and HK$0.4 million respectively to Mr. Tien and Mr. Gozashti. In addition, Runway HK declared a special dividend of HK$20.0 million to Mr. Tien and Mr. Gozashti in June 2013, which was fully paid in June 2013. All dividends declared had been fully paid prior to the Latest Practicable Date and the Group financed the payment of these dividends by internal resources.

The investors of the Placing Shares will not be entitled to the aforementioned dividends. The historical dividend payments may not be indicative of future dividend trends. With the increased capital available to the Group following the issue of the Placing Shares, the Directors, however, intend to strike an appropriate balance between maintaining sufficient capital to further develop the Group's business and rewarding the Shareholders. The declaration and payment of future dividends will be subject to the decision of the Board having regard to, amongst other things, the Group's earnings, prospects, investment opportunities and cash requirements *vis-a-vis* the then economic situation. The Group does not have any predetermined dividend payout ratio.

RISK FACTORS

Some of the particular risks in investing in the Shares are set out in the section headed "Risk factors" in this prospectus, among which the relatively material risks relating to the Group include:

- the Group's top five customers accounted for a significant portion of its revenue and any decrease in sales to any of these customers would affect the Group's operations and financial results;
- there is seasonal fluctuation in sales and hence the operating results of the Group for the peak season of each calendar year or between any interim periods may not be taken as an indication of the Group's performance for the entire calendar year;
- the Group has not entered into long-term agreements with customers and there is no assurance that the current relationship between the Group and any customer can be continued in the future;
- the Group is exposed to credit risks of its customers; and
- the Group's performance and profitability may be affected by consumer spending levels in the United States and Canada.

PLACING STATISTICS

	Based on the Placing Price
Market capitalisation of the Shares *(note 1)*	HK$210,000,000
Unaudited pro forma adjusted net tangible assets per Share attributable to owners of the Company *(note 2)*	HK$0.15

Notes:

1. The calculation of market capitalisation is based on 600,000,000 Shares expected to be in issue immediately upon completion of the Placing and the Capitalisation Issue without taking into account the Shares that may be allotted or issued pursuant to the exercise of the Offer Size Adjustment Option or any option which may be granted under the Share Option Scheme.

2. The unaudited pro forma adjusted net tangible assets per Share has been arrived at after the adjustments referred to under the paragraph headed "Unaudited pro forma adjusted net tangible assets" in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of 600,000,000 Shares in issue at the respective Placing Price immediately following completion of the Placing and the Capitalisation Issue without taking into account the Shares that may be allotted or issued pursuant to the exercise of the Offer Size Adjustment Option or any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus. The unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company have not taken into account the dividend declared in June 2013 for payment to the Controlling Shareholders amounting to HK$20,000,000.

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

"All Divine"	All Divine Limited, a company wholly and beneficially owned by Mr. Tien, incorporated in the BVI with limited liability on 28 May 2013 and a Controlling Shareholder
"Articles" or "Articles of Association"	the articles of association of the Company conditionally adopted on 22 November 2013 and as amended from time to time, a summary of which is set out in Appendix IV to this prospectus
"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Audit Committee"	the audit committee of the Board
"Board"	the board of Directors
"Bookrunner" or "Lead Manager" or "Underwriter"	Kingston Securities Limited, being a licensed corporation under SFO to carry on type 1 (dealing in securities) regulated activity, the underwriter, the bookrunner and the lead manager to the Placing
"Business Day"	a day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAD"	Canadian dollars, the lawful currency of Canada
"CAGR"	compounded annual growth rate
"Capitalisation Issue"	the issue of 448,000,000 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed "Written resolutions of the Shareholders" under the section headed "Further information about the Company" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Clearing Participant"	a person permitted to participate in CCASS as a direct clearing participant or general clearing participant
"CCASS Custodian Participant"	a person permitted to participate in CCASS as a custodian participant

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participants"	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended, modified and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, modified and supplemented from time to time
"Company"	Runway Global Holdings Company Limited (時尚環球控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 19 June 2013 under the Companies Law
"connected person(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Controlling Shareholders"	has the meaning ascribed to it under the GEM Listing Rules and in the case of the Company, means collectively, Mr. Tien, Mr. Gozashti, All Divine and Fortune Zone
"Director(s)"	the director(s) of the Company
"EIT Law"	中華人民共和國企業所得稅法 (the Enterprise Income Tax Law of the PRC), which was promulgated on 16 March 2007 and became effective from 1 January 2008
"Fortune Zone"	Fortune Zone Global Limited, a company wholly and beneficially owned by Mr. Gozashti, incorporated in the BVI with limited liability on 30 May 2013 and a Controlling Shareholder
"GDP"	gross domestic output
"GEM Listing Rules"	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange, as amended, modified and supplemented from time to time
"GEM Website"	http://www.hkexnews.hk, being the internet website operated by the Stock Exchange
"Great Entrepreneur"	Great Entrepreneur Investments Limited, a company incorporated in the BVI with limited liability on 21 May 2013, a wholly-owned subsidiary of the Company and an intermediate holding company of the Group

"Group"	the Company and its subsidiaries at the relevant time or, where the context otherwise requires, in respect of the period prior to the Company becoming the holding company of its present subsidiaries, its present subsidiaries and the businesses operated by such subsidiaries
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"HK$" or "HKD" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Branch Share Registrar"	Tricor Investor Services Limited
"Hong Kong Legal Advisers"	Michael Li & Co., the legal advisers to the Company as to Hong Kong laws
"independent third party(ies)"	an individual(s) or a company(ies) who or which is/are independent and not connected with (within the meaning of the GEM Listing Rules) any Directors, chief executive or substantial Shareholders (within the meaning of the GEM Listing Rules) or the Company, its subsidiaries or any of their respective associates and not otherwise a connected person of the Company
"Jiaxing"	嘉興市 (Jiaxing City), a city in the Zhejiang province of the PRC
"Jiaxing Factory"	the factory which is the Group's manufacturing base located in Jiaxing and is owned and operated by Runway Jiaxing
"Latest Practicable Date"	20 November 2013, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information in this prospectus prior to publication
"Listing"	listing of the Shares on GEM
"Listing Date"	the date, expected to be on or about 3 December 2013, on which dealings in the Shares first commence on GEM
"Listing Division"	the listing division of the Stock Exchange
"Memorandum of Association" or "Memorandum"	the memorandum of association of the Company as amended from time to time

"MOFCOM"	中華人民共和國商務部 (the Ministry of Commerce of the PRC)
"Mr. Gozashti"	Mr. Farzad Gozashti, an executive Director, the chief marketing officer of the Company and one of the Controlling Shareholders
"Mr. Tien"	Mr. Hubert Tien (田曉勃), an executive Director, chairman of the Board and one of the Controlling Shareholders
"Nomination Committee"	the nomination committee of the Board
"Offer Size Adjustment Option"	the option granted by the Company to the Lead Manager under the Underwriting Agreement pursuant to which the Lead Manager may require the Company to allot and issue up to an aggregate of 22,500,000 additional Placing Shares, representing 15% of the initial number of Placing Shares under the Placing to cover any excess demand in the Placing
"PBOC"	中國人民銀行 (People's Bank of China), the central bank of the PRC
"Placing"	the conditional placing of the Placing Shares by the Underwriter on behalf of the Company for cash at the Placing Price with professional, institutional and individual investors as described in the section headed "Structure and conditions of the Placing" in this prospectus
"Placing Price"	the placing price of HK$0.35 for each Placing Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy)
"Placing Shares"	the 150,000,000 Shares being offered for subscription at the Placing Price pursuant to the Placing, subject to the Offer Size Adjustment Option set forth in the section headed "Structure and conditions of the Placing" in this prospectus
"PRC"	the People's Republic of China, and for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Government"	the government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and organisations thereof or, as the context requires, any of them
"PRC Legal Advisers"	Tian Yuan Law Firm (天元律師事務所), the legal advisers to the Company as to PRC laws

"Reorganisation"	the corporate reorganisation arrangements implemented by the Group in preparation for the Listing which are more particularly described in the section headed "History, Reorganisation and Group structure" in this prospectus
"Remuneration Committee"	the remuneration committee of the Board
"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"Runway HK"	Runway Global Limited, a company incorporated in Hong Kong on 12 October 2001 and an indirect wholly-owned subsidiary of the Company
"Runway HK Legal Counsel"	Robin Gregory D'Souza, the legal counsel acting for Runway HK in the arbitration proceedings which is more particularly disclosed in the paragraph headed "Litigation" under the section headed "Business" in this prospectus
"Runway Jiaxing"	Jiaxing Runway Global Garment Limited (時尚環球服飾(嘉興)有限公司), a limited liability company established in the PRC on 9 October 2003 and an indirect wholly-owned subsidiary of the Company
"Runway US"	Runway Fashions, Inc., a company incorporated in the State of California of the United States on 4 April 2003 and an indirect wholly-owned subsidiary of the Company
"SAFE"	中華人民共和國國家外匯管理局 (the State Administration of Foreign Exchange of the PRC)
"SAFE Circular No. 75"	國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知 (the SAFE Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles)
"SAT"	中華人民共和國國家稅務總局 (the State Administration of Taxation of the PRC)
"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, modified and supplemented from time to time
"Share(s)"	ordinary share(s) with nominal value of HK$0.01 each in the share capital of the Company, which are to be traded in Hong Kong dollars and listed on GEM

"Shareholder(s)"	holder(s) of the issued Share(s)
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 22 November 2013, the principal terms of which are summarised in the section headed "Share Option Scheme" in Appendix V to this prospectus
"Sponsor" or "Messis Capital"	Messis Capital Limited, the sponsor for the Listing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed thereto in section 2 of the Companies Ordinance
"Substantial Shareholder(s)"	has the meaning ascribed thereto in the GEM Listing Rules and details of the Substantial Shareholders are set out in the section headed "Substantial Shareholders" in this prospectus
"Takeovers Code"	The Hong Kong Codes on Takeovers and Mergers, as amended, modified and supplemented from time to time
"Track Record Period"	the two years ended 31 December 2012 and the five months ended 31 May 2013
"Transformed Holdings"	Transformed Holdings Limited, a company incorporated in the BVI with limited liability on 21 May 2013, a wholly-owned subsidiary of the Company and an intermediate holding company in the Group
"Underwriting Agreement"	the conditional underwriting agreement relating to the Placing entered into on 26 November 2013 among the Company, the executive Directors, the Controlling Shareholders, the Sponsor, the Lead Manager and the Underwriter, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"United States" or "USA" or "US"	the United States of America
"US Legal Advisers"	Law Offices of Robert Elliott, the legal advisers to the Company as to United States laws
"US$" or "USD"	United States dollars, the lawful currency of the United States

"sq.ft."	square foot
"sq.m."	square metre(s)
"%"	per cent.

Unless otherwise specified, translations of RMB into HK$ and US$ into HK$ in this prospectus are based on the exchange rate set out below (for the purpose of illustration only):

RMB0.79: HK$1.00
US$1.00: HK$7.80

No representation is made that any amounts in RMB, US$ and HK$ can be or could have been converted at the relevant dates at the above exchange rate or any other rates.

Certain amounts and percentage figures included in this prospectus 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 individual items. Where information is presented in thousands or millions of units, amounts may have been rounded up or down.

In this prospectus, if there is any inconsistency between the Chinese names of the PRC entities or enterprises established in the PRC and their English translations, the Chinese names shall prevail.

The English translations of the names of the PRC laws, rules and regulations printed in this prospectus are not official names for, and do not form any official part of, such laws, rules and regulations. Translated English names of Chinese natural persons, legal persons, governmental authorities, institutions or other entities for which no official English translation exist are unofficial translations for identification purposes only, and in the event of any inconsistency between the Chinese names of the PRC entities mentioned in this prospectus and their English translations, the Chinese names shall prevail.

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. In some cases the words such as "aim", "anticipate", "believe", "estimate", "expect", "going forward", "intend", "may", "plan", "potential", "predict", "propose", "seek", "should", "will", "would" and other similar expressions are used to identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- the Group's business and operating strategies and plans of operation;
- the amount and nature of, and potential for, future development of the Group's business;
- the Company's dividend distribution plans;
- the regulatory environment as well as the general industry outlook for the industry in which the Group operates;
- future developments in the industry in which the Group operates; and
- the trend of the economy of Hong Kong, the United States, the PRC and the world in general.

These statements are based on several assumptions, including those regarding the Group's present and future business strategy and the environment in which the Group will operate in the future.

The Group's future results could differ materially from those expressed or implied by such forward-looking statements. In addition, the Group's future performance may be affected by various factors including, without limitation, those discussed in the sections headed "Risk factors" and "Financial information" in this prospectus.

Should one or more risks or uncertainties stated in the aforesaid sections materialise, or should any underlying assumptions to prove incorrect, actual outcomes may vary materially from those indicated. Prospective investors should therefore not place undue reliance on any of the forward-looking statements. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements as set out in this section.

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

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special consideration associated with an investment in the Company before making any investment decision in relation to the Placing Shares. If any of the possible events as described below materialises, the Group's business, financial position and prospects could be materially and adversely affected and the trading prices of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP

The Group's top five customers accounted for a significant portion of its revenue and any decrease in sales to any of these customers would affect the Group's operations and financial results

The Group's top five customers accounted for approximately 83.2%, 84.7% and 94.7% of its total revenue for each of the two years ended 31 December 2012 and the five months ended 31 May 2013. In particular, approximately 50.3% of the Group's sales for the five months ended 31 May 2013 was made to the Group's largest customer. Further, the Group's top five customers represented approximately 71.0%, 84.3% and 92.3% of its gross trade receivable balances as at 31 December 2011 and 2012 and 31 May 2013, respectively. The Group's top five customers are not obligated in any way to continue placing orders with the Group at the same historical level or at all. If any of these top customers were to substantially reduce the volume and/or the value of the orders it places with the Group or were to terminate its business relationship with the Group entirely, there can be no assurance that the Group would be able to obtain orders from new customers or other existing customers to replace any such loss of sales or that, even if the Group would be able to obtain other orders, they would be on commercially comparable terms. As such, the Group's operations and financial results may be adversely affected.

There is seasonal fluctuation in sales and hence the operating results of the Group for the peak seasons of each calendar year or between any interim periods may not be taken as an indication of its performance for the entire calendar year

The Group's sale is subject to seasonal fluctuations. Generally, demand for the Group's apparel products is relatively higher in winter. In preparation for the peak season in winter, customers normally place orders with the Group for winter collection in the second to the third quarter of the year while the Group delivers the corresponding finished goods to customers in the second half of the calendar year. During each of the two years ended 31 December 2012, the Group's sales recognised were higher during the period from July to November, which accounted for approximately 67.7% and 65.1% of the Group's annual turnover for each of the two years ended 31 December 2012 respectively. For the five months ended 31 May 2013, the Group's turnover was approximately HK$60.9 million, representing approximately 18.4% of the Group's annual turnover for the year ended 31 December 2012, which was generally in line with the conventional trend of slack season of the Group. The operating results of the Group for the peak seasons of each calendar year or between any interim periods may not be taken as an indication of its performance for the entire calendar year. In particular, the Group recorded a net loss of approximately HK$3.1 million and HK$4.5 million for the five months ended 31 May 2012 and the five months ended 31 May 2013 respectively. Hence, prospective investors should be aware of this seasonal fluctuation when making any comparison of the Group's operating results.

The Group has not entered into long-term agreements with customers and there is no assurance that the current relationship between the Group and any customer can be continued in the future

The Group's customers typically place a single purchase order with the Group for each purchase, as opposed to entering into long-term purchase agreements with the Group. As such, there is no assurance that the relationship between the Group and any customer will continue on the same or similar terms, and the customers are free to terminate their respective relationship with the Group at any time in the future. Accordingly, the volume of the customers' purchase orders and the product mix may vary significantly from period to period, and it may be difficult to forecast the number of future orders. As a result, the Group's business, results of operations and financial condition may vary from period to period, depending on the volume of purchase orders from the customers, whether existing or new.

The Group is exposed to credit risks of its customers. If any of the Group's major customers experience any financial difficulty, the Group's business with such customers and the settlement process of their outstanding amounts owing to the Group may be adversely affected which may in turn adversely affect the liquidity, results of operations and profitability of the Group

The Group relies on the businesses generated from its customers. The Group normally grants customers a credit period of 10 to 60 days. The Group does not have access to all information of its customers to determine their creditworthiness. The complete financial and operational condition of customers is not always available to the Group, and the Group may not be in any position to obtain such information. As a result, if any of the Group's major customers experience any financial difficulty, the Group's business with such customers and the settlement process of their outstanding amounts owing to the Group may be adversely affected, which may in turn adversely affect the liquidity, the results of operations and profitability of the Group.

The Group's performance and profitability may be affected by consumer spending level in the United States and Canada

The Group's customers are predominantly located in the United States and Canada whilst most of them will sell their products through their respective retail operations. The Group's performance and profitability are dependent on the consumer consumption level and the macroeconomic conditions around the world especially in the United States and Canada. There are many factors affecting the level of consumer spending, including but not limited to level of disposable income, interest rates, currency exchange rates, recession, inflation, political uncertainty, taxation, tariff regime, stock market performance, unemployment level and general consumer confidence. For example, the recent depreciation of the USD relative to other currencies means more expensive imported apparel products to the consumers in the United States. According to the statistics published by the Bureau of Economic Analysis of the US Department of Commerce, since 2010, the US economy has been recovering from the global financial crisis that took place in 2008 and 2009. The real GDP of the United States grew from approximately US$13,063 billion in 2010 to approximately US$13,299 billion in 2011, and further increased to approximately US$13,593 billion in 2012, representing an annual growth of approximately

1.8% and 2.2% respectively. In addition, the adjusted per capita disposable personal income of the United States has increased from approximately US$32,335 in 2010 to approximately US$32,527 in 2011, and further increased to approximately US$32,841 in 2012, representing an annual growth of approximately 0.6% and 1.0% respectively. The Directors consider that such recovery of the US economy might have contributed to the growth in the Group's business during the Track Record Period, as evidenced by the increase of approximately 8.1% in the Group's revenue from approximately HK$306.3 million for the year ended 31 December 2011 to approximately HK$331.1 million for the year ended 31 December 2012. However, any factors that would hinder the economic recovery of the United States and Canada from the financial crisis may cause a slowdown of orders from customers in the United States and Canada, as well as potential delay and/or default in payment by such customers. In particular, the US Federal Reserves has announced the possible tightening of its monetary policy in the near future and as such, the US economic situation may be negatively affected and may become worse than the prevailing conditions and the Group's sales to the US market may be adversely affected if the US economic situation deteriorates. All these potential events may have a negative impact on the Group's future performance and profitability.

The Group may not be able to maintain its gross profit margin and growth in profit in the future

The Group's turnover increased by approximately 8.1% from HK$306.3 million to HK$331.1 million for the year ended 31 December 2012, which was primarily attributable to increase in sales of private label products by approximately 6.5% or HK$18.0 million and increase in sales of own brand products by approximately 21.5% or HK$6.8 million for the year ended 31 December 2012.

The Group's gross profit amounted to approximately HK$66.6 million, HK$81.2 million and HK$12.9 million for each of the two years ended 31 December 2012 and five months ended 31 May 2013 respectively. The Group's overall gross profit margin was approximately 21.7%, 24.5% and 21.1% for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 respectively. Due to the effect of seasonality, the Group generally recorded a relatively lower turnover in the slack season before July each year. In addition, the Group's overall gross profit margin is subject to the proportion of sales of different type of products. The Directors consider that the gross profit margin of sales of own brand products is generally higher than that of sales of private label products.

Nevertheless, the Directors cannot provide any assurance that the Group will continue to maintain the current gross profit margin and growth in profit in the future if the operational costs continue to increase as a result of, among other factors, increased costs of labour, raw materials and manufacturing. In addition, as the Group receives purchase orders from the customers normally two to four months ahead of the delivery of the products, the Group may not be able to successfully implement the pricing policy in the future, especially if there are unexpected changes in production costs charged by the third-party product suppliers subsequent to the Group finalising sales orders with the customers. Furthermore, the Group may not be able to maintain the current product mix and sustain the growth in sales of products that entail higher gross profit margins, hence any changes in the product mix in the future may adversely affect the Group's profitability.

There is no assurance that the Group's business strategy of further developing its own brand products operation will be implemented successfully

Whilst the majority of the Group's turnover during the Track Record Period is derived from the Group's private label products operation, the Group's own brand products operations also accounted for approximately 10.1%, 11.4% and 12.3% of the Group's total turnover for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 respectively. The Directors plan to allocate approximately 23.2% of the net proceeds from the Placing on the further development of the Group's own brand products operation by increasing marketing efforts in promoting the Group's own brand products. However, these moves may create pressure on the Group's managerial, technical, financial, manufacturing, operational and other resources allocation. There can be no assurance that the Group will be able to implement such growth strategy successfully, or that its own brand products operation will grow as the Directors have expected, in which case the Group's business and results of operations may be adversely affected.

In addition, the Directors consider that brand image is a key factor in consumers' purchasing decisions for apparel and accessories products. However, the Group may not be successful in promoting its proprietary brands. The willingness of consumers to purchase apparel products depends upon various factors such as the design and the price of the products, and brand image. Since the Group does not directly sell its own brand products to end consumers, there is no assurance that the value attributed to the Group's products will match the final selling price of such products. If the Group's products are perceived to be overpriced or inferior in quality, negative publicity may arise on the Group's proprietary brands. If the Group fails to promote its proprietary brands, the Group's business could be materially and adversely affected.

The outcome of an outstanding arbitration case of the Group is uncertain, which may have adverse impact on the Group's financial position and reputation

As at the Latest Practicable Date, there was one outstanding arbitration case in Hong Kong where Runway HK was the claimant while an independent third-party product supplier of the Group was the respondent (the "Respondent"), details of which are disclosed in the paragraph headed "Litigation" under the section headed "Business" in this prospectus.

In this outstanding arbitration case, Runway HK is claiming against the Respondent for certain undelivered apparel products (which Runway HK had paid for) and an amount in the sum of US$153,055.92 (or approximately HK$1.19 million). While Runway HK was the claimant, the Respondent filed a counterclaim against Runway HK, according to which if Runway HK ultimately loses in the proceedings, it may be required to pay to the Respondent a certain amount (which had been calculated by the Respondent to be US$189,813.88, or approximately HK$1.48 million) plus other possible damages and costs. The arbitration hearing took place over 2 days from 23 to 24 September 2013 but the Respondent was absent for both days. The Runway HK Legal Counsel made the closing submissions to the arbitration tribunal on 4 October 2013. As at the Latest Practicable Date, Runway HK is awaiting the arbitration tribunal to hand down its judgment. As such, the outcome is uncertain as at the Latest Practicable Date. If Runway HK ultimately loses in the proceedings, the Group's financial position and reputation may be adversely affected.

In addition, even if Runway HK is successful in the arbitration proceedings, there is question of enforcing the arbitral judgement against the Respondent in view of the fact that the Respondent is a company established in the PRC with its main operation located in the PRC. The PRC Legal Advisers consider that according to the 最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排 (Supreme People's Court's Arrangement Concerning Mutual Enforcement of Arbitral Awards Between the Mainland and the Hong Kong Special Administration Region) issued on 24 January 2000, there is no material legal obstacle to the enforcement in the PRC of the judgment to be handed down by the tribunal of the arbitration proceedings in Hong Kong in relation to the aforementioned arbitration. However, should the PRC court have different view resulting the Group's failure to enforce the arbitral judgement against the Respondent, the Group's financial position and reputation may be adversely affected.

Save as disclosed above, during the Track Record Period and as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance was known to the Directors to be pending or threatened against any member of the Group. However, there is no assurance that the Group will not face litigation in the future and any occurring of such may have adverse impact on the financial position and reputation of the Group.

The Group entered into certain foreign exchange structured forward contracts with two banks in Hong Kong during the Track Record Period and according to the foreign exchange structured forward contracts, the Group may be required to pay substantial amounts of money to the banks if RMB depreciates against USD under certain circumstances

During the Track Record Period, the Group entered into certain foreign exchange structured forward contracts with two banks in Hong Kong to hedge against the currency risk in relation to the appreciation of RMB to US$. According to the terms of such foreign exchange structured forward contracts, a certain amount of money will be payable by the bank to the Group or by the Group to the banks on roughly a monthly basis, depending on the exchange rates of RMB/US$ at the various valuation dates specified in each foreign exchange structured forward contract. In essence, the foreign exchange structured forward contracts worked in such a way that the more RMB appreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group will receive from the banks; and the more RMB depreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group would be required to pay to the banks. There is no assurance that RMB will maintain its appreciation against US$ in the future or at all. If RMB depreciates against US$ substantially in the future, the Group's obligation to pay to the banks under the outstanding foreign exchange structured forward contracts may adversely affect the Group's cash flows and financial position.

As at the Latest Practicable Date, 3 foreign exchange structured forward contracts entered into by the Group remained outstanding. The following table illustrates the Group's exposure subsequent to 31 October 2013 in respect of the 3 outstanding foreign exchange structured forward contracts assuming that an immediate depreciation of 5% of RMB against USD compared to the exchange rate of US$1: RMB6.10 as at the Latest Practicable Date took place on 31 October 2013 and the exchange rate then held constant throughout the relevant contract periods (while assuming the exchange rate of US$:HK$ will hold constant at US$1:HK$7.8):

	Subsequent to 31 October 2013 and up to 31 December 2013	**Year ending 31 December 2014**	**Year ending 31 December 2015**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Potential losses incurred by the Group				
— Contract 1 *(note 1)*	29	175	15	219
— Contract 2 *(note 2)*	80	482	80	642
— Contract 3 *(note 3)*	244	852	—	1,096
	353	1,509	95	1,957

Notes:

1. Contract 1 will expire on 7 January 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.40 million (or approximately HK$18.72 million) while the bank will at the same time pay the Group a fixed amount of RMB15.36 million (or approximately HK$18.71 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$14,614 to be incurred by the Group each month until expiry of contract.

2. Contract 2 will expire on 25 February 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.20 million (or approximately HK$17.16 million) while the bank will at the same time pay the Group a fixed amount of RMB14.06 million (or approximately HK$17.12 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$40,187 to be incurred by the Group each month until expiry of contract.

3. Contract 3 will expire on 29 July 2014. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$1.00 million (or approximately HK$7.80 million) while the bank will at the same time pay the Group a fixed amount of RMB6.31 million (or approximately HK$7.68 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$121,780 to be incurred by the Group each month until expiry of contract.

As illustrated in the above table, based on the aforementioned assumptions, the total exposure of the Group under the 3 outstanding foreign exchange structured forward contracts throughout their remaining contract periods was approximately HK$1.96 million as at 31 October 2013. It should be noted that if RMB depreciates against USD by more than the assumed 5%, the Group's exposure in respect of the 3 outstanding foreign exchange structured forward contracts would be significantly higher than HK$1.96 million, which could materially and adversely affect the Group's profit, cash flows, financial and business position.

In addition, for accounting purpose, outstanding foreign exchange structured forward contracts are stated at fair value in the combined statements of financial position of the Group, and fluctuations of the exchange rates of RMB/US$ will result in fair value gain/loss of derivative financial instruments to be recognised in the combined statements of comprehensive income of the Group. During the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, the Group recorded realised gains of approximately HK$1,073,000, HK$2,323,000 and HK$660,000 with total fair value gains of approximately HK$2,071,000, HK$2,332,000 and HK$3,721,000 on foreign exchange structured forward contracts respectively. The fair value gains represented approximately 22.0%, 10.1% and (82.3)% of the Group's net profit/(loss) for the respective year/period. Fluctuations in the exchange rate between RMB and US$ may lead to fair value gain or loss to be recognised in the Group's financial statements and may adversely affect the financial performance of the Group.

Certain manufacturing process of the Group is outsourced to third-party product suppliers and subcontractors and the operations and profitability of the Group may be adversely affected by their performance

Certain manufacturing process of the Group is outsourced to various third-party product suppliers and subcontractors. Details of the mechanisms and policies in respect of the outsourcing arrangements are set out in the paragraphs headed "Third-party product suppliers" under the sub-section headed "Suppliers, raw materials and inventory" and the paragraph headed "Subcontracting" in the section headed "Business" in this prospectus. For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, there were about 349, 324 and 184 third-party raw material suppliers, about 40, 40 and 19 third-party product suppliers, as well as 101, 95 and 46 third party subcontractors, respectively, engaged by the Group. The subcontracting fee of the Group increased by approximately 0.4% from approximately HK$30,346,000 for the year ended 31 December 2011 to approximately HK$30,465,000 for the year ended 31 December 2012; and increased by approximately 92.6% from approximately HK$3,012,000 for the five months ended 31 May 2012 to approximately HK$5,801,000 for the five months ended 31 May 2013. Such increase was due to the different amount of auxiliary procedures required as a result of different styles of apparel products ordered by customers in different reporting periods. In the event that the Group is unable to secure suitable third-party product suppliers or subcontractors when required, or if the fees/prices charged by the third-party product suppliers or subcontractors substantially increase, the manufacturing process and financial position of the Group may be adversely affected. Furthermore, the third-party product suppliers and subcontractors may be late in completing the manufacturing process and/or producing products with unsatisfactory quality. Problems with any of the third-party product suppliers or subcontractors' performance could result in deteriorated quality of the Group's products if the Group could not identify suitable third-party product suppliers or subcontractors as replacement in a timely manner. In such event, the operations and profitability of the Group would be adversely affected.

There are potential fluctuations in raw material prices and there is no assurance that future price increases in raw materials or changes in the supply of raw materials will not materially and adversely affect the Group's operating results and performance

The Group's cost of sales primarily consists of costs of materials, which accounted for approximately 76.5%, 75.8% and 67.7% respectively of the Group's cost of sales for each of the two years ended 31 December 2012 and the five months ended 31 May 2013. Costs of materials include the cost of fabric, leather, semi-products, finished goods and other accessories including but not limited to buttons, zippers and labels purchased from third-party raw material suppliers and third-party product suppliers. The costs of materials of the Group increased by approximately 3.2% from approximately HK$183,479,000 for the year ended 31 December 2011 to approximately HK$189,432,000 for the year ended 31 December 2012; and decreased by approximately 26.4% from approximately HK$44,153,000 for the five months ended 31 May 2012 to approximately HK$32,507,000 for the five months ended 31 May 2013.

During the Track Record Period, the Group did not enter into any long-term supply contracts with any of its suppliers as the Group considers that the apparel and fashion industry is characterised by rapid changes in style and trends and it is in the interest of the Group not to enter into any long-term agreement with, or commit any minimum quantities to, its third-party raw material suppliers and third-party product suppliers. The fluctuation in prices of raw materials may, however, have a material effect on the cost of sales of the Group as the prices of fabric and leather can be volatile given that they are determined by various factors such as the industry demand and supply. The Group cannot give assurance that future price increases in raw materials or changes in the supply of raw materials will not materially and adversely affect the Group's operating results and performance.

The Group derives a substantial portion of its revenue in USD and foreign exchange rate fluctuations may adversely affect the Group's business and performance

The Group's sales are predominantly denominated in USD while its costs are mostly denominated in RMB. The exchange rates between RMB and USD are subject to continuous movements affected by international political and economic conditions and changes in the PRC Government's economic and monetary policies. On 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market demand and supply with reference to a basket of currencies, determined by the PBOC. This change in policy has resulted in a significant appreciation in the value of the RMB against the USD.

There remains significant pressure from foreign countries on the PRC Government to adopt a more flexible currency policy, which could result in a more significant appreciation of the RMB against the USD. The RMB may appreciate further against the USD, or may be permitted to enter into a full or limited free float, which may result in unforeseen fluctuations in the value of the RMB.

As the Group derives a substantial portion of its revenue in USD while substantial portion of its costs are denominated in RMB, appreciation of RMB against USD will therefore directly decrease the profit margin of the Group if the Group is unable to increase the selling prices of its products accordingly. If the Group increases the selling prices of its products as a result of the appreciation of RMB, it may in turn affect the Group's competitiveness against other competitors. To the extent that the Group needs to convert the proceeds of the Placing and future financing into RMB for its operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the purchasing power of the RMB amount that the Company would receive from the conversion. On the other hand, any depreciation of RMB would adversely affect the Group's ability to pay for foreign currency obligations.

Failure to anticipate and respond in a timely manner to the rapid changes in fashion trends, consumer preferences and spending patterns may cause the Group's sales to decline and its business and results of operations may be materially and adversely affected

The Group designs, manufactures and sells apparel products with a focus on women's fashion outerwear. The Group's revenue is principally derived from the sale of apparel products. Consumer preferences in the men's and women's apparel and accessories market are constantly evolving. The ability to anticipate future fashion trends and consumer demand and the ability to respond and take appropriate actions will be crucial to the Group's future business growth in the apparel industry. There is no assurance that the Group's product designs will be well received. If the Group no longer meets the preferences of the customers and consumers, the results of its operations, financial performance and business of could be materially and adversely affected.

The Group is dependent on key personnel and there is no assurance that the Group can retain them

The Directors believe that the Group's success, to a large extent, is attributable to, amongst other things, the contribution of Mr. Tien and Mr. Gozashti, who are the founders of the Group. Details of their expertise and experience are set out in the section headed "Directors and senior management" in this prospectus.

The Group's key personnel and management talents, efforts and expertise in the apparel industry are crucial to the operations and financial performance of the Group. Although the Company has entered into a service agreement with each of its executive Directors, there could be an adverse impact on the Group's operations should any of the executive Directors or member of the senior management terminate his/her service agreement with the Group and the Group is unable to find appropriate replacements in a timely manner or at all. There is no assurance that the Group will be able to attract and retain capable staff or that they will not resign in the future.

Any increase in cost of labour and the availability of labour may adversely affect the Group's competitiveness and profitability

The Group's manufacturing process of apparel products is labour intensive. Labour cost in the PRC is affected by the demand for and supply of labours as well as economic factors in the PRC including the inflation rate and standard of living. According to the National Bureau of Statistics of China, the average labour cost in the PRC has increased by approximately 189% from 2003 to 2011. The direct labour costs of the Group increased by approximately 44.9% from approximately HK$7,973,000 for the year ended 31 December 2011 to approximately HK$11,556,000 for the year ended 31 December 2012; and increased by approximately 7.0% from approximately HK$4,285,000 for the five months ended 31 May 2012 to approximately HK$4,585,000 for the five months ended 31 May 2013. Besides, there is no assurance that the Group will be able to identify and recruit replacement staff in a timely manner, which could have an adverse effect on the Group's operation. In view of the potential increase in labour cost, if the Group is unable to apply effective measures to control the labour cost or increase the price of its products correspondingly, the Group's competitiveness and profitability could be adversely affected.

Competition from Southeast Asia garment manufacturers may adversely affect the Group's business, financial condition and results of operations

During the Track Record Period, sales to US and Canadian customers in aggregate accounted for approximately 97.0%, 98.8% and 98.0% of the Group's total revenue for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 respectively. According to the figures published by the International Trade Administration, U.S. Department of Commerce Office, Vietnam, Indonesia, Bangladesh, Cambodia, together accounted for approximately 23% of the USA total apparel import and accessories in 2012. Besides, based on the figures published by Industry Canada, Vietnam, Indonesia, Bangladesh, Cambodia, together accounted for approximately 24% of the Canada total clothing manufacturing import in 2012. Similar to the Group, Southeast Asia garment manufacturers also provide outsourcing services to US and Canadian customers, possibly at even cheaper costs. Although the Group may not be competing with these manufacturers directly, the Group may be affected if the market shares of these manufacturers continue to grow. Therefore, if the Group is unable to compete effectively with these competitors, the Group's business, financial condition and results of operations may be materially and adversely affected.

Counterfeit apparel products could negatively impact the Group's revenue, brand reputation, business and results of operations

The Group's own brand products (products under the Group's proprietary brands) may be subject to competition from counterfeit products, which are products without approvals from the Group and are fraudulently mislabeled with the Group's proprietary brands. Counterfeiters may illegally manufacture apparel or accessory products under the Group's proprietary labels. Counterfeit products are generally sold at lower prices than authentic products, and in some cases are very similar in appearance to the authentic counterparts.

During the Track Record Period, one incident of infringement of the Group's trademark came to the Group's attention. The incident took place in 2011 when it came to the Group's attention that a company by the name of Blanc & Noir with registered address in Vancouver, Canada manufactured and distributed clothing under the name of "Blanc & Noir" through a website www.blancandnoir.com and through retailers in the United States, Canada, and other locations worldwide. The Group considered that the name "Blanc & Noir" was confusingly similar to the Group's "BLANC NOIR" trademark and that the incident was an intentional attempt on the part of Blanc & Noir to leverage on the goodwill and reputation of the Group under its proprietary "BLANC NOIR" brand name. In October 2011, the trademark attorneys of the Group in the United States, upon the instruction of the Group, sent a letter to Blanc & Noir demanding Blanc & Noir to (i) forthwith cease and desist all use of the name "Blanc & Noir" or any other name confusingly similar to the Group's trademarks; (ii) take immediate steps to remove the name "Blanc & Noir" from the tags on their clothing; (iii) delete the name "Blanc & Noir" from all advertising and promotional materials, business cards, invoices and the like; and (iv) cease using the www.blancandnoir.com website bearing the "Blanc & Noir" name. Although Blanc & Noir did not provide a written and positive confirmation to the Group confirming that it had complied with the Group's demands set out in the letter, to the best of the Group's knowledge and based on the Group's observation that (a) the website www.blancandnoir.com had ceased to operate in the distribution of clothing; and (b) the Group was no longer aware of any clothing distributed under the name of "Blanc & Noir" in the market, the Group believes that Blanc & Noir had complied with the Group's demands stated in the letter up to the Latest Practicable Date. As such trademark infringement incident involved only the use of a name that was confusingly similar to the Group's "BLANC NOIR" trademark and the Group was not aware of any attempt by Blanc & Noir to contact or establish relationship with or market counterfeit products to the Group's potential or existing customers, the Directors consider that the Group did not suffer any observable loss as a result of the incident.

If counterfeit products illegally sold under the Group's proprietary labels are found to be of poor quality by the consumers, the Group may be associated with negative publicity resulting from such incidents. In addition, consumers may buy counterfeit products that are in direct competition with the Group's products, which could have an adverse impact on the Group's revenue, business and results of operations. Any increase in sale and production of counterfeit of the Group's products could negatively impact the Group's revenue, brand reputation, business and results of operations.

If the Group fails to properly protect the product designs and intellectual property rights of its customers, the Group's reputation, business operations and results of operations may be adversely affected

Documents such as product design sketches and technical spec sheets may contain confidential information regarding proprietary product designs of the Group and the Group's customers. The Group has established policies and procedures to protect the intellectual properties of the Group and its customers. For instance, such confidential documents are stored in safeguarded premises and entrance restriction is in place such that only authorised personnel are allowed to enter into such premises. The Group's policies have also stipulated that only certain authorised personnel are allowed to access the confidential documents.

In addition, there may be surplus products that are produced in excess of the actual quantity required to be delivered to customers and there may be products which do not pass the quality assurance review and are not delivered to customers. According to the agreements between the Group and its customers, the Group is not allowed to market, distribute, sell or otherwise transfer any such surplus products bearing customers' brands to third parties. The Group has internal control measures in place to keep such surplus products separately in a restricted storage and to destroy such products regularly, if any.

Nevertheless, there is no assurance that the above-mentioned internal control procedures in relation to the protection of the product designs and the intellectual property rights of the Group's customers will not fail. If the Group fails to properly protect the product designs and intellectual property rights of its customers, the Group's reputation, business operations and results of operations may be adversely and materially affected.

The Group is exposed to potential product liability claim, which could adversely affect its reputation, business, prospects, financial condition and results of operations

In general, the Group does not maintain product liability insurance for its products. The Group's products are principally sold to overseas markets in the United States and Canada, where the legal concept of product liability is generally considered to be relatively mature. While the Group has put in place stringent quality control procedures on its raw materials, semi-products and finished products, there is no assurance that there will not be any product liability claim taken out against the Group, which may cause the Group to incur significant costs and expenses to defend against such claims and/or making payments for damages. The Group may also be fined or sanctioned, which could adversely affect its reputation, business, prospects, financial condition and results of operations.

Non-compliances relating to housing provident funds could have an adverse effect on the reputation and business operations of the Group

Before June 2013, the Group had not made its housing provident fund registered with the local housing provident fund bureau within the time stipulated under the relevant PRC laws and regulations, and had not made contributions to the housing provident fund in accordance with the relevant PRC laws and regulations. Please refer to the paragraph headed "Non-compliance" in the section headed "Business" in this prospectus for further details.

As advised by the PRC Legal Advisers, according to 住房公積金管理條例 (Regulations on Management of Housing Provident Fund), if a company fails to register its housing provident fund with the local housing provident fund management centre, the company may be ordered by the housing provident fund management centre to make the registration within a time limit. If the company still fails to comply with such order within the time limit, a fine ranging from RMB10,000 to RMB50,000 may be imposed. If a company fails to pay the housing provident fund contribution in accordance with the relevant regulations, the housing provident fund management centre is entitled to order it to make payment before a specified deadline, and if the company still fails to do so, the housing provident fund management centre may apply to the court for enforcement of the unpaid amount. Any judgment or decision against the Group in respect of the outstanding housing provident fund contributions could have an adverse effect on the reputation and business operations of the Group.

Non-compliances relating to the failure to make required statutory filings in Hong Kong could have an adverse effect on the reputation and financial position of the Group

Pursuant to section 158(4) of the Companies Ordinance, where there is any change in Runway HK's directors, reserve director (if any), secretary or joint secretaries (if any) or in any of their particulars contained in the register, Runway HK shall send to the Companies Registry a notification in the specified form of the change and of the date on which it occurred, and such other matters as may be specified in the form within 14 days from the change.

Both Mr. Tien and Mr. Gozashti have been directors of Runway HK since its incorporation. There were changes in the particulars of Mr. Tien and Mr. Gozashti in 2004 and 2010 respectively, including residential address and passport number. The former company secretary of Runway HK was responsible for all the statutory filings of Runway HK with the Companies Registry. Although Runway HK had made the corresponding updates of Mr. Tien's and Mr. Gozashti's particulars in its annual returns filed with the Companies Registry in 2004 and 2010 respectively, Runway HK did not use the specified form to notify Companies Registry within the prescribed time limit for each of the changes since the former company secretary of Runway HK misbelieved that Runway HK only had to update the directors' particulars in the next annual return and no separate notification was required.

Upon discovery of the above non-compliance incidents in 2013, Runway HK submitted the prescribed forms to the Companies Registry on 13 May 2013 and 15 July 2013 respectively for the purpose of notifying the Companies Registry of the changes in directors' particulars pursuant to section 158(4) of the Companies Ordinance. The prescribed forms for Mr. Tien and Mr. Gozashti were filed 930 days and 3,184 days respectively after the prescribed time limit. According to the relevant provisions of the Companies Ordinance, Runway HK, Mr. Tien and Mr. Gozashti as directors of Runway HK and the former company secretary of Runway HK at the material times shall be liable to a maximum penalty of HK$10,000 for each default and, for each continued default, to a daily default fine of HK$300. Each of Runway HK, Mr. Tien, Mr. Gozashti and the former company secretary of Runway HK is therefore liable to a maximum penalty of HK$1,254,200 for all the above non-compliance incidents in relation to the Companies Ordinance in case of successful prosecution. The Hong Kong Legal Advisers have advised that it is for the Companies Registry to take any potential action against the Group for such non-compliances. Any action that may be taken by the Companies Registry in relation to such non-compliances could have an adverse effect on the reputation and financial position of the Group.

The profitability of the Group may be affected by the potential increase in depreciation expenses upon the planned replacement of aged machineries and equipment

As at the Latest Practicable Date, the Group owned approximately 213 sets of production machinery and equipment such as sewing stations, fabric cutting machines, ironing stations and computer drawing systems. In general, the Group's production machinery and equipment have an estimated useable life of 10 years. The following table sets out the age of the Group's production machinery and equipment:

	Number of sets of production machinery and equipment
Within 2 years	24
2 to 4 years	21
4 to 6 years	23
6 to 8 years	30
More than 8 years *(Note)*	115
	213

Note: The majority of the 115 sets of production machinery and equipment that are aged more than 8 years are sewing machines, with a small number of various types of other machineries such as button-attaching machine, fabric cutting machine, packing machine, bonding machine, pressing and ironing equipment, over-lock machine, tacking machine and buttonhole machine.

The Group estimates that starting from 2014, some of the Group's production machinery and equipment may need to be replaced depending on the operating condition of each machine. As disclosed in the section headed "Future plans and use of proceeds" in this prospectus, the Group plans to start examining the status of its production machinery and equipment during the period from the Latest Practicable Date up to the end of 31 December 2013 and to develop a replacement plan and schedule based on the evaluation result. The Group also intends to purchase additional new manufacturing facilities in order to further enhance the Group's production efficiency and capacity to cope with customers' increasing demand in terms of production volume, efficiency, quality and technical difficulty, and to reduce cost and the Group's dependence on the availability of labour. It is the current intention of the Directors to apply the net proceeds to enhance the Group's manufacturing facilities as follows:

	From the Latest Practicable Date to 31 December 2013	For the period from 1 January 2014 to 30 June 2014	For the period from 1 July 2014 to 31 December 2014	For the period from 1 January 2015 to 30 June 2015	For the period from 1 July 2015 to 31 December 2015	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Enhancing the Group's manufacturing facilities	—	1.0	5.5	5.5	4.5	16.5

Among the approximately HK$16.5 million intended to be applied for the enhancement of the Group's manufacturing facilities, approximately HK$4.0 million is intended to be applied for the replacement of existing manufacturing facilities which were approaching the end of their estimated useable life, and the remaining approximately HK$12.5 million is intended to be applied for the purchase of additional new manufacturing facilities for the enhancement of the Group's production efficiency and capacity.

As a result of the purchase of additional new manufacturing facilities, it is expected that additional depreciation will be incurred by the Group and charged to the Group's financial statements, which may affect the Group's financial performance. Assuming an estimated useable life of 10 years for the additional new manufacturing facilities, an aggregate depreciation expenses of approximately HK$12.5 million will be incurred by the Group over the entire useable life of 10 years of the additional new manufacturing facilities, among which, based on straight-line method, approximately HK$0.5 million will be incurred for the year ending 31 December 2014, and approximately HK$1.25 million per year for the year ending 31 December 2015 and afterwards. Such additional depreciation will be charged to the Group's profit and loss account and may therefore affect the Group's financial performance and operating results.

Future expansion plans are subject to uncertainties and risks and therefore may not materialise

The Group has set out its future plans in the section headed "Future plans and use of proceeds" in this prospectus. Whether the Group's future plans can be implemented successfully may be beyond the Group's control and some future events may affect the smooth running of the expansion plans such as changes in consumers' reception of the Group's products, rules and regulations and general market conditions.

In addition, the general economic environment and the development of the consumer apparel markets in the North America and around the world may be unpredictable, and in view of such uncertainty, there is no assurance that the Group will be able to secure more sales from existing customers or potential new customers and/or maintaining profit margins that are consistent with the level that the Group had been able to achieve during the Track Record Period or at all.

Past dividend distributions are not an indication of the Company's future dividend policy

During the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, Runway HK distributed interim dividends of approximately HK$3.9 million, HK$8.3 million and HK$0.4 million respectively to Mr. Tien and Mr. Gozashti. In addition, Runway HK declared a special dividend of HK$20.0 million to Mr. Tien and Mr. Gozashti in June 2013, which was fully paid in June 2013. No assurance can be given that dividends of similar amounts or at similar rates will be paid in the future or that dividends will be paid at all. Any future dividend declaration and distribution by the Group will be at the discretion of the Directors depending upon the Group's financial results, the Shareholders' interests, general business conditions, strategies and future expansion needs, the Group's capital requirements, payment by its subsidiaries of cash dividends to the Company, possible effects on liquidity and financial position of the Group and such other factors as the Board may consider relevant. As a result, there is no reference to the basis for forecasting the amount of dividend payable in future in this prospectus. The past dividend distribution record should not be used as a reference of the amount of dividend payable in the future.

The Group's business could be harmed by a failure of its proprietary online product development platform

The Group maintains a proprietary online product development platform, known as the Clothing Technology Initiative (the "CTI"), for customers to create and submit new ideas of apparel design to the Group directly and electronically. The CTI is a tool that allows customers of the Group to view, choose, and mix and match numerous available raw materials and trims online and allows customers to submit new designs to the Group for prototype development electronically. The use of the Group's proprietary CTI platform is intended to provide the Group's customers with sources of inspiration and ideas for product design and development and to shorten the time between the initial product design and the mass production so as to allow the Group's customers to respond more quickly to market trends. However, any technical failure of the CTI platform could disrupt the Group's business, causing inefficiencies and potential loss of sales and customers. In addition, the Group's information technology systems may be vulnerable to damage or interruption from circumstances beyond the Group's control, including without limitation, security breaches, computer viruses, system failures, fire and natural disasters. Any such damage or interruption could have an adverse effect on the Group's business and financial performance.

One of the leased properties of the Group was subject to building orders issued against the landlord

With respect to the premises situated at Unit C6, 2nd Floor, Por Mee Factory Building (the "Building"), 500 Castle Peak Road, Kowloon, Hong Kong (the "Storage"), the Group has become the tenant since 6 July 2010. The Group currently uses the Storage for storage of documents and product samples.

Prior to the Group becoming the tenant of the Storage, two building orders dated 31 August 2009 (the "Building Orders") had been issued by the Building Authority against the landlord of the Storage (the "Landlord") and the Incorporated Owners of the Building (the "Incorporated Owners") respectively in connection with the unauthorised building works at the Storage and the common staircases of the Building pursuant to section 24(1) of the Buildings Ordinance (Cap. 123 of the Laws of Hong Kong).

Pursuant to the Building Orders, the Landlord and the Incorporated Owners were required to demolish the unauthorised building works as stipulated in the respective Building Orders and reinstate the parts of the Building in accordance with the plans approved by the Building Authority within 60 days of the date of the Building Orders. As at the Latest Practicable Date, no letter of compliance had been issued by the Building Authority in respect of the Building Orders pursuant to the records of the Land Registry.

The Building Orders had been addressed to the Landlord and the Incorporated Owners prior to the Group becoming the tenant of the Storage, the Group was unaware of the existence of the Building Orders and the relevant unauthorised building works until copies of the Building Orders were retrieved by the Hong Kong Legal Advisers from the Land Registry and sent to the Group in July 2013. As advised by the Hong Kong Legal Advisers, the Landlord and the Incorporated Owners are responsible for carrying out the rectification works in accordance with the respective Building Orders, and the Group, as the tenant of the Storage, should not be subject to any liability under the Buildings Ordinance with respect to the Building Orders. However, if any rectification works are to be carried out by the Landlord and/or the Incorporated Owners and the Group's normal use of the Storage is interrupted or otherwise affected as a result, the Group's business and operations may be affected.

Unauthorised building works involved in the Storage may affect its fire safety

As mentioned in the preceding paragraphs, certain Building Orders were issued by the Building Authority against the Landlord. According to the Building Orders, the unauthorised building works involved included, among other things, the removal of fire resisting door and subsequent replacement by a door of inadequate fire rating at the entrance of the Storage, which was in breach of Regulation 90 of the Building (Construction) Regulations (Cap. 123B of the Laws of Hong Kong) which requires the building to be designed and constructed so as to inhibit or provide adequate resistance to the spread of fire and smoke, and to maintain stability of the building in case of fire. Such unauthorised building works may affect the fire safety of the Storage. If any fire occurs in the Building, the Group's properties stored in the Storage may be damaged and the Group's operation may be affected as a result.

RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES

Certain number of the Group's customers are sensitive to social responsibility standards and if the Group has or is perceived to have failed to comply with these standards, these customers may choose not to continue their businesses with the Group

Retailers are facing increasing pressure to ensure that labour practices and factory conditions in relation to their products meet certain social responsibility standards. Accordingly, a number of such retailers, who are the Group's customers, require their key suppliers such as the Group to fulfil certain corporate social responsibility standards. In this regard, the Group has entered into separate social compliance agreement with certain customers. Should the Group fail to fulfil such standards required or otherwise be publicly associated with poor social responsibility standards, these customers may discontinue their business with the Group and the Group's financial results and business operations may be adversely and materially affected.

Increased inspection procedures, tighter import and export controls and additional trade restrictions could increase the Group's operating costs and cause disruption to its business

Import and export of apparel products are subject to customs inspection and related procedures in countries of origin and destination as well as at transhipment points. Such inspection procedures can result in the seizure of apparel, delay in transhipment or delivery of products and the levying of customs duties, fines or other penalties against exporters or importers. If inspection procedures or other controls are further tightened, it may cause further costs to the Group and result in delivery delays and the Group's business may be adversely affected.

On the other hand, the Group cannot predict whether it will be subject to any additional trade restrictions, including the likelihood, type or effect of any of such restrictions. Generally, trade restrictions, including increased tariffs or quotas, embargoes and customs restrictions against apparel items, as well as labour strikes, work stoppages or boycotts, could adversely affect the Group's business, financial conditions and results of operations.

RISKS RELATING TO THE PRC

Changes in the economic, political and social conditions or policies in the PRC may affect the Group's business, financial conditions and results of operations

The Group's Jiaxing Factory is located in the PRC. In addition, the Group's suppliers are mainly located in the PRC and the majority of the Group's purchases during the Track Record Period were attributable to them. Accordingly, the Group's results of operation, financial conditions and prospects are and will continue to be subject to political, economic and legal developments of the PRC. The PRC economy differs from the economies of most developed countries in many aspects, including but not limited to structure, government involvement, level of development, economic growth rate, control of foreign exchange, capital reinvestment, allocation of resources, rate of inflation and trade balance position and taxation.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. In recent years, the PRC Government has implemented economic reforms and measures emphasising on the utilisation of market forces in the development of the PRC economy. The Group cannot predict whether the changes in the PRC economic, political and social conditions, laws, regulations and policies will have any adverse effect on its current or future business, financial conditions or results of operations.

Moreover, the Group cannot assure that the policy of economic reform and the direction of reform towards market-oriented in the PRC will continue in the future. A variety of policies and other measures that could be taken by the PRC Government to regulate the economy could have a negative impact on the Group's business, including the introduction of measures to control inflation or reduce growth, changes in the interest rate or method of taxation. The Group's business, financial conditions and results of operations may be adversely affected by the PRC Government's economic, political and social policies and regulations.

Changes and uncertainties in the PRC legal system may have a material impact on the Group's business, financial conditions and results of operations

The PRC legal system is based on written statutes, and prior court decisions may be cited as reference but have limited precedential value. Since 1979, the PRC Government has established a commercial law system, and significant progress has been made in promulgating laws and regulations relating to economic affairs and matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. However, many of these laws and regulations are relatively new, and the implementation and interpretation of these laws and regulations may involve a certain degree of uncertainty. Consequently, developments and changes in the PRC laws and regulations, including their interpretation and enforcement, may lead to additional restrictions and uncertainties for the Group's business and uncertainties with respect to the outcomes of any legal action taken against the Group in the PRC.

Foreign exchange restrictions imposed by the PRC Government could negatively affect the business operations of the Group

RMB is currently not a freely convertible currency. Both the conversion of RMB into any other currencies and the conversion of foreign currencies into RMB for use in the PRC are regulated by the PRC Government.

Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branch is required where RMB is to be converted into foreign currencies and remitted out of the PRC to pay capital expenses. There can be no assurance that the PRC Government will not in the future impose restrictions on foreign exchange transactions for current account items, including the payment of dividends. On the other hand, capital contributions or loans that the Company makes to its PRC subsidiary (i.e. Runway Jiaxing), including the proceeds from the Placing, are also subject to PRC regulations. The PRC foreign exchange regulations also regulate the use of foreign currencies by foreign-invested enterprises which are converted into RMB funds for capital expenditure purposes. Such regulations may impose additional requirements on the Group when it needs to convert foreign currencies into RMB funds for capital expenditure purposes or may limit or restrict the use by Runway Jiaxing of such capital contributions for certain purposes. If any laws, regulations or government policies in relation to foreign exchange are implemented and the Group fails to comply with the relevant PRC foreign exchange regulations on a timely basis or at all, the Group's ability to fund Runway Jiaxing's operations may be negatively affected or delayed, which may adversely affect the Group's profitability and business operations.

Tightening of credit policy in the PRC may adversely affect the Group's business, growth strategies, financial conditions and results of operation

Recently, the PRC has adopted a tight credit policy which increases the difficulties for enterprises in obtaining financing from banks. The Group is unable to predict whether there is any further fiscal or credit tightening by the PRC Government. If the Group needs to seek additional financing from banks in the PRC in the future, those policies may increase the Group's financing costs. If the Group is unable to obtain financing in a timely manner or at all, at reasonable cost or on reasonable terms, the Group's business plans may be hindered, and the Group's growth, financial position and results of operations may be adversely affected.

RISKS RELATING TO THE PLACING

There has been no prior public market for the Share and the liquidity, market price and trading volume of the Share may be volatile

Prior to the Listing, there is no public market for the Shares. The listing of, and the permission to deal in, the Shares on the Stock Exchange do not guarantee the development of an active public market or the sustainability thereof following completion of the Placing. Factors such as variations in the Group's revenues, earnings and cash flows, strategic alliances or acquisitions made by the Group or its competitors, industrial or environmental accidents suffered by the Group, loss of key personnel, litigation or fluctuations in the market prices for the products or the raw materials of the Group, the liquidity of the market for the Shares, the general market sentiment regarding the apparel industry could cause the market price and trading volume of the Shares to change substantially. In addition, both the market price and liquidity of the Shares could be adversely affected by factors beyond the Group's control and unrelated to the performance of the Group's business, especially if the financial market in Hong Kong experiences a significant price and volume fluctuation. In such cases, investors may not be able to sell their Shares at or above the Placing Price.

Investors may experience dilution if the Group issues additional Shares in the future

The Group may issue additional Shares upon exercise of options to be granted under the Share Option Scheme in the future. The increase in the number of Shares outstanding after the issue would result in the reduction in the percentage ownership of the Shareholders and may result in a dilution in the earnings per Share and net asset value per Share.

In addition, the Group may need to raise additional funds in the future to finance business expansion or new development and acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro-rata basis to the existing Shareholders, the shareholding of such Shareholders in the Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by the Placing Shares.

Any disposal by the Controlling Shareholders of a substantial number of Shares in the public market could materially and adversely affect the market price of the Shares

There is no guarantee that the Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after the Listing. The Group cannot predict the effect, if any, of any future sales of the Shares by any of the Controlling Shareholders, or that the availability of the Shares for sale by any of the Controlling Shareholders may have on the market price of the Shares. Sales of a substantial number of Shares by any of the Controlling Shareholders or the market perception that such sales may occur could materially and adversely affect the prevailing market price of the Shares.

RISKS RELATING TO THIS PROSPECTUS

Statistics and industry information contained in this prospectus may not be accurate and should not be unduly relied upon

Certain facts, statistics, and data presented in the section headed "Industry overview" and elsewhere in this prospectus relating to the global and PRC markets of the apparel industries have been derived, in part, from various publications and industry-related sources prepared by government officials or independent third parties. The Company believes that the sources of the information are appropriate sources for such information, and the Sponsor and the Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus. In addition, the Company has no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither the Group, the Directors, the Sponsor, nor any parties involved in the Placing have independently verified, or make any representation as to, the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications within or outside the PRC. Accordingly, such information and statistics may not be accurate and should not be unduly relied upon.

The Group's future results could differ materially from those expressed or implied by the forward-looking statements

Included in this prospectus are various forward-looking statements that are based on various assumptions. The Group's future results could differ materially from those expressed or implied by such forward-looking statements. For details of these statements and the associated risks, please refer to the section headed "Forward-looking statements" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive and there are no other matters the omission of which would make any statement in this prospectus misleading.

FULLY UNDERWRITTEN

This prospectus is published in connection with the Placing, which is sponsored by Messis Capital and is managed by the Lead Manager. The Placing Shares are fully underwritten by the Underwriter pursuant to the Underwriting Agreement. For further information about the Underwriter and the placing and underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE PLACING SHARES

Each person acquiring the Placing Shares will be required to confirm, or be deemed by his/her acquisition of Placing Shares to confirm, that he/she is aware of the restrictions on offers and sales of the Placing Shares described in this prospectus.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Placing to give any information or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Lead Manager, the Underwriter, and any of their respective directors or any other persons involved in the Placing. It is expected that, pursuant to the Placing, the Underwriter will conditionally place the Placing Shares at the Placing Price on behalf of the Company to selected professional, institutional and other investors in Hong Kong.

STRUCTURE AND CONDITIONS OF THE PLACING

Offer Size Adjustment Option

The Company has granted to the Lead Manager the Offer Size Adjustment Option which if exercised, requires the Company to allot and issue up to an aggregate of 22,500,000 additional Placing Shares, representing 15% of the initial number of Placing Shares at the Placing Price to cover any excess demand in the Placing.

Further information on the above and the structure and conditions of the Placing is set forth in the section headed "Structure and conditions of the Placing" in this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Placing (including any Shares to be issued upon exercise of the Offer Size Adjustment Option and any Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme).

No part of the share or loan capital of the Company is listed, traded or dealt in on any stock exchange and save as disclosed herein, no such listing or permission to deal is being or proposed to be sought.

A total of 150,000,000 Shares representing 25% of the enlarged issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option or any options which may be granted under the Share Option Scheme) will be made available under the Placing.

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

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the minimum prescribed percentage of at least 25% of the issued share capital of the Company in the hands of the public. A total of 150,000,000 Placing Shares representing 25% of the enlarged issued share capital of the Company will be in the hands of the public immediately following completion of the Placing and the Capitalisation Issue and upon Listing without taking into account any Shares which may be allotted and issued under the Offer Size Adjustment Option or pursuant to the exercise of options that may be granted under the Share Option Scheme.

Only securities registered on the branch register of members of the Company kept in Hong Kong may be traded on GEM unless the Stock Exchange otherwise agrees.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase, disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Sponsor, the Underwriter, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in the Shares or the exercise of their rights thereunder.

REGISTRATION AND STAMP DUTY

All the Placing Shares will be registered on the Hong Kong branch register of members of the Company in Hong Kong. Dealings in the Shares registered on the Company's branch register of members maintained in Hong Kong will be subject to Hong Kong stamp duty. Dealings in the Shares registered on the principal register of members of the Company maintained on the Cayman Islands will not be subject to the Cayman Islands stamp duty except where the Company holds interests in land in the Cayman Islands.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the approval of the listing of, and permission to deal in, the Shares on GEM and the Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or, under contingent situation, any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

All necessary arrangements have been made for the Shares to be admitted into CCASS. If investors are unsure about the details of CCASS settlement arrangement and how such arrangements will affect their rights and interests, they should seek the advice of their stockbroker or other professional adviser.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on or about Tuesday, 3 December 2013. The Shares will be traded in board lots of 6,000 Shares each.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the Chinese names of the Chinese entities mentioned in this prospectus and their English translation, the Chinese names shall prevail.

ROUNDING

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

EXCHANGE RATE CONVERSION

Unless otherwise specified, translations of RMB into HK$ and US$ into HK$ in this prospectus are based on the exchange rate set out below (for the purpose of illustration only):

RMB0.79: HK$1.00
US$1.00: HK$7.80

No representation is made that any amounts in RMB, US$ and HK$ can be or could have been converted at the relevant dates at the above exchange rate or any other rates.

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Hubert TIEN (田曉勃)	Flat D, 10th Floor, Tower 1 Sorrento 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong	Chinese
Mr. Farzad GOZASHTI	1350 Aggesen Creek Lane Penngrove California 94951 United States of America	American
Independent non-executive Directors		
Mr. TANG Shu Pui, Simon (鄧澍焙)	Flat B, 3rd Floor Shing Loong Court 13 Dragon Terrace Tin Hau Hong Kong	Chinese
Mr. TANG Tsz Kai, Kevin (鄧子楷)	Flat C, 8th Floor Wah Chee Mansion 18 Shan Kwong Road Happy Valley Hong Kong	Chinese
Mr. LAI Man Sing (黎文星)	Flat A, 10th Floor Yat Sing Mansion Lei King Wan Sai Wan Ho Hong Kong	Chinese

For further information on the profile and background of the Directors, please refer to the section headed "Directors and senior management" in this prospectus.

PARTIES INVOLVED IN THE PLACING

Sponsor	**Messis Capital Limited** Room 1606, 16th Floor, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong
Bookrunner, Lead Manager and Underwriter	**Kingston Securities Limited** Suite 2801, 28th Floor, One International Finance Centre 1 Harbour View Street Central Hong Kong
Co-Manager	**RaffAello Securities (HK) Limited** 3rd Floor, Plaza 168 166–168 Des Voeux Road Central Sheung Wan Hong Kong
Legal advisers to the Company	*As to Hong Kong laws* **Michael Li & Co.** 19th Floor, Prosperity Tower 39 Queen's Road Central Central, Hong Kong *As to PRC laws* **Tian Yuan Law Firm** 10th Floor China Pacific Insurance Plaza 28 Fengsheng Lane Xicheng District Beijing 100032 PRC *As to Cayman Islands laws* **Conyers Dill & Pearman (Cayman) Limited** Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands *As to United States laws* **Law Offices of Robert Elliott** 22 Ocean Avenue San Francisco, CA 94112 United States

Legal advisers to the Sponsor, the Bookrunner, the Lead Manager and the Underwriter	*As to Hong Kong laws* **Fairbairn Catley Low & Kong** 23rd Floor, Shui On Centre 6–8 Harbour Road Hong Kong
	As to PRC laws **Grandall Law Firm** 45–46/F 580 West Nanjing Road Shanghai PRC 200041
Reporting accountants	**BDO Limited** *Certified Public Accountants* 25th Floor, Wing On Centre 111 Connaught Road Central Hong Kong
Professional surveyors and valuers	**Castores Magi (Hong Kong) Limited** Suite 211 China Insurance Group Building 141 Des Voeux Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	14th Floor, Park Building 476 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong
Principal place of business in the PRC	439 Dade Road Jiabei Industry Zone Jiaxing, Zhejiang Province The PRC
Principal place of business in the United States	**New York showroom** 260 West 39th Street 16th Floor West New York, NY 10018 United States of America **Los Angeles showroom** 110 East 9th Street, Suites B0801–B0803 Los Angeles, CA 90079 United States of America
Company secretary	Mr. CHAN Ka Yu, *CPA* Unit B, 25th Floor, Block 13 Laguna City Kowloon Hong Kong
Compliance officer	Mr. Hubert TIEN
Compliance adviser	**Messis Capital Limited** Room 1606, 16th Floor, Tower 2 Admiralty Centre 18 Harcourt Road Hong Kong

Authorised representatives (for the purpose of the GEM Listing Rules)	**Mr. Hubert TIEN** Flat D, 10th Floor, Tower 1 Sorrento 1 Austin Road West Tsim Sha Tsui Kowloon Hong Kong
	Mr. CHAN Ka Yu Unit B, 25th Floor, Block 13 Laguna City Kowloon Hong Kong
Members of Audit Committee	Mr. LAI Man Sing *(Chairman)* Mr. TANG Shu Pui, Simon Mr. TANG Tsz Kai, Kevin
Members of Remuneration Committee	Mr. TANG Shu Pui, Simon *(Chairman)* Mr. LAI Man Sing Mr. TANG Tsz Kai, Kevin Mr. Hubert TIEN
Members of Nomination Committee	Mr. LAI Man Sing *(Chairman)* Mr. TANG Tsz Kai, Kevin Mr. TANG Shu Pui, Simon Mr. Hubert TIEN
Members of Corporate Governance Committee	Mr. TANG Tsz Kai, Kevin *(Chairman)* Mr. Hubert TIEN Mr. LAI Man Sing Mr. TANG Shu Pui, Simon Mr. CHAN Ka Yu
Principal share registrar and transfer office	Codan Trust Company (Cayman) Limited Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited 26th Floor Tesbury Centre 28 Queen's Road East Hong Kong

Principal bankers	**Citibank, N.A., Hong Kong Branch** 21st Floor, Tower 1 & 2 The Gateway, Harbour City Tsimshatsui Hong Kong
	DBS Bank (Hong Kong) Limited 16th Floor, The Center 99 Queen's Road Central Hong Kong
	Cathay Bank, Hong Kong Branch 503 Central Tower 28 Queen's Road Central Hong Kong
	The Hongkong and Shanghai Banking Corporation Limited 8th Floor, Tower 2, HSBC Centre 1 Sham Mong Road Kowloon Hong Kong
Company website	www.runwayglobal.com *(information of this website do not form part of this prospectus)*

Certain information provided in this section is derived from various official or publicly available sources comprising certain articles, reports and publications which were not commissioned by the Group or the Sponsor. The Company and the Sponsor (a) believe that the sources of information are appropriate sources of such information; and (b) have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The Directors have taken reasonable care in extracting and reproducing such information. Such information, however, has not been prepared or independently verified by the Company, the Sponsor, the Lead Manager, the Underwriter or their respective directors or advisors. The Company, the Sponsor, the Lead Manager, the Underwriter, their respective directors and advisors or any other parties involved in the Placing make no representation as to the accuracy or completeness of such information.

SOURCES OF INFORMATION

Certain information provided in this section is derived from various official or publicly available sources including the following:

Bureau of Economic Analysis, United States Department of Commerce

The Bureau of Economic Analysis is an agency of the Department of Commerce of the United States, and is under direct control of the Department Economics and Statistics Administration in the United States. The agency produces economic accounts statistics that enable government and business decision-makers, researchers and the public to follow and understand the performance of the USA economy. The information presented in this prospectus from Bureau of Economic Analysis is freely accessible by the public.

The International Trade Centre

The International Trade Centre was formed in 1964 and is a joint agency of the World Trade Organization and the United Nations for trade related technical assistance. The information presented in this prospectus from the International Trade Centre is freely accessible by the public.

The National Bureau of Statistics of China

The National Bureau of Statistics of China is the official agency under the direct supervision of the State Council in charge of producing and issuing statistics and economic accounting in the PRC. The information presented in this prospectus from the National Bureau of Statistics of China is freely accessible by the public.

Industry Canada

Industry Canada is the department of the Government of Canada with a mandate of fostering a growing, competitive, knowledge-based Canadian economy. The information presented in this prospectus from Industry Canada is freely accessible by the public.

Statistics Canada

Statistics Canada is the Canadian federal government agency commissioned with producing statistics and economic accounting in Canada. The information presented in this prospectus from Statistics Canada is freely accessible by the public.

China Textile City Construction Management Committee

China Textile City Construction Management Committee is a PRC government agency, who leads planning, construction and management of China Textile City. The information presented in this prospectus from China Textile City Construction Management Committee is freely accessible by the public.

Bureau of Labor Statistics, Department of Labor of the United States

The Bureau of Labor Statistics of the U.S. Department of Labor is the principal federal agency responsible for measuring labor market activity, working conditions, and price changes in the economy. The information presented in this prospectus from Bureau of Labor Statistics, Department of Labor of the United States is freely accessible by the public.

International Trade Administration, Department of Commerce of United States

The International Trade Administration ("ITA") is an agency of the Department of Commerce of the United States. Its main functions are to strengthen the competitiveness of industries in the United States, promote trade and investment, and ensure fair trade through the rigorous enforcement of respective trade laws and agreements. ITA works to improve the global business environment and helps US organisations compete locally and abroad. The information presented in this prospectus from ITA is freely accessible by the public.

Energy Information Administration of the United States

Energy Information Administration ("EIA") of the United States is the statistical and analytical agency within the Department of Energy of the United States Government. EIA collects, analyses, and disseminates independent and impartial energy information, which is independent of approval by any other officer or employee of the US Government. The information presented in this prospectus from EIA is freely accessible by the public.

China Cotton Association

China Cotton Association is a non-profit organisation in the PRC whose main functions are to gather, analyse and release information about the area of cotton. The information presented in this prospectus from China Cotton Association is freely accessible by the public.

China Statistical Yearbook 2012

China Statistical Yearbook is an annual statistical publication published by the National Bureau of Statistics of the PRC to reflect comprehensively the economic and social development in the PRC. The China Statistical Yearbook 2012 covers key statistical data in recent years up to 2011 at the national level and at the local levels of province, autonomous region and municipality directly under the central PRC Government. The information presented in this prospectus from China Statistical Yearbook 2012 is freely accessible by the public.

Federal Reserve of the United States

The Federal Reserve is the central bank of the United States. It formulates monetary policies and ensures stability of the financial system in the United States. The information presented in this prospectus from Federal Reserve of the United States is freely accessible by the public.

THE PRC APPAREL MANUFACTURING INDUSTRY

Industry characteristics and size

The Group operates in the apparel manufacturing industry with its manufacturing base located in the PRC and its customers being mainly international apparel groups based in the USA and Canada.

There are a large number of market players in the apparel manufacturing industry throughout the world. Among all countries, the PRC has maintained its leading position in the apparel exports market for the year 2012. Based on the statistics published by the International Trade Centre, for the year 2012, the world in aggregate exported a total value of apparel and accessories of approximately US$212,937 million. The country that supplied the highest value of apparel and accessories was the PRC, reaching approximately US$98,372 million, which accounted for approximately 46.2% of the total worldwide exports value. The other major exporting countries and regions include Bangladesh, Germany, Turkey, Italy, Vietnam, India, Cambodia, Belgium and France. The chart below lists out the top 10 exporters that exported the highest value of articles of apparel and accessories for the year 2012:

	Export value in 2012	
	US$ million	*%*
PRC (include Hong Kong)	98,372	46.2
Bangladesh	11,282	5.3
Germany	8,477	4.0
Turkey	8,428	4.0
Italy	7,806	3.7
Vietnam	6,913	3.2
India	5,466	2.6
Cambodia	4,307	2.0
Belgium	4,017	1.9
France	3,924	1.8
All other countries and regions	53,945	25.3
Total	**212,937**	**100.0**

Source: The International Trade Centre

Competitive landscape and entry barriers

There are a large number of competitors of different scales of operation in the market and the competition in the PRC apparel manufacturing industry is intense. Apparel manufacturers and suppliers such as the Group targeting international apparel groups and specialty chain retailers in the United States and Canada are competing mainly on (i) product design and development capabilities and the ability to anticipate fashion trends; (ii) reliability of product quality and timely delivery; (iii) price competitiveness; and (iv) the ability to operate under various social compliance requirements set out by the customers.

Notwithstanding the relatively low initial capital commitment and technology requirements, PRC apparel manufacturers targeting international apparel groups and specialty chain retailers in the United States and Canada have to build a strong product design and development team that is capable of bringing constant ideas on the fashion trends and new design inspirations to the customers as well as an efficient manufacturing operation with reliable and high quality. Potential competitors will also have to face the challenges of increasing manufacturing costs associated with labour costs, raw material prices and the appreciation of RMB against US$, as well as the stringent social compliance requirements imposed by the customers. All of the above factors create relatively high entry barriers for potential competitors of the Group.

For the Group's market share in the apparel markets in the United States and in Canada, please refer to the paragraphs headed "USA apparel import" and "Canada total clothing manufacturing import" below in this section.

FUTURE OPPORTUNITIES AND CHALLENGES

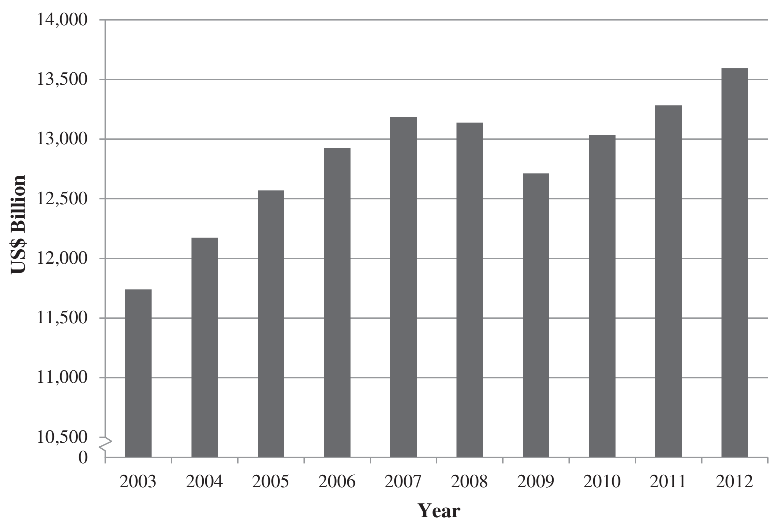
The Group considers that the future opportunities and challenges faced by the Group will be affected by the development of the apparel industry in the USA and Canada as well as factors affecting the cost structure of the Group such as the costs of raw materials and labours and the fluctuation of the exchange rate between US$ and RMB. With its vertically-integrated operation, the Group considers itself to be well-positioned to compete favourably against its competitors under such future challenges that are commonly faced by all competitors. When the Group's competitors are unable to survive or maintain their market share as a result of such future challenges, the Group considers that it may bring opportunities for the Group to acquire its competitors' market shares and to further enhance its business and performance. Set out below is an analysis of the opportunities and challenges faced by the industry.

USA apparel industry

Overview of USA economy

According to the statistics published by the Bureau of Economic Analysis of the Department of Commerce of the United States, the real GDP of the USA steadily increased from approximately US$11,836 billion in 2003 to approximately US$13,593 billion in 2012, with a CAGR of approximately 1.55%:

USA real GDP



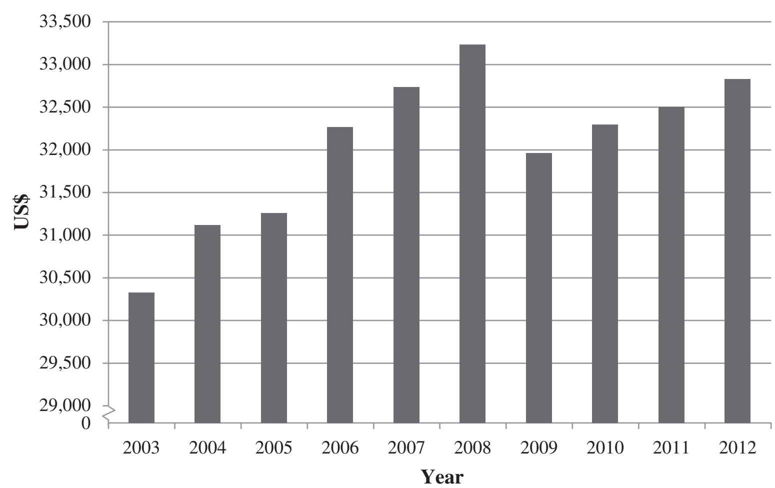
Source: Bureau of Economic Analysis, Department of Commerce of the United States

The sudden decrease in the real GDP of USA in 2008 and 2009 was mainly due to the global financial crisis which took place in 2008 and 2009 led by the collapse of some international financial institutions. The severe and significant damage to the USA economy can be shown from the significant drop in the GDP in 2009. The USA economy has been recovering since 2010 as illustrated in the above chart.

Per capita disposable personal income of USA

According to the statistics published by the Bureau of Economic Analysis, U.S. Department of Commerce, the real adjusted per capita disposable personal income has increased from US$30,453 in 2003 to US$32,841 in 2012, representing a CAGR of 0.84% for the period from 2003 to 2012. Disposable personal income is defined as personal income less personal current taxes. The below chart illustrates the real adjusted per capita disposal personal income figures for the period from 2003 to 2012:

USA real adjusted per capita disposable personal income

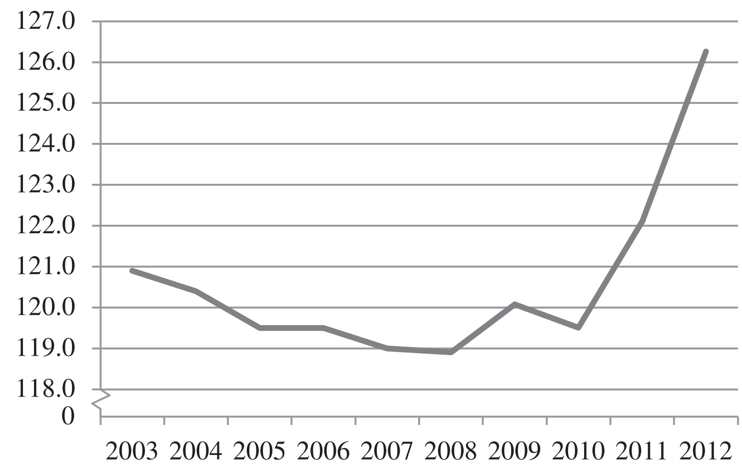


Source: Bureau of Economic Analysis, Department of Commerce of the United States

USA apparel price index

According to the data published by the Bureau of Labor Statistics, Department of Labor of the United States, the consumer price index for apparel has increased from 120.9 in 2003 to 126.3 in 2012. The price level of apparel market in the United States has been increasing since 2010 as illustrated in the graph below.

USA consumer price index (apparel)

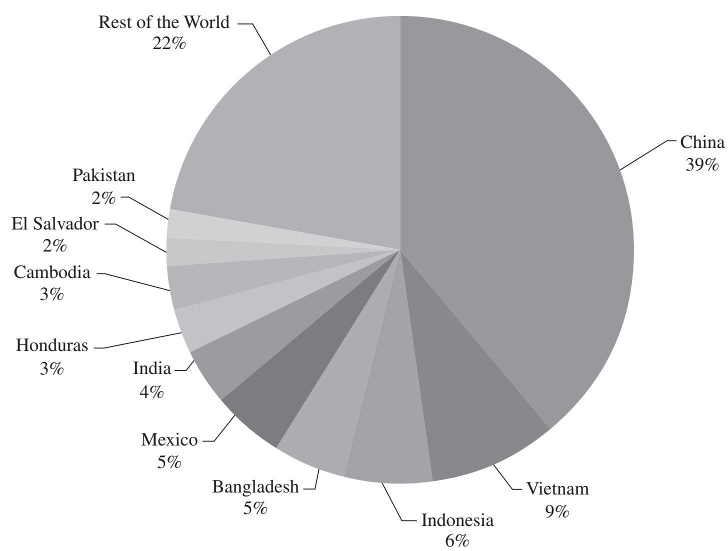


Source: Bureau of Labor Statistics, Department of Labor of the United States

USA apparel import

According to the figures published by the International Trade Administration, U.S. Department of Commerce Office, USA total apparel and accessories import values in year 2012 was US$81,449 billion. The 10 countries that contributed most to USA total apparel import value were, in sequence, China, Vietnam, Indonesia, Bangladesh, Mexico, India, Honduras, Cambodia, El Salvador and Pakistan for the year 2012. USA total apparel import values from each of the top 10 countries were approximately US$32,102 billion from China, US$7,131 billion from Vietnam, US$4,961 billion from Indonesia, US$4,474 billion from Bangladesh, US$3,912 billion from Mexico, US$3,206 billion from India, US$2,651 billion from Honduras, US$2,537 billion from Cambodia, US$1,840 billion from El Salvador and US$1,560 billion from Pakistan for the year 2012. The chart below sets out the USA total apparel and accessories import value distribution by countries for the year 2012.

2012 USA total apparel import and accessories distribution by countries



Source: International Trade Administration, U.S. Department of Commerce

As at the Latest Practicable Date, there were approximately 50 listed companies on the New York Stock Exchange that were apparel retailers or clothing and accessories sellers. These companies include existing and potential customers of the Group.

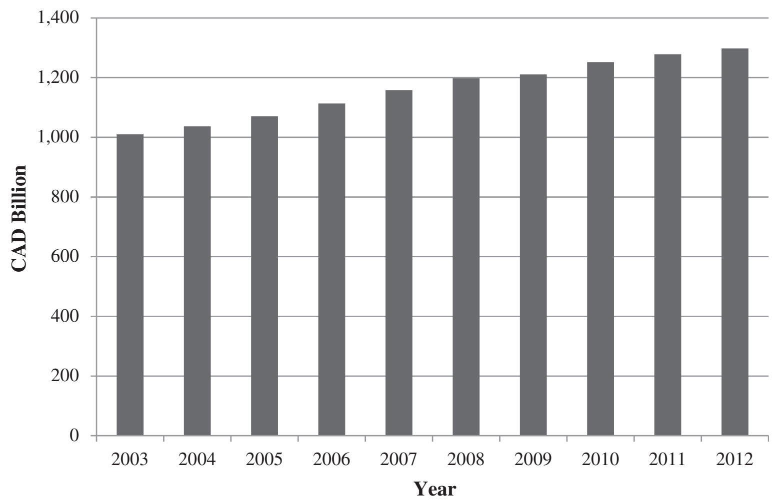
Based on the total apparel and accessories import value of the United States in 2012 of US$81,449 billion and the Group's sales to customers in the United States in 2012 of approximately HK$217.7 million (or approximately US$27.9 million), the Group's market share in the apparel market in the United States is insignificant (less than 0.01%).

Canada apparel industry

Overview of Canada economy

According to the statistics published by Statistics Canada, the Canada's central statistical office, the real GDP of Canada steadily increased from approximately CAD1,009 billion in 2003 to approximately CAD1,297 billion in 2012, with a CAGR of approximately 2.83%:

Canada real GDP

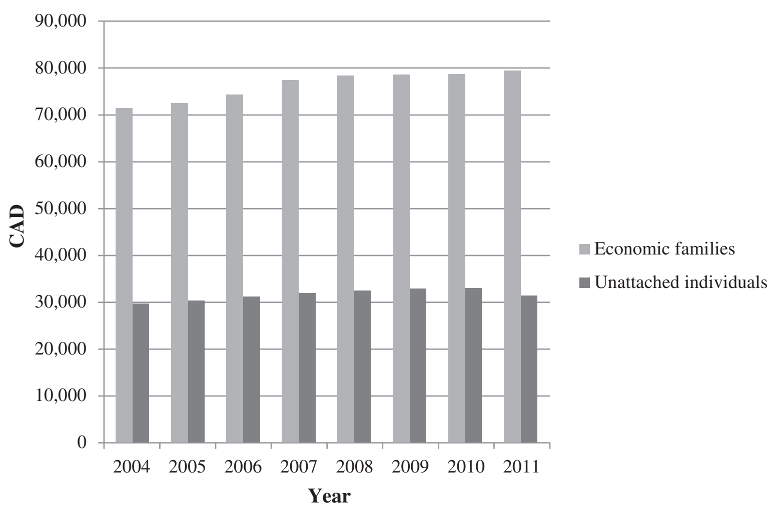


Source: Statistics Canada

Disposable personal income of Canada

According to Statistics Canada, the real adjusted disposable income for a typical economic family has increased from CAD71,600 in 2004 to CAD79,600 in 2011, representing a CAGR of 1.52% for the period. Disposal income is defined as personal income less personal current taxes; an economic family is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common law or adoption; whereas unattached individual is a person living either alone or with others to whom he or she is unrelated, such as roommates or a lodger. The following chart shows the real adjusted disposal income figures for the period from 2004 to 2011:

Canada real adjusted disposable personal income

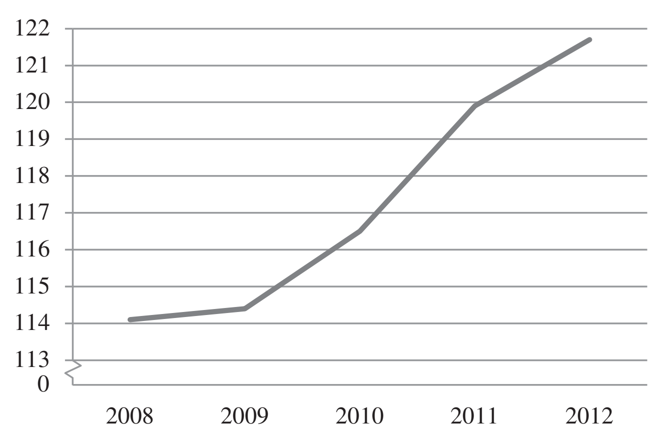


Source: Statistics Canada

Canada apparel retail value

According to the data published by Statistics Canada, the consumer price index (Canada) for clothing and footwear has increased from 114.1 in 2008 to 121.7 in 2012. The chart below sets out the consumer price index in Canada for clothing and footwear from 2008 to 2012.

Canada consumer price index (clothing and footwear)

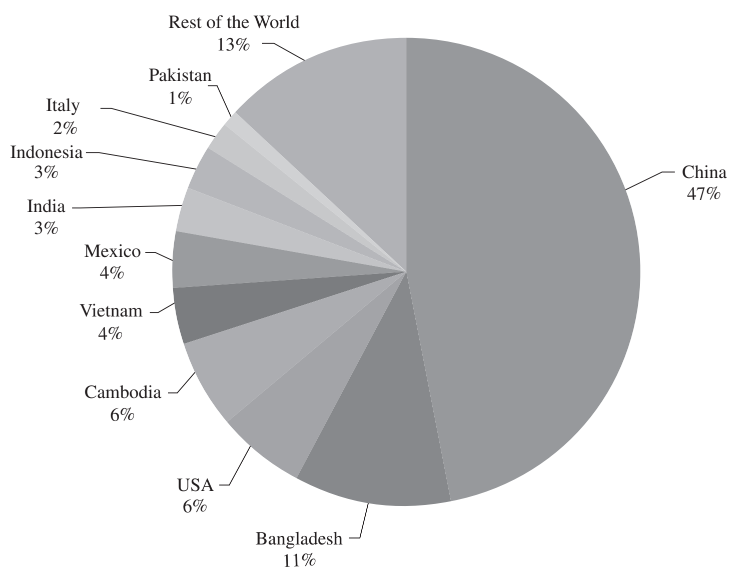


Source: Statistics Canada

Canada total clothing manufacturing import

According to the figures published by Industry Canada, Canada's total clothing manufacturing import value in year 2012 was US$9,126 million. The 10 countries that contributed most to Canada's total clothing manufacturing import value were, in sequence, China, Bangladesh, USA, Cambodia, Vietnam, Mexico, India, Indonesia, Italy and Pakistan for the year 2012. Canada's total clothing manufacturing import values from each of the top 10 countries for the year 2012 were approximately US$4,282 million from China, US$1,012 million from Bangladesh, US$593 million from USA, US$536 million from Cambodia, US$399 million from Vietnam, US$323 million from Mexico, US$288 million from India, US$242 million from Indonesia, US$198 million from Italy and US$120 million from Pakistan. The chart below sets out the 2012 Canada's total clothing manufacturing import value distribution by countries.

2012 Canada total clothing manufacturing import distribution by countries



Source: Industry Canada

According to the statistics from Industry Canada, there were approximately 552 companies in Canada engaged in the apparel sector or operating clothing and clothing accessories stores in September 2013. Such companies include existing and potential customers of the Group.

Based on the total clothing manufacturing import value of Canada in 2012 of US$9,126 million and the Group's exports to Canada in 2012 of approximately HK$109.5 million (or approximately US$14.0 million), the Group's market share in Canada's apparel market was approximately 0.15% in 2012.

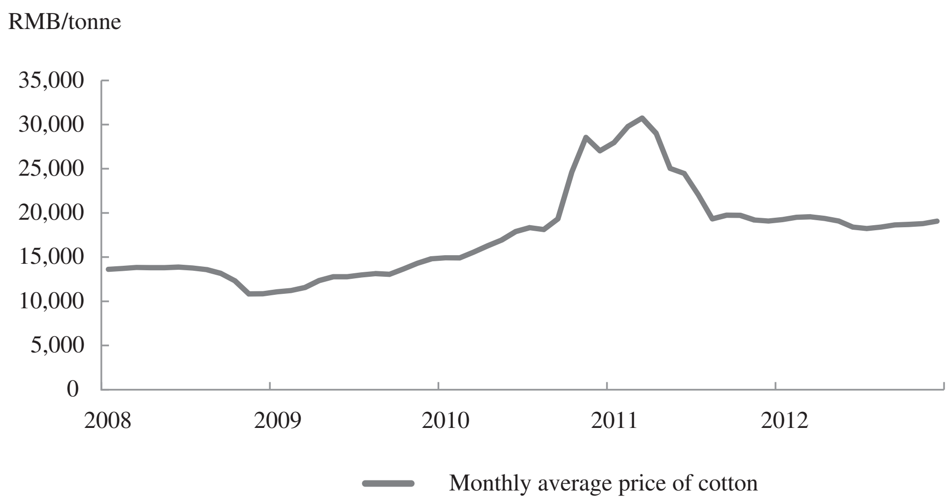
Costs of raw materials and labour in the PRC

Fabric prices

One of the Group's major raw materials is fabric, which is mainly made of cotton and polyester.

The following graph illustrates the movement in the price of cotton in the PRC from 2008 up to the end of 2012:

Average price trend of cotton in China (2008–2012)



Sources: China Cotton Association

The monthly average price of cotton in the PRC increased from approximately RMB13,622 per tonne in January 2008 to approximately RMB19,068 per tonne in December 2012, representing a CAGR of approximately 6.96%. Driven by domestic and foreign demand, fallen local supply and increased global cotton price, the average cotton price started to rise since 2009 and peaked in March 2011 at around RMB30,733 per tonne. The cotton price has fallen substantially since then and remained relatively stable throughout 2012 at the level of approximately RMB19,000 per tonne.

Polyester is mainly made from crude oil. The table below sets out the international price trend of crude oil from 2008 up to the end of 2012:

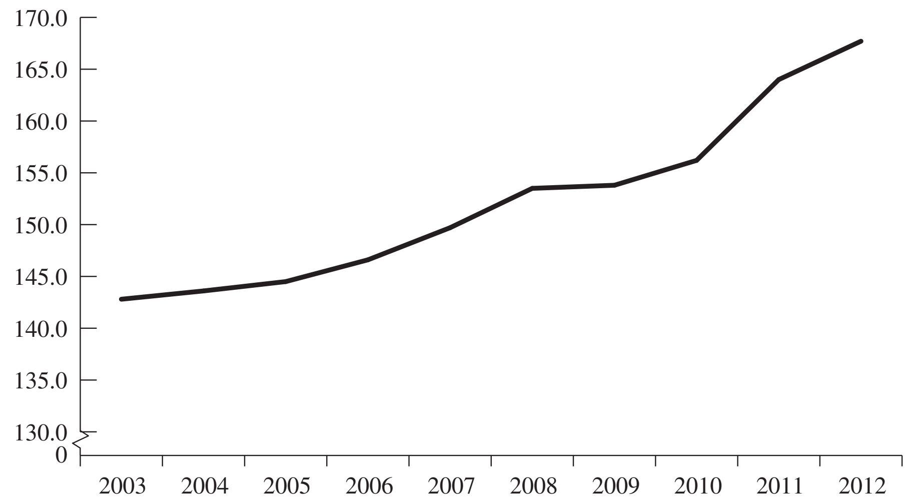
Sources: U.S. Energy Information Administration

The price of crude oil underwent a significant decrease after the record peak of USD133.88 per barrel recorded in June 2008. Then the monthly average price of crude oil increased at a CAGR of approximately 20.31% from approximately USD42 per barrel in the beginning of 2009 to approximately USD88 per barrel at the end of 2012. During the Track Record Period, the monthly average price of crude oil was about USD89 per barrel in January 2011 and about USD88 per barrel in December 2012.

Leather prices

One of the Group's major raw materials is leather. The Directors are not aware of any statistics in relation to the historical price trend of leather in the PRC markets. However, the Directors are aware of the following producer price index (leather and allied product manufacturing) published by the Bureau of Labor Statistics of the Department of Labor of the United States, and the Directors consider that such index is reflective of the general price trend of leather in the PRC markets. The following graph illustrates the producer price index (leather and allied product manufacturing) from 2003 to 2012 published by the Bureau of Labor Statistics of the Department of Labor of the United States:

Producer price index — Leather and allied product manufacturing



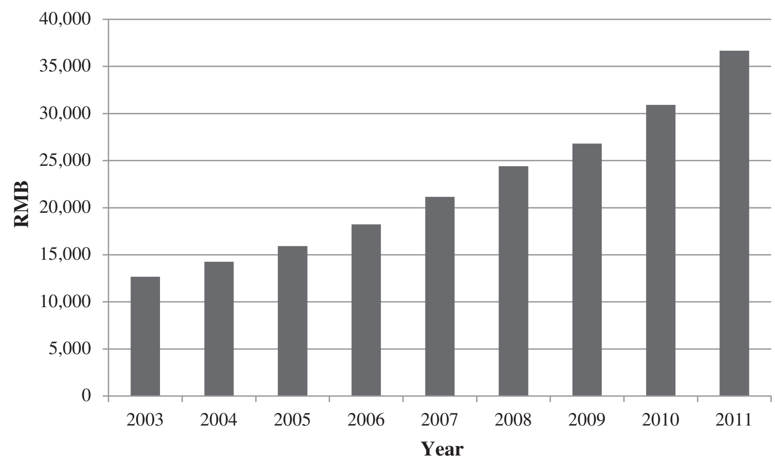
Source: Bureau of Labor Statistics, Department of Labor of the United States

The producer price index (leather and allied product manufacturing) has increased from approximately 142.8 in 2003 to approximately 167.7 in 2012, representing a CAGR of approximately 1.80% in price of leather and allied product manufacturing.

Labour costs

According to the statistics published by National Bureau of Statistics of China, the average wage of employed persons in manufacturing sector located in urban areas of the PRC has been increased from approximately RMB12,671 in 2003 to approximately RMB36,665 in 2011, representing a CAGR of approximately 14.20%. The series of high-profile strikes happening in some of the PRC factories in 2010 has put a spotlight on growing unrest among the PRC's massive migrant worker populations wanting a greater share of the profit of the employers. The following chart sets out the average wage of employed persons in manufacturing sector located in urban areas of the PRC for the period from 2003 to 2011.

Average wage of employed persons in urban units of PRC (manufacturing sector)



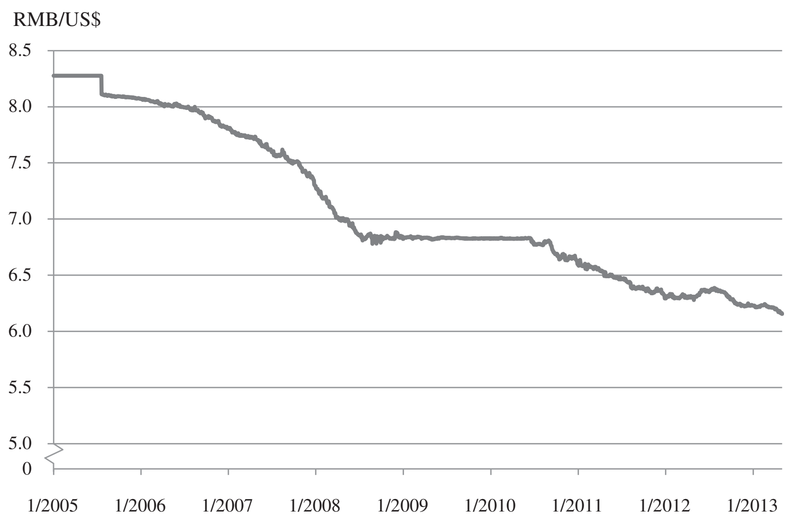
Source: China Statistical Yearbook 2012 published by National Bureau of Statistics of China

Foreign exchange rate fluctuation and its effect on the Group

Trend of exchange rate between US$ and RMB

On 21 July 2005, the PRC Government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market demand and supply with reference to a basket of currencies, determined by the PBOC. This change in policy has resulted in the value of the RMB appreciating against the USD significantly. The following chart illustrates the historical exchange rates between RMB and USD from January 2005 to January 2013.

Historical exchange rate (RMB per USD)



Source: Federal Reserve of the United States

Foreign exchange risk

The exchange rates between RMB and the USD are subject to changes in the PRC Government's policies and international political and economic conditions. The Group derives a substantial part of its revenue in USD while its costs are mainly denominated in RMB. Appreciation of RMB against USD will therefore directly decrease the profit margin of the Group if the Group is unable to increase the selling prices of its products accordingly. If the Group increases the selling prices of its products as a result of the appreciation of RMB, it may in turn affect the Group's competitiveness against overseas competitors. To the extent that the Company needs to convert the proceeds of the Placing and future financing into RMB for its operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the purchasing power of the RMB amount that the Company would receive from the conversion. Please refer to the paragraph headed "Hedging of currency risk" under the section headed "Business" in this prospectus for further details of the Group's currency risk and the related hedging activities.

The relevant laws and regulations applicable to the operations and the business of the Group are set out below:

(A) HONG KONG LAWS AND REGULATIONS

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

Every person, (a company or individual), carrying on a business in Hong Kong is required by the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong) to register with the Inland Revenue Department and obtain a business registration certificate within one month of the commencement of the business. Business registration is a process based on application and does not involve government approval. Once the stated criteria are met, a business registration certificate will be granted. Business registration serves to notify the Inland Revenue Department of the establishment of a business in Hong Kong and therefore, it is designed to facilitate the Inland Revenue Department to collect tax from various "businesses" in Hong Kong. Business registration does not serve to regulate the business activities of any person. If a person carries on a business using one or more business or trade names, then a business registration certificate will be required for each different business or trade name. A business registration certificate is renewable every year and the current fee is HK$450 for a 1-year business registration certificate. As at the Latest Practicable Date, the Group had all of the required business registration certificates for its business in Hong Kong.

As advised by the Hong Kong Legal Advisers, there is no specific licensing requirement for conducting the Group's business in Hong Kong (in addition to what is required for carrying on business in Hong Kong in general) pursuant to the laws of Hong Kong.

Taxation

(i) Corporate profits tax

In general, persons, including corporations, partnerships, trustees and bodies of persons carrying on any trade, professional or business in Hong Kong are liable for tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. The corporate tax rate of Hong Kong was 16.5% for the Track Record Period.

(ii) Stamp duty

Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of Shares registered on the Hong Kong branch register of members. The duty is charged at the ad valorem rate of 0.1% of the consideration for, or (if greater) the value of, the Shares transferred on each of the seller and purchaser. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK$5.00. Where a sale or purchase of Shares registered on the Hong Kong branch register is effected by a person who is not resident in Hong Kong and any stamp duty payable on the contract note is not paid, the relevant instrument of transfer (if any) shall be chargeable with such duty, together with the duty otherwise chargeable thereon and the transferee shall be liable to pay such duty.

(iii) Dividends

Under the current practice of the Inland Revenue Department, no profits tax is payable in Hong Kong in respect of dividends paid by the Group.

(B) PRC LAWS AND REGULATIONS

This section sets out summaries of certain major laws and regulations, which are relevant to the Group's business and operation in the PRC.

A. Company establishment and foreign investment

1. Company Law and the Wholly Foreign-owned Enterprise Law

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 the Standing Committee of the National People's Congress (全國人民代表大會常務委員會) 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 and 27 October 2005. According to the PRC Company Law, companies established in the PRC are either limited liability companies or joint stock limited companies. The PRC Company Law applies to both PRC domestic companies and foreign-invested companies; however where the PRC Company Law is silent on matters relating to foreign-invested companies, such matters may be addressed by other PRC laws and regulations.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labour matters of a wholly foreign-owned enterprise are regulated by the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the ''WFOE Law'') promulgated on 12 April 1986 and amended on 31 October 2000, and the Rules for the Implementation of the WFOE Law (中華人民共和國外資企業法實施細則) promulgated on 12 December 1990 and amended on 12 April 2001.

2. The Provisions on Guiding Foreign Investment Direction and the Catalogue for the Guidance of Foreign Investment Industries

In 1995, the State Planning Commission (國家計劃委員會), the State Economic and Trade Commission (國家經濟貿易委員會) and the Ministry of Foreign Trade and Economic Cooperation (對外經濟貿易合作部) jointly promulgated the Interim Provisions on Guiding Foreign Investment Direction (指導外商投資方向暫行規定) (the ''Interim Foreign Investment Provisions'') and the Catalogue for the Guidance of Foreign Invested Industries (外商投資產業指導目錄) (the ''Foreign Investment Catalogue''), classifying all foreign investment projects into four categories: encouraged projects, permitted projects, restricted projects and prohibited projects. On 11 February 2002, the State Council promulgated the Provisions on Guiding Foreign Investment Direction (指導外商投資方向規定) (the ''Foreign Investment Provisions''), re-stating the four categories of foreign investment projects. The Foreign Investment Provisions came into force on 1 April 2002 and the Interim Foreign Investment Provisions were simultaneously repealed. The Foreign Investment Catalogue has been revised in 1997, 2002, 2004, 2007 and 2011 respectively since it was first promulgated. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the National Development and Reform Commission (國家發展和改革委員會) and the Ministry of Commerce (商務部) on 24 December 2011 and came into effect on 30 January 2012, pursuant to which garment production and sale falls into permitted projects.

B. Product quality

The Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated by the Standing Committee of the National People's Congress on 22 February 1993 and amended on 8 July 2000 and 27 August 2009 respectively, applies to all production and marketing activities within the territory of the PRC. Producers and sellers are responsible for the product quality according to the provisions of this law.

Responsibilities and obligations of producers for the products include: (i) be responsible for the quality of the products they produce; (ii) marks on the products or on the packages thereof shall be true to the fact; (iii) not to produce products expressly phased out by state laws or decrees; (iv) not to forge the place of origin, or forge or illegally use the name and address of another producer; (v) not to forge or illegally use product quality marks, such as authentication marks; (vi) not to mix impurities or imitations into the products, or substitute a fake product for a genuine one, a defective product for a high-quality one, or pass off a substandard product as a qualified one in the production; and (vii) to ensure that, for products that are fragile, inflammable, explosive, toxic, corrosive or radioactive, products that should be kept upright during storage and transportation, or other products with special requirements, the packaging thereof must meet the corresponding requirements, and carry warning marks or warning notes to highlight the way of handling that calls for attention.

A producer in breach of the above responsibilities and obligations shall be liable for civil compensation. The authorities shall order the suspension of production, confiscate the products illegally produced, impose a fine and confiscate the unlawful proceeds (if any) therefrom. Where the case is serious, business licences shall be revoked. Where a criminal offence is constituted, the offenders will be pursued for criminal liabilities.

C. Intellectual property right

In accordance with the Trademark Law of the PRC (中華人民共和國商標法), which was promulgated by the Standing Committee of the National People's Congress on 23 August 1982 and amended on 22 February 1993 and 27 October 2001 respectively, natural persons, legal persons, or other organizations that need to obtain the exclusive right to use trademarks for the goods they produce, manufacture, process, select, or distribute shall apply to the Trademark Office (商標局) for trademark registration. The users of a trademark shall be responsible for the quality of their goods bearing that trademark. If the goods bearing a registered trademark are roughly and poorly manufactured or are inferior goods passed off as quality goods, thereby deceiving consumers, the administrative departments for industry and commerce at each level shall, depending on the circumstances, order rectification within a specified time period and may additionally circulate a notice on the matter or impose a fine, or alternatively, the Trademark Office (商標局) may cancel the registered trademark.

The exclusive right to use a registered trademark shall be limited to the trademark registered upon verification and approval and the goods approved to be designated to be covered by the trademark. Any of the following acts shall be deemed infringement of the exclusive right to use a registered trademark: (i) using a trademark which is identical with or similar to the registered trademark on the same kind of goods or similar goods without the permission of the trademark registrant; (ii) selling any goods that infringe upon the exclusive right to use a registered trademark; (iii) forging, manufacturing without authorisation the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorisation; (iv) changing a registered trademark and putting the goods bearing the changed trademark into the market without the consent of the trademark registrant; (v) causing any other damage to the exclusive right of others to use a registered trademark.

In the event of disputes arising from any of the above acts, the parties shall negotiate for a resolution. If any party refuses to negotiate or the negotiation proves futile, the trademark registrant or an interested party may file a lawsuit with a people's court, or refer the case to the administrative department for industry and commerce. If the administrative department for industry and commerce concludes that an infringement is constituted, it shall order an immediate cessation of the infringement, and shall confiscate and destroy the infringing goods and the tools especially used to produce the infringing goods and to forge the marks of the registered trademark, and may additionally impose a fine.

D. Environmental protection

The PRC laws and regulations on environmental protection mainly include the Environmental Protection Law of the PRC (中華人民共和國環境保護法) promulgated on 26 December 1989 and amended on 25 December 1995, Regulations on Management of Environmental Protection for Construction Projects (《建設項目環境保護管理條例》), promulgated on 29 November 1998, Law of the People's Republic of China on Environmental Impact Appraisal (《中華人民共和國環境影響評價法》), promulgated on 28 October 2002, Law of the PRC on the Prevention and Control of Water Pollution (中華人民共和國水污染防治法) promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008 respectively, Law of the PRC on the Prevention and Control of Air Pollution (中華人民共和國大氣污染防治法) promulgated on 5 September 1987 and amended on 29 August 1995 and 29 April 2000 respectively, Law of the PRC on Prevention and Control of Environmental Pollution by Solid Waste (中華人民共和國固體廢物污染環境防治法) promulgated on 30 October 1995 and amended on 29 December 2004, and Law of the PRC on the Prevention and Control of Environmental Noise Pollution (中華人民共和國環境噪聲污染防治法) promulgated on 29 October 1996.

Pursuant to the above laws and regulations, enterprises that discharge waste gases, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation in the course of production, construction or other activities shall adopt effective measures to prevent and control the pollution and harms caused to the environment, comply with applicable national and local standards, as well as report to and register with the applicable environmental protection authorities.

According to the requirements of competent environmental protection bureau, Runway Jiaxing's production must meet the following environmental protection standards: (i) living waste water must be discharged into the sewage pipe network after being treated to meet the Level Three standard in the Table 4 of GB8978-1996 Standard, and no other outfalls may be set; (ii) waste gases from kitchens within the factory area must be discharged after being treated to meet GB18483-2001 Standard; (iii) noise reduction measures must be taken on equipment generating intense noise to meet the Class III standard of GB12348-90 Standard; and (iv) solid waste may not be piled up randomly and must be collected by qualified organizations for recycling and comprehensive utilization.

E. Labour Laws

1. The Labour Contract Law

The Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the ''PRC Labour Contract Law'') was promulgated by the Standing Committee of the National People's Congress on 29 June 2007 and came into effect on 1 January 2008. The PRC Labour Contract Law is enacted to define the rights and obligations of parties to a labour contract, including matters with respect to the establishment, performance and termination of a labour contract.

Under the PRC Labour Contract Law, (i) a written labour contract shall be concluded when a labour relationship is to be established between an employer and an employee; (ii) an employer must pay an employee two times his salary for each month in circumstance where it fails to enter into a written labour contract with the employee for more than a month but less than a year; where such period exceeds one year, the parties are deemed to have entered into a unfixed-term labour contract; (iii) an employer shall pay an employee the full amount of salary in a timely manner in accordance with the provisions stipulated in the labour contract; (iv) an employer who fails to pay an employee's salary on time and in full as stipulated in the labour contract must, in addition to his full salary, pay additional compensation to the employee at a rate of not less than 50 percent but not more than 100 percent of the amount payable; (v) the amount of compensation an employer may seek from an employee for breach of the agreed service term may not exceed the training expenses paid by the employer; (vi) an employee may have his labour contract terminated if the employer fails to pay social insurance premiums for the employee in accordance with law; and (vii) an employer who collects money or property from employees in the name of guarantee or in other names may be fined a maximum of RMB2,000 for each employee.

2. Law on Employment Promotion

The Law of the PRC on Employment Promotion (中華人民共和國就業促進法) (the ''Law on Employment Promotion'') was promulgated by the Standing Committee of the National People's Congress on 30 August 2007 and came into effect on 1 January 2008. The Law on Employment Promotion contains provisions on policy support, fair employment, employment service and management, and vocational education and training. More particularly, the Law on Employment Promotion (i) states explicitly that employment discrimination should be eliminated, and the employees discriminated by acts in violation of the provisions may file a lawsuit with the people's court; (ii) provides that public employment service agencies established by the People's Government at the county level or above should provide free services to employees, including consultation of employment policies and regulations, vocational training, and price guidance for market wages; (iii) establishes an employment and unemployment registration system, stipulating that employers should provide necessary information to facilitate the registration.

F. Social Insurance and Housing Provident Fund

1. Social insurance

According to the Interim Regulations on Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例), which was promulgated and came into effect on 22 January 1999, enterprises are required to pay basic pension insurance, basic medical insurance and unemployment insurance for their employees. An enterprise shall, within 30 days from the date of its establishment, apply for social insurance registration with the local social insurance agency based on its business license, registration certificate or other relevant certificate. After verification, a Social Insurance Registration Certificate (社會保險登記證) will be issued to it by the social insurance agency. Furthermore, the enterprise shall, on a monthly basis, report to the social insurance agency the amount of social insurance premiums payable and, after assessment by the social insurance agency, pay its social insurance premiums within the prescribed time limit.

Furthermore, pursuant to the Regulations on Occupational Injury Insurances (工傷保險條例), which was amended on 20 December 2010 and came into effect on 1 January 2011, employers are required to pay occupational injury insurance premiums for their employees. Pursuant to the Provisional 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 came into effect on 1 January 1995, employers are required to pay maternity insurance premiums for their employees.

The Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and came into effect on 1 July 2011, requires that employers within the PRC shall pay social insurance premiums, including basic pension insurance, basic medical insurance, occupational injury insurance, unemployment insurance and maternity insurance. According to this law, rural residents working in urban cities and foreigners working in the PRC shall also participate in social insurance.

2. Housing provident fund

According to the Regulations on Management of Housing Provident Fund (住房公積金管理條例), which became effective on 3 April 1999 and was amended on 24 March 2002, enterprises in the PRC must register with the housing provident fund management centre, maintain housing provident fund accounts with designated banks for their employees, and deposit into the fund an amount not less than 5% of each employee's average monthly salary in the previous year.

G. Taxation

1. Income tax

According to the new Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was promulgated by the National People's Congress on 16 March 2007 and came into effect on 1 January 2008, and the Implementation Regulations 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) which was promulgated on 6 December 2007 and came into effect on 1 January 2008, PRC resident enterprises shall pay enterprise income tax on their income derived from both within and outside the PRC. For non-resident enterprises which have established agencies or offices in the PRC, they shall pay enterprise income tax on their income earned by such agencies or offices from inside the PRC, and their income derived from outside the PRC but actually associated with such agencies or offices. The income tax rate for both domestic and foreign-invested enterprises is 25%.

In accordance with the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) promulgated on 21 August 2006 and effective on 8 December 2006, if a Hong Kong enterprise owns at least 25% equity interest in a PRC enterprise, the dividends paid by the PRC enterprise to the Hong Kong enterprise are subject to a withholding tax of up to 5% of the total amount of the dividends. In accordance with the Notice on Issues Relevant to the Implementation 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, to enjoy the benefits offered by tax treaties, the proportion of interest in the PRC resident enterprise directly owned by the tax resident of the other side at any time during the 12-month period prior to the receipt of dividends shall remain compliant with that provided in the tax treaties.

2. Value-added tax

Pursuant to the Interim Regulations of the PRC on Value-added Tax (中華人民共和國增值稅暫行條例) which was last amended on 10 November 2008 and took effect on 1 January 2009, and its Implementation Regulations which was last amended on 28 October 2011, all enterprises and individuals engaging in the sales of goods, provision of processing, repairs and replacement services, and the importation of goods within the territory of the PRC are subject to value-added tax ("VAT"). The applicable VAT rate for taxpayers providing processing, repairs and replacement services shall be 17%, and that for taxpayers exporting goods shall be 0 percent except as otherwise stipulated by the State Council.

3. Urban maintenance and construction tax and education surtax

Pursuant to the Interim Regulations of the PRC on Urban Maintenance and Construction Tax (中華人民共和國城市維護建設稅暫行條例) which was promulgated on 8 February 1985 and took effect from 1 January 1985, and Circular of the State Administration of Taxation on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (國家稅務總局關於城市維護建設稅徵收問題的通知) which was promulgated on 12 March 1994 and took effect from 1 January 1994, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay urban maintenance and construction tax. The amount of urban maintenance and construction tax shall be based on the consumption tax, VAT and business tax actually paid by a taxpayer, and shall be paid simultaneously with payment thereof. The rates of urban maintenance and construction tax shall be 7% for a taxpayer in city, 5% for a taxpayer in county or town and 1% for a taxpayer in places other than a city, county or town.

In accordance with the Interim Provisions on the Collection of Educational Surtax (徵收教育費附加的暫行規定) which was last revised on 8 January 2011, any enterprise or individual subject to consumption tax, VAT and business tax shall also be required to pay educational surtax. The rate of educational surtax is 3%, based on the amount of consumption tax, VAT and business tax actually paid by each enterprise or individual, and the educational surtax shall be paid simultaneously with the payment of consumption tax, VAT and business tax.

4. Land use tax

Pursuant to the Interim Regulations of the PRC on Land Use Tax in Cities and Towns (中華人民共和國城鎮土地使用稅暫行條例) which was promulgated on 27 September 1988 and amended on 31 December 2006 and 8 January 2011 respectively, all enterprises and individuals using land within the scope of cities, counties, administrative towns, and industrial and mining areas are subject to land use tax. The land use tax shall be calculated on the basis of the areas of land actually occupied by the taxpayers and shall be collected in accordance with the specified amount of tax.

The annual amount of land use tax per square meter is as follows: (i) 1.5 to 30 yuan in large cities; (ii) 1.2 to 24 yuan in medium cities; (iii) 0.9 to 18 yuan in small cities; and (iv) 0.6 to 12 yuan in counties, administrative towns, and industrial and mining areas.

5. Real estate tax

Pursuant to the Interim Regulations of the PRC on Real Estate Tax (中華人民共和國房產稅暫行條例) which was promulgated on 15 September 1986 and amended on 8 January 2011, real estate tax is levied in cities, counties, state designated townships and industrial and mining areas, and shall be paid by the owner of the property right. The real estate tax shall be calculated on the residual value following the subtraction of 10% to 30% of the original value of the property at a rate of 1.2%.

H. Rules on foreign exchange and dividend distribution

1. The Regulations on Foreign Exchange Administration

The principal regulation governing foreign exchange in the PRC is the Regulations of the PRC on Foreign Exchange Administration (中華人民共和國外匯管理條例), which was promulgated by the State Council on 29 January 1996, effective on 1 April 1996 and was amended on 14 January 1997 and 5 August 2008 respectively. Under these rules, RMB is freely convertible for payments of current account items, including trade and service-related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approvals of relevant foreign exchange administrative departments have been obtained. Under the Regulations on Foreign Exchange Administration, foreign-invested enterprises in the PRC may purchase foreign currencies without the approvals of relevant foreign exchange administrative departments for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign currencies (subject to a cap approved by the foreign exchange administrative departments) to satisfy foreign exchange liabilities or to pay dividends. But foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from the foreign exchange administrative departments.

2. SAFE registration

Pursuant to the Notice of the SAFE on Relevant Issues Concerning Foreign Exchange Administration Involved in Financing and Inbound Investment Conducted by PRC Residents via Overseas Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) (the "SAFE Circular No. 75") issued on 21 October 2005, (i) PRC residents should register with the local branch of the SAFE before establishing or controlling a privately-held overseas special purpose vehicle (the "Overseas SPV") for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interest in a domestic enterprise into an Overseas SPV, or engages in overseas financing after contributing assets or equity interest into an Overseas SPV, such PRC resident shall register his or her interest in the Overseas SPV and the change thereof with the local branch of the SAFE; and (iii) when the Overseas SPV undergoes such material capital alteration as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register with the local branch of the SAFE. Under the SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to Overseas SPV, as well as the imposition of penalties in accordance with the law.

The Controlling Shareholders are not "PRC residents" as defined in the SAFE Circular No. 75. They are, therefore, not required to register with the local branch of the SAFE under the SAFE Circular No. 75.

3. Regulations on dividend distribution

The principal laws and regulations governing the distribution of dividends paid by wholly foreign-owned enterprises in the PRC include (i) the PRC Company Law; (ii) the WFOE Law; and (iii) the Rules for the Implementation of the WFOE Law. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may distribute dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits each year, if any, as certain reserve funds until the accumulated reserve funds reach and remain above 50% of their registered capital. These reserves are not distributable as cash dividends. Under the relevant PRC laws, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

I. Regulation on overseas listing

On 8 August 2006, the Ministry of Commerce, the SAFE and four other authorities jointly adopted the Provisions on Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) (the "M&A Rules"), which came into effect on 8 September 2006 and was amended on 22 June 2009. For the purpose of M&A Rules, "merger and acquisition of a domestic enterprise by a foreign investor" shall mean a foreign investor's purchase of any equity interests of any shareholder of a PRC enterprise other than a foreign-invested enterprise (the "Domestic Company") or subscription to any increased capital of a Domestic Company, thus making the Domestic Company be converted to a foreign-invested enterprise, or a foreign investor's establishment of a foreign-invested enterprise and purchase, through such enterprise, any asset of a domestic enterprise by an agreement and operate such asset, or a foreign investor's purchase of any asset of a domestic enterprise by an agreement and invest, with such asset, in the establishment of a foreign-invested enterprise to operate such asset.

The M&A Rules provides that an Overseas SPV established for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the China Securities Regulatory Commission (中國證券監督管理委員會) prior to the listing and trading of its securities on an overseas stock exchange. In the event of M&A by a PRC company or individual, in the name of a company legitimately established or controlled by it outside the PRC, of a domestic enterprise affiliated thereto, the M&A shall be submitted to the Ministry of Commerce for examination and approval. The parties concerned shall not evade the above requirements through domestic investment by a foreign-invested enterprise or any other means.

Since Runway Jiaxing was established by Runway HK and an independent third party in 2003 and does not fall under the "merger and acquisition of a domestic enterprise by a foreign investor" as defined in the M&A Rules, the M&A Rules is not applicable to the Group's Listing.

The PRC Legal Advisers are of the opinion that save for the noncompliant incidents as disclosed in the paragraph headed "Non-compliances" under the section headed "Business" in this prospectus, the Group has complied with all relevant PRC laws and regulations in all material respects and obtained all relevant approvals/certificates which are necessary for its operations in the PRC up to the Latest Practicable Date.

(C) US LAWS AND REGULATIONS

The majority of the Group's products are sold to customers located in the US during the Track Record Period. Accordingly, the Group's sales to customers in the US are subject to certain US laws and regulations, including those summarized in the following paragraphs.

US import regulations

Quotas

Starting 1 January 2009 all apparel products exported from China to the US were no longer subject to quota (quantitative restrictions). Under the global safeguard and China-specific safeguard (which expires at the end of 2013), the US could re-impose quantitative restrictions, albeit on a limited basis, on apparel products from China.

Custom duties

All goods imported into the US are either subject to duty or duty free, depending on their classification under the applicable heading in the Harmonized Tariff Schedule of the United States ("HTSUS").

When goods are dutiable, ad valorem, specific or compound rates may be assessed.

- ad valorem rate — the type most often applied — is a percentage of the entered value of the merchandise, such as 5% ad valorem.

- specific rate — a specified amount per unit of weight or item count, such as 5.9 cents per dozen.

- compound rate — a combination of both an ad valorem rate and a specific rate, such as 0.7 cents per kilo plus 10% ad valorem.

Rates of duty for imported merchandise may also vary depending upon the country of origin. Apparel manufactured in China is dutiable under NTR (normal trade relations) rates. US Customs and Border Protection ("CBP") has the authority to make a "rate advance" should CBP determine that the classification claimed by the importer is incorrect.

The Group's products are generally subject to an ad valorem duty rate of between 3% and 32%. Duty is paid by the Group's customers when the Group's customers purchase products from the Group on an FOB (free on board) China basis and by the Group when the Group's customers purchase products from the Group on an LDP (landed duty paid) basis.

Classification

All goods that enter the US are classified according to the HTSUS. The United States International Trade Commission maintains and publishes the HTSUS, but CBP is responsible for interpreting and enforcing it.

The HTSUS comprises a hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes. This structure is governed by The International Convention on the Harmonized Commodity Description and Coding System ("HS") which is administered by the World Customs Organization ("WCO"). The four-digit and six-digit HS product categories are subdivided into unique eight-digit rate lines unique to the US and 10-digit non-legal statistical reporting categories. Classification of goods in this system must be done in accordance with the General and Additional US Rules of Interpretation, starting at the four-digit heading level to find the most specific provision and then moving to the subordinate categories.

The HTSUS is currently divided into 99 chapters, almost all of which are grouped by product type. Textile and textile articles are grouped under Section XI of the HTSUS. The Group's products fall under Chapter 61 (knit apparel) and Chapter 62 (woven apparel) of such section.

Valuation

Under US law, the preferred basis of valuation, against which the relevant duty rate is applied, is the "transaction value" of the goods. Transaction value is normally the price paid by the US importer to the foreign seller. Where the foreign seller is a middleman and not the manufacturer, transaction value may, under "first sale" principles, be based on the lower price paid by the foreign seller to the foreign factory.

Where the Group's customers purchase products from the Group on an FOB basis and therefore act as the importers, the customers pay duty based on Runway HK's price. Where the Group sells on an LDP basis and therefore is responsible for importing the goods and paying for the duty, the Group pays duty on such intragroup price.

Where goods imported into the US are involved in a series of sales (for example, factory to middleman, middleman to customer, etc.), CBP has the authority to make a "valuation advance" should CBP determine that the basis of valuation is a later sale and not an earlier sale claimed by the importer. Further, should CBP determine that goods are undervalued, CBP has the authority to impose monetary penalties.

Marking

All apparel products require country of origin markings, the location of which (e.g., center neck or waistband) depends on the type of garment. In addition to origin markings, apparel products are also required to be marked for washing instructions, fiber content and other information. Origin and other marking requirements are administered and/or enforced by CBP and the United States Federal Trade Commission. Marking violations can result in monetary penalties and delays in customs clearance.

Security

In the aftermath of the events of 11 September 2001, CBP implemented various security requirements to try and ensure that terrorists and their weapons are not introduced into the US in shipments of imported merchandise, especially those originating or transshipping through countries or jurisdictions perceived to be "high-risk." These include rules requiring advance transmission of electronic cargo information to CBP for incoming cargo and security checks of imported merchandise on entry into the US, all of which may result in clearance delays and stoppage of shipments.

US product quality and consumer protection

The importation of certain classes of merchandise may be prohibited or restricted to protect the economy and security of the US, to safeguard consumer health and well being, or to preserve domestic plant and animal life.

Many of these prohibitions and restrictions are prescribed by laws and regulations administered by CBP or by other US government agencies with which CBP co-operates in enforcement. This applies to all types of importations, including those made by mail and those placed in foreign-trade zones (FTZs).

Any consumer product offered for importation will be refused admission if it (a) fails to comply with an applicable product safety rule or with a specified labeling or certification requirement, or (b) has a product defect which constitutes a substantial product hazard. These requirements are administered by the U.S. Consumer Product Safety Commission. Under the Consumer Product Safety Improvement Act of 2008, children's products, including children's apparel, are subject to testing, certification and tracking-label requirements.

Copyrights and use of trademarks with respect to US imports

Articles bearing counterfeit trademarks are subject to seizure and forfeiture. Marks that are confusingly similar to a registered trademark that has been recorded with CBP are subject to detention and possible seizure and forfeiture. The importation of "parallel" or "grey market" goods is restricted where the registered trademark has been recorded with CBP and grey market protection has been afforded.

Articles imported into the US that are clearly piratical of a registered copyright recorded with CBP are subject to seizure and forfeiture.

Anti-dumping in the US

In the US, the United States International Trade Commission and United States Department of Commerce share responsibility for investigating allegations of dumping, under authority granted by the Tariff Act of 1930 (19 U.S.C 1202 et. seq.). Where an investigation reveals that foreign products are being "dumped" into the US, the United States Department of Commerce may impose appropriate dumping duties as a remedy.

In addition to dumping duties, the United States Department of Commerce may also impose countervailing duties where imported products have been found to benefit from government subsidies.

The latest US Customs' list of products whose imports are subject to anti-dumping duties include largely industrial products and food and there are currently no products manufactured by the Group that are on the list.

(D) CANADIAN LAWS AND REGULATIONS

Overview

The import of clothing into Canada is governed by a number of Canadian federal laws and regulations. Most clothing items imported into Canada are subject to import duties, and Canadian law enables the use of import controls and duties to protect domestic markets. Imported clothing is also subject to product safety standards and labelling requirements, and must abide by laws and regulations protecting trademarks and copyrights.

Import regulations

The *Export and Import Permits Act* ("*EIPA*") enables the establishment of a list of products which are subject to Canadian import controls. Products may be added to the Import Control List for a number of reasons.

In particular, the *EIPA* allows import controls to be imposed on goods originating in the PRC if they are being imported into Canada in circumstances causing market disruption to Canadian producers. Import permits are not currently required for clothing and textile imports into Canada from the PRC.

Import duties and tariffs

All goods that enter Canada are categorised according to the *Customs Tariff*, which is based on international standards prescribed by the World Customs Organization's Harmonized Commodity Description and Coding System ("HS"). Textiles and textile articles are grouped under Section XI of the Schedule to the *Customs Tariff, with each type of item assigned an HS Code.*

Goods imported into Canada may be subject to duty depending on their HS Code. The applicable duty rate depends on both the nature of the goods and their country of origin.

Most clothing items imported into Canada from the PRC are currently subject to an 18% import duty payable by the importer.

Product labelling

Textile labelling

Under the *Textile Labelling Act* ("*TLA*") and its regulations, consumer textile items in Canada have specific labelling requirements. The TLA requires that consumer textile articles including clothing have a label properly attached which states the generic name of each textile fibre comprising 5% or more by mass of the total fibre mass of the item, the percentage by mass of the total fibre mass of the article of each textile fibre type, and the identity of the person by or for whom the consumer textile article was manufactured. This information must be displayed in both English and French unless certain conditions apply.

Country of origin labelling

Under the Determination of Country of Origin for the Purpose of Marking Goods (Non-NAFTA Countries) Regulations, textiles and clothing items are required to be marked in accordance with the Marking of Imported Goods Regulations ("MIGR") to indicate the country in which the goods were substantially manufactured to the ultimate purchaser.

It is illegal under the TLA and the MIGR to import textile articles into Canada which do not conform to these labelling requirements unless special procedures are followed by the importer, including advance notification by the importer to authorities and proper labelling of the items after import.

Copyrights and use of trademarks with respect to imports

Pursuant to Canada's *Trade-marks Act*, imported items bearing counterfeit trademarks are subject to seizure and forfeiture, and future imports of such items may be prohibited.

Knowingly importing infringing copies of works or other subject matter in which copyright subsists is an offence under Canada's *Copyright Act*.

Product safety in Canada

General product safety

The *Canada Consumer Product Safety Act* ("*CCPSA*") and its regulations set out product quality and safety standards for consumer products including textile items. Under the *CCPSA*, it is illegal to manufacture, import, advertise or sell consumer products including consumer textile articles that fail to meet the quality and safety standards set by the regulations or otherwise pose a danger to human health or safety. Violation of the *CCPSA* or its regulations is a criminal offence, punishable by fines of up to CAD5 million and imprisonment of up to two years.

Textile Flammability Regulations

The *Textile Flammability Regulations* set out specific flammability standards for consumer textile articles, measured according to the flame spread time of the fabric. Flame spread time must be determined according to the Canadian General Standards Board standard CAN/CGSB-4.2 No. 27.5, entitled *Textile Test Methods — Flame Resistance — 45° Angle Test — One-Second Flame Impingement*. The *Children's Sleepwear Regulations* impose more stringent requirements for products falling under those regulations.

Consumer protection in Canada

Statutes governing the sale of goods are a matter of provincial jurisdiction in Canada, and all provinces and territories have legislated a *Sale of Goods Act* or similar legislation. These statutes generally contain provisions requiring that sellers only delivery such goods to the consumer that are in conformity with the contract seller's description in the sale, that are reasonably fit for the purposes required by the consumer as made known by him to the seller, and that will be durable for a reasonable period of time having regard to the use to which they would normally be put. These statutes also provide consumers with rights and remedies in the event of a breach of these warranties and conditions.

Product liability claims are often founded in negligence rather than contract, most commonly with the manufacturer as defendant, and the manufacturer has a duty to take reasonable care to ensure that its products are safe for their foreseeable uses.

Anti-dumping in Canada

The Canada Border Services Agency and the Canadian International Trade Tribunal are jointly responsible for administering the *Special Import Measures Act* ("*SIMA*"), which provides authority to investigate whether dumping or subsidising of imported goods has occurred.

Where an investigation reveals that imported foreign products are being dumped into Canada or have been subject to a prohibited subsidy, *SIMA* imposes anti-dumping or countervailing duties as a remedy for the dumping or subsidising activities. There are currently no measures under *SIMA* which impose any such duties on clothing or textiles imported into Canada.

ESTABLISHMENT AND DEVELOPMENT OF THE GROUP

Major developments and milestones

The Group was founded by Mr. Tien and Mr. Gozashti in October 2001 when Runway HK was incorporated in Hong Kong. The following table sets out the major developments and milestones of the Group since incorporation:

October 2001	Mr. Tien and Mr. Gozashti founded the Group when Runway HK was incorporated on 12 October 2001. Runway HK commenced its private label products operation (i.e. products under the brands of the Group's customers). It sold apparel products to apparel brand owners and fashion retailers.
April 2003	Runway US was incorporated in California, the United States for carrying out the marketing and advertising operation of the Group in the United States.
June 2003	The Group established its own quality control team.
October 2003	Runway HK cooperated with an independent third party (the "Independent PRC Partner") to establish Runway Jiaxing (then known as 嘉興信諾服飾有限公司 (Jiaxing Xin Nuo Garment Limited)) as a sino-foreign equity joint venture in the PRC, which was equally owned by Runway HK and the Independent PRC Partner as to 50% each upon establishment.
March 2004	Runway Jiaxing commenced its own manufacturing operation in Jiaxing in a leased factory.
	Runway US established a showroom in Los Angeles, the United States, which allowed the Group to further expand its marketing and advertising operation in the United States.
August 2004	The Group expanded its marketing and advertising operation by establishing another showroom in New York, the United States.
October 2005	Runway HK acquired the other 50% equity interest in Runway Jiaxing from the Independent PRC Partner at a consideration of RMB1.66 million.
June 2006	Runway HK acquired the "BLANC NOIR" trademark at a nominal consideration from a company then owned by Mr. Gozashti (which was dissolved in 2006). After the acquisition of the trademark, the Group commenced its own brand products operation (i.e. the designing, manufacturing and selling of apparel products under its proprietary brand name). At that time, the Group's target customers for its own brand products were mainly department store chains in the United States.

March 2007	Runway Jiaxing entered into an agreement with the Land and Resources Bureau of Jiaxing, Zhejiang Province to acquire a piece of land in Jiaxing for the purpose of constructing the Jiaxing Factory.
June 2007	The authorised share capital of Runway HK was increased from HK$10,000 to HK$5,000,000.
October 2007	The paid-up capital of Runway HK was increased from HK$2 to HK$3,000,000.
September 2008	The construction work of the Jiaxing Factory had been completed and Runway Jiaxing commenced its manufacturing operation in the Jiaxing Factory.
September 2008	The Group started using an additional brand name, "SUGARFLY", for its own brand products.
February 2012	The Group started using a third brand name, "RUNWAY NEW YORK", for its own brand products, in addition to "BLANC NOIR" and "SUGARFLY".
November 2012	The Group expanded its own brand products operation to target at customers that had smaller operations, such as independent fashion boutiques in the United States.
June 2013	The Company was incorporated in the Cayman Islands as part of the Reorganisation for the purpose of the Listing.

Principal business activities of operating subsidiaries

The Group principally designs, manufactures and sells apparel products. The operating subsidiaries of the Company include Runway HK, Runway Jiaxing and Runway US. Set out below are the principal business activities of each operating subsidiary:

Operating subsidiaries	**Principal business activities**
Runway HK	The selling of the Group's apparel products
Runway Jiaxing	The manufacturing of the Group's apparel products
Runway US	The design, marketing and advertising of the Group's apparel products

Runway HK

Incorporation

Runway HK was incorporated in Hong Kong on 12 October 2001 with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each. Upon the incorporation of Runway HK, two shares in Runway HK were allotted and issued to two initial subscribers who are independent third parties. On 27 October 2001, the two initial subscribers transferred their respective one share in Runway HK to Mr. Tien and Mr. Gozashti respectively at a consideration of HK$1.00 each, based on the par value of the shares. As a result, Runway HK was owned equally by Mr. Tien and Mr. Gozashti as to 50% each at that time.

Increase in authorised and issued share capital

On 15 June 2007, the authorised share capital of Runway HK was increased from HK$10,000 (divided into 10,000 shares of HK$1.00 each) to HK$5,000,000 (divided into 5,000,000 shares of HK$1.00 each). On 5 October 2007, an additional 2,999,998 shares were allotted and issued to Mr. Tien and Mr. Gozashti equally as to 1,499,999 shares each for a total consideration of HK2,999,998 (or HK$1,499,999 each), which was determined with reference to the par value of the shares in Runway HK. The consideration was settled by way of setting off against the then existing shareholders' loans for two identical sums of HK$1,499,999 each owing to Mr. Tien and Mr. Gozashti respectively. The respective shareholding of Mr. Tien and Mr. Gozashti in Runway HK remained unchanged after the aforesaid allotment and issue of shares.

Since then and before the Reorganisation, there has been no further change in the share capital or the shareholding of Runway HK.

Opinion of the Hong Kong Legal Advisers

The Hong Kong Legal Advisers are of the opinion that (i) Runway HK has been duly incorporated and is validly existing as a Hong Kong company under the Companies Ordinance with limited liability and has legal capacity to sue and be sued in its own name, and to own its assets and conduct its business; and (ii) Runway HK has obtained all material licences, permits and certificates necessary to conduct its operations and business in Hong Kong from the relevant governmental bodies in Hong Kong.

Runway Jiaxing

Establishment

Runway Jiaxing was established on 9 October 2003 as a Sino-foreign equity joint venture in the PRC with an initial registered capital of US$500,000, which was contributed as to 50% by Runway HK and as to 50% by the Independent PRC Partner. Upon establishment, Runway Jiaxing was known as 嘉興信諾服飾有限公司 (Jiaxing Xin Nuo Garment Limited) and was equally owned by Runway HK and the Independent PRC Partner as to 50% each.

Acquisition of the remaining 50% equity interest in Runway Jiaxing

On 28 October 2004, Runway HK and the Independent PRC Partner entered into an equity transfer agreement (as supplemented by a supplemental equity transfer agreement dated 29 October 2004), pursuant to which Runway HK acquired the 50% equity interest in Runway Jiaxing from the Independent PRC Partner for a consideration of RMB1,665,000. The acquisition was due to the view of Runway HK that owning the entire equity interest in Runway Jiaxing would be beneficial to its factory operation in the PRC. The consideration, which was determined based on the arm's length negotiation between the parties having regard to the then business and financial position of Runway Jiaxing, was fully settled on 19 August 2005. The equity transfer was completed on 8 October 2005 upon the obtaining of the relevant new business licence of Runway Jiaxing. Upon completion of the equity transfer, Runway Jiaxing became wholly owned by Runway HK and was changed from a Sino-foreign equity joint venture to a wholly-foreign-owned enterprise.

Increase in registered capital in 2005

Upon completion of the aforementioned equity transfer, the registered capital of Runway Jiaxing was increased from US$500,000 to US$1,000,000, where the additional US$500,000 was entirely contributed by Runway HK. Among the additional US$500,000, 15% (i.e. US$75,000) was required to be contributed within three months from the date of the relevant new business licence (i.e. three months from 8 October 2005, or on or before 7 January 2006 (the "1st Instalment Deadline")) while the remaining 85% was required to be contributed within one year from the same date (i.e. on or before 7 October 2006 (the "2nd Instalment Deadline")).

While the first 15% of the additional registered capital of US$500,000 (i.e. US$75,000) was required to be contributed by the 1st Instalment Deadline, Runway HK had, due to inadvertent administrative oversight, only contributed a sum of US$74,916.74 by the 1st Instalment Deadline, representing a shortfall of US$83.26 (the "Shortfall"). Notwithstanding the Shortfall, Runway HK had completed the contribution of the entire additional registered capital of US$500,000 before the 2nd Instalment Deadline.

In connection with the Shortfall, the PRC Legal Advisers have advised that the Shortfall has not and will not lead to any negative impact on the valid subsistence of Runway Jiaxing and that no administrative penalty has been or will be imposed on the Group as a result of the Shortfall having considered that:

- the amount of the Shortfall, being US$83.26, was very small;
- notwithstanding the Shortfall, all corporate changes filed by Runway Jiaxing subsequent to the 1st Instalment Deadline were processed by the relevant PRC authority as usual;
- since the 1st Instalment Deadline and up to the Latest Practicable Date, the relevant PRC authority had not imposed any administrative penalty on Runway Jiaxing as a result of the Shortfall;
- pursuant to the 中華人民共和國行政處罰法 (PRC Administrative Punishment Law), no penalty will be imposed with respect to a non-compliant or illegal activity if such activity was not founded within 2 years from the date of occurrence;

- Runway HK had fully rectified the incident arising as a result of the Shortfall as it had contributed the entire additional registered capital of US$500,000 before the 2nd Instalment Deadline; and

- on 28 June 2013, the Group obtained a written confirmation from 嘉興市秀洲區經濟商務局 (Economy and Commerce Bureau of the Xiuzhou District of Jiaxing City, formerly known as the Foreign Trade and Economic Cooperation Bureau of the Xiuzhou District of Jiaxing City) (which is, in the opinion of the PRC Legal Advisers, competent to issue such confirmation) confirming that (i) it will not hold any party accountable and will not impose any penalty in relation to the Shortfall; and (ii) the current 中華人民共和國台港澳僑投資企業批准證書 (Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macau and Overseas Chinese in the People's Republic of China) of Runway Jiaxing will continue to remain valid and will not be revoked or withdrawn because of the Shortfall.

Increase in registered capital in 2007

On 13 July 2007, Runway Jiaxing has passed a board resolution to increase its registered capital from US$1,000,000 to US$2,000,000, where the additional US$1,000,000 was contributed entirely by Runway HK. On the same date, a shareholder's resolution was passed to amend the article of association of Runway Jiaxing accordingly. The PRC Legal Advisers have confirmed that the additional US$1,000,000 has been fully contributed by Runway HK within the relevant prescribed time limit.

Change in company name

On 1 March 2008, Runway Jiaxing has passed a shareholder's resolution to change its company name from 嘉興信諾服飾有限公司 (Jiaxing Xin Nuo Garment Limited) to 時尚環球服飾(嘉興)有限公司 (Jiaxing Runway Global Garment Limited) (i.e. the current name of Runway Jiaxing). The change was completed on 17 March 2008 upon the obtaining of the relevant new business licence of Runway Jiaxing.

Opinion of the PRC Legal Advisers

The PRC Legal Advisers confirmed that (i) Runway Jiaxing is an independent legal entity duly established and validly subsisting under the PRC law; (ii) the initial registered capital and the subsequent increases in the registered capital of Runway Jiaxing have been fully paid up within the relevant prescribed time limits except for the Shortfall, which, in the opinion of the PRC Legal Advisers, will not lead to any negative impact on the valid subsistence of Runway Jiaxing and will not lead to any administrative penalty for reasons stated in the paragraph headed "Increase in registered capital in 2005" above; and (iii) Runway Jiaxing has obtained all necessary approvals and completed all registrations and filings in connection with its establishment and subsequent changes in its corporate registration information as required by the applicable PRC laws and regulations.

Runway US

Incorporation

Runway US is a corporation established in the State of California, the United States on 4 April 2003. On 4 April 2003, the articles of incorporation of Runway US were filed with the Secretary of State of California. On 8 April 2003, the bylaws of Runway US were adopted and Mr. Gozashti was elected as a director and the president of Runway US. Mr. Gozashti also subscribed for 1,000 shares of common stock of Runway US evidenced by share certificate no. 1.

Subsequent change in shareholding structure

Mr. Gozashti gifted 500 of his 1,000 shares in Runway US to Mr. Tien effective on 20 January 2005. Mr. Gozashti surrendered share certificate no. 1 which was canceled and new share certificates no. 2 and no. 3 representing 500 shares apiece were issued to Mr. Gozashti and Mr. Tien respectively on 20 January 2005. The shareholders of Runway US have remained consistent since then and before the Reorganisation.

Opinion of the US Legal Advisers

The US Legal Advisers are of the opinion that (i) Runway US has been incorporated and continued under the laws of the State of California, the United States and has remained in good standing since formation; (ii) Runway US has the corporate power and authority to own or lease property, purchase and sell property and to conduct its business as carried out; and (iii) Runway US has obtained all material licenses, permits and certificates necessary to conduct its business as presently constituted.

REORGANISATION

Key steps of the Reorganisation

In preparation for the Listing, the Group underwent the Reorganisation to rationalise the Group's structure so that the Company became the holding company of the Group. The steps of the Reorganisation are set out as follows:

1. *Incorporation and reorganisation of the Company*

   (a) The Company was incorporated on 19 June 2013 in the Cayman Islands as an exempted company with limited liability;

   (b) On 19 June 2013, one subscriber Share with a par value of HK$0.01 which was allotted and issued nil paid was transferred to All Divine at nil consideration;

   (c) On 19 June 2013, one Share with a par value of HK$0.01 was allotted and issued nil paid to Fortune Zone.

2. *Incorporation of Great Entrepreneur*

(a) On 21 May 2013, Great Entrepreneur was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(b) On 10 June 2013, 1 share of Great Entrepreneur was allotted and issued to each of Mr. Tien and Mr. Gozashti at its par value of US$1.00.

3. *Incorporation of Transformed Holdings*

(a) On 21 May 2013, Transformed Holdings was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(b) On 10 June 2013, 1 share of Transformed Holdings was allotted and issued to each of Mr. Tien and Mr. Gozashti at its par value of US$1.00.

4. *Reorganisation of Runway HK*

On 22 October 2013, Great Entrepreneur acquired the entire issued share capital of Runway HK from Mr. Tien and Mr. Gozashti. In exchange, Great Entrepreneur allotted and issued 1 share to each of Mr. Tien and Mr. Gozashti credited as fully paid.

5. *Reorganisation of Runway US*

On 7 November 2013, Transformed Holdings acquired the entire issued share capital of Runway US from Mr. Tien and Mr. Gozashti. In exchange, Transformed Holdings allotted and issued 1 share to each of Mr. Tien and Mr. Gozashti credited as fully paid.

6. *Reorganisation of Great Entrepreneur*

On 22 November 2013, the Company acquired the entire issued share capital of Great Entrepreneur from Mr. Tien and Mr. Gozashti. In exchange, the Company allotted and issued 500,000 Shares to each of All Divine and Fortune Zone credited as fully paid under the instructions of Mr. Tien and Mr. Gozashti respectively.

7. *Reorganisation of Transformed Holdings*

On 22 November 2013, the Company acquired the entire issued share capital of Transformed Holdings from Mr. Tien and Mr. Gozashti. In exchange, the Company allotted and issued 499,999 Shares, credited as fully paid, to each of All Divine and Fortune Zone and credited as fully paid at par the 1 nil paid Share held by each of All Divine and Fortune Zone under the instructions of Mr. Tien and Mr. Gozashti respectively.

Application of the relevant PRC laws and regulations on the Reorganisation, the Listing and the Placing

The PRC Legal Advisers are of the view that the Reorganisation, the Listing and the Placing do not require any permits, licenses or approval from any PRC governmental authorities having considered, in particular, the following:

M&A Rules

Pursuant to the 關於外國投資者併購境內企業的規定 (Provisions on the Mergers and Acquisitions of Domestic Enterprises by Foreign Investors) (the "M&A Rules"), which was jointly promulgated by six agencies, including MOFCOM, the China Securities Regulatory Commission and SAFE, on 8 August 2006 and became effective on 8 September 2006, a foreign company lawfully established or controlled by a PRC domestic company, enterprise or natural person shall obtain approval of MOFCOM prior to the acquisition of domestic enterprises related to such domestic company, enterprise or natural person. The PRC Legal Advisers advised that Runway Jiaxing was lawfully established by Runway HK and the Independent PRC Partner on 9 October 2003 in accordance with the relevant laws and regulations and is therefore not subject to the M&A Rules.

1997 Circular

The 國務院關於進一步加強在境外發行股票和上市管理的通知 (Circular of the State Council Concerning Further Strengthening the Administration of Share Issuance and Listing Overseas) (the "1997 Circular"), which became effective on 20 June 1997, regulates offshore securities offerings and listings and applies to any offshore securities offering and listing by an overseas company which is controlled by PRC entities. As the Controlling Shareholders do not include any PRC domestic entities, the PRC Legal Advisers advised that the 1997 Notice is not applicable to the Group.

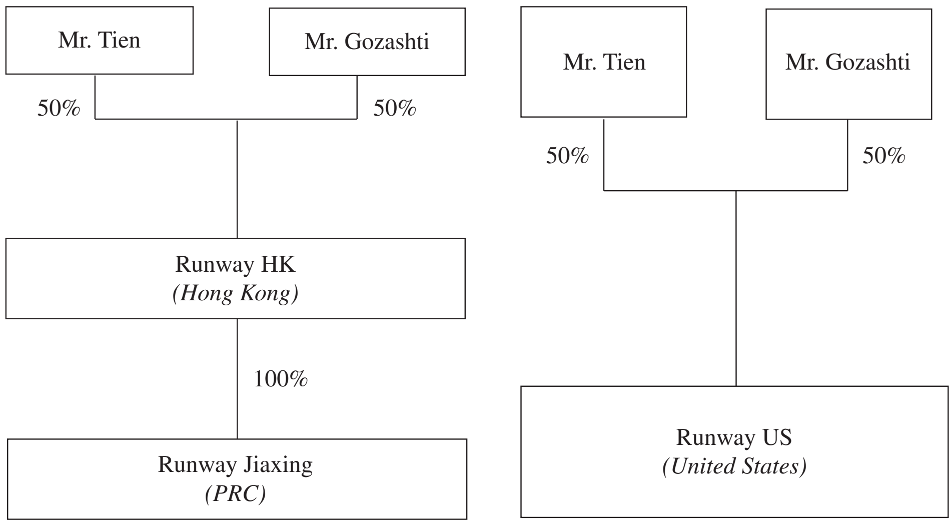
SAFE Circular No. 75

Pursuant to the SAFE Circular No. 75, which was promulgated on 21 October 2005 and became effective on 1 November 2005, domestic residents who establish or control overseas special purpose vehicles shall apply to the local branch of foreign exchange administration for foreign exchange registration of overseas investments. Where a domestic resident contributes his or her assets or shareholding of a domestic enterprise into a special purpose vehicle, he or she shall go through procedures for the changes of foreign exchange registration of overseas investments with regards to the net asset interests held in the special purpose vehicle and their changes. The PRC Legal Advisers considered that none of the Controlling Shareholders is a PRC domestic resident under SAFE Circular No. 75 and therefore that they are not subject to SAFE Circular No. 75 and are not required to go through the foreign exchange registration procedures of overseas investment.

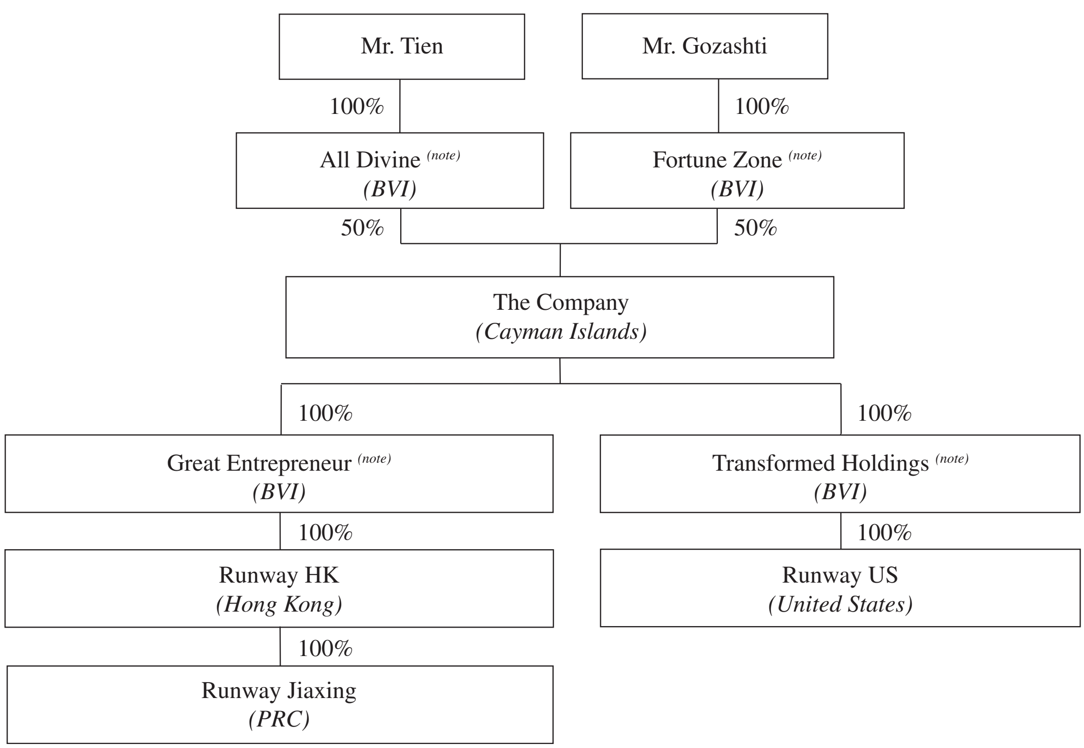
CORPORATE STRUCTURE

The following charts illustrate the corporate structure of the Group:

Immediately before the Reorganisation

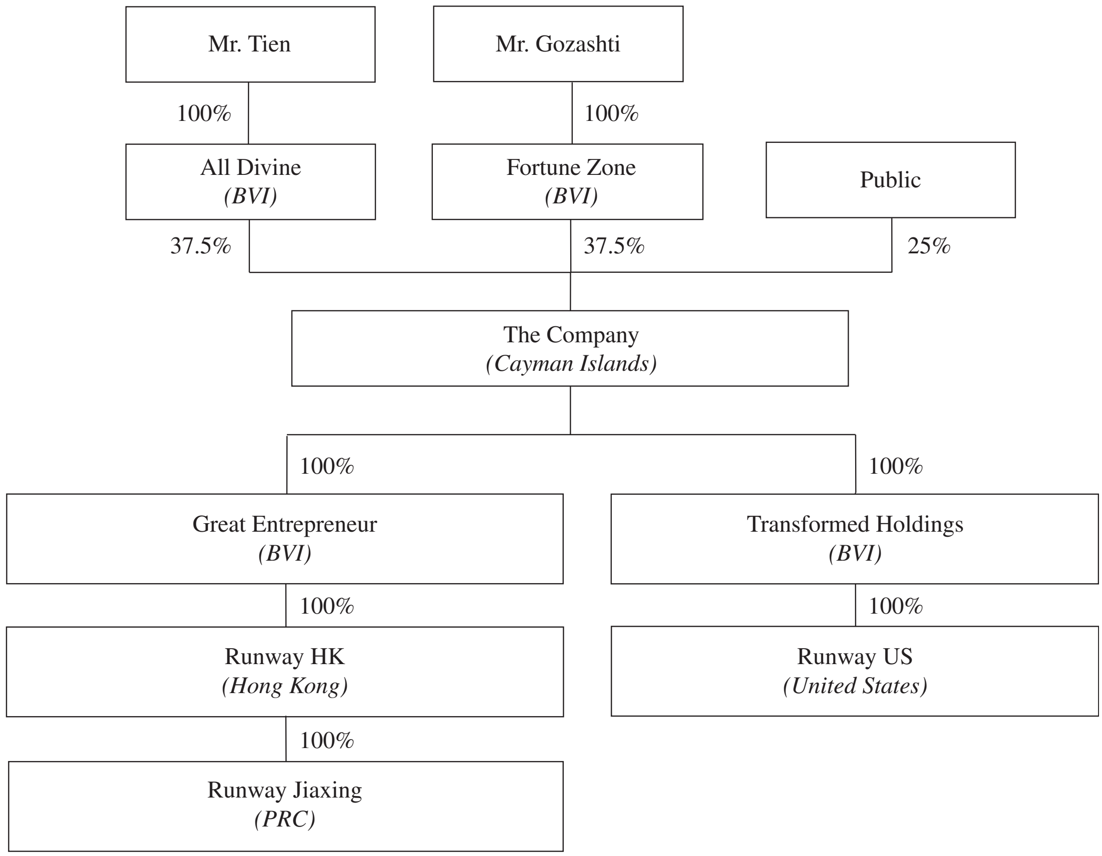


Immediately after the Reorganisation



Note: All Divine, Fortune Zone, Great Entrepreneur, and Transformed Holdings are all investment holding companies with no major assets or business operations other than being an investment holding or intermediate holding company as shown in the above chart.

Immediately after the Placing assuming that the Offer Size Adjustment Option is not exercised



SHAREHOLDERS

Immediately after the Reorganisation and prior to the Placing, the ultimate Shareholders of the Company are Mr. Tien and Mr. Gozashti, who are the founders of the Group. Other than their business relationship, Mr. Tien and Mr. Gozashti have no other relationship with each other. For background information on Mr. Tien and Mr. Gozashti, please refer to the paragraph headed "Executive Directors" under the section headed "Directors and senior management" in this prospectus.

BUSINESS MODEL OVERVIEW

The Group, founded in Hong Kong in 2001, principally designs, manufactures and sells apparel products with a focus on women's fashion outerwear such as coats and jackets, dresses, activewear, pants and jeans.

The Group is headquartered in Hong Kong and operates its Jiaxing Factory in the PRC. The Group also operates four showrooms in New York, Los Angeles, Hong Kong and the Jiaxing Factory respectively. For further details of the Group's sales and marketing, please refer to the paragraph headed "Sales and marketing" below in this section.

The Group's turnover is principally derived from the sales of apparel products. The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels. The table below sets out the breakdown by product category of the Group's turnover during the Track Record Period:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products *(note)*	275,258	89.9	293,249	88.6	57,372	85.0	53,355	87.7
Own brand products	31,056	10.1	37,839	11.4	10,154	15.0	7,504	12.3
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: All of the Group's sales of private label products can be regarded as OEM sales as the designs of private label products are generally modified based on customers' request even though the original designs or inspirations are provided by the Group.

The Group's products are mainly for women, as illustrated by the following breakdown of the Group's turnover during the Track Record Period:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Women	270,545	88.3	293,254	88.6	50,516	74.8	55,693	91.5
Men	35,769	11.7	37,834	11.4	17,010	25.2	5,166	8.5
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

For the Group's own brand products, the Group is mainly using three brands, namely, "BLANC NOIR", "SUGARFLY" and "RUNWAY NEW YORK". For further details of the brands owned by the Group, please refer to the sub-paragraph headed "Trademarks" under the paragraph headed "Products" below in this section. For further details of the Group's products, please refer to the paragraph headed "Products" below in this section.

The Group's customers for private label products mainly include well-known apparel brand owners and fashion specialty chain retailers located in the United States as well as a Canadian-based apparel brand owner and wholesaler. The Group's customers for own brand products range from well-known retail chain department stores to independent fashion boutiques in the United States. For further details of the Group's customers, please refer to the paragraph headed "Customers" below in this section.

For the Group's private label products operation, the Group provides and recommends new product designs and inspirations to its customers on a continuous basis. The Group's customers may develop and/or make modifications to a design based on the Group's recommendations or inspirations (i.e. the designs of private label products are modified based on customers' requests even though the original designs or inspirations may be provided by the Group), or alternatively, provide their own designs to the Group. After confirming a design with its customer and receiving a purchase order from the customer, the Group will either manufacture the products at its Jiaxing Factory or outsource the whole or the core parts of the manufacturing process to third-party product suppliers which are mainly apparel traders or manufacturers in the PRC. The table below sets out the relevant breakdown of the Group's turnover during the Track Record Period attributable to products manufactured by the Group's Jiaxing Factory and products supplied by third-party product suppliers:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Jiaxing Factory	177,026	57.8	182,806	55.2	25,198	37.3	28,824	47.4
Third-party product suppliers *(note)*	129,288	42.2	148,282	44.8	42,328	62.7	32,035	52.6
	306,314	100.0	331,088	100.0	67,526	100.0	60,859	100.0

Note: Such figures include the Group's turnover attributable to products supplied by third-party product suppliers with raw materials supplied by the Group to the third-party product suppliers for further processing and/or with raw materials procured by the third-party product suppliers themselves.

When determining whether to manufacture the products at the Group's Jiaxing Factory or to outsource to third-party product suppliers, the Group will take into consideration the level of utilisation of capacity of the Jiaxing Factory, the economic efficiency and opportunity cost of carrying out the production of the order at the Jiaxing Factory, and the type of materials involved in the products (i.e. woven wear, leather wear, or knitwear). In general, the majority of the products manufactured at the Group's Jiaxing Factory are woven and leather products (which entail higher selling prices in general), while the manufacturing process of some of the Group's woven and leather products and the majority of its knitwear products are outsourced to third-party product suppliers. The table below sets out the breakdown of the Group's turnover during the Track Record Period by type of material mainly involved in the products:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Woven and leather	233,598	76.3	227,807	68.8	29,050	43.0	40,913	67.2
Knit	72,716	23.7	103,281	31.2	38,476	57.0	19,946	32.8
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

For further details of the Group's outsourcing arrangement, please refer to the sub-paragraph headed "Third-party product suppliers" under the paragraph headed "Suppliers, raw materials and inventory" below in this section.

For the Group's own brand products operation, the Group, on one hand, presents new product designs to its customers and arranges for the manufactures of the products upon receiving customers' purchase orders, and, on the other hand, the Group also maintains a certain level of inventory for various pre-selected styles of products based on projected sales volume and anticipated fashion trends. Maintaining inventory for the Group's own brand products operation is necessary because some of the customers for the Group's own brand products often require products that are immediately available and require delivery on short notice. Nevertheless, as advised by the Directors, the Group would only maintain a relatively larger quantity of inventory for products that are expected to be popular or commonly accepted. For further details of the Group's inventory control, please refer to the sub-paragraph headed "Inventory control" under the paragraph headed "Suppliers, raw materials and inventory" below in this section.

COMPETITIVE STRENGTHS

The Group believes that it has several business strengths that sets it apart from its competitors and enables it to continue in its growth and enhance its profitability. The competitive strengths of the Group include:

Strong and innovative product design and development capabilities

The Group considers its strong product design and development capabilities as a significant factor which has contributed to the Group's past success and which will continue to drive the growth of the Group's business.

The Group has a product design and development team comprising 43 employees as at the Latest Practicable Date who possess approximately 1 to 11 years of experience in the apparel and fashion industry. Such team is led by Mr. Gozashti, who directs and guides the Group's product design and development and has acquired over 20 years of experience in the apparel and fashion industry. Please refer to the section headed "Directors and senior management" in this prospectus for further details of Mr. Gozashti's profile.

The Group considers that its product design and development team is capable of gauging global fashion trends, exploring new materials for customers' consideration and inspiration, and creating new collections of designs on a continuous basis which are tailored for each customer matching the customer's budget and style.

The apparel and fashion industry is characterised by rapid changes of style and trends. As such, instead of simply shortening the production lead time, being able to gauge and anticipate the fashion trends allows the Group to more effectively help its customers to stay competitive in the rapidly-changing fashion industry.

Vertically integrated front-to-back-end operation

Equipped with its in-house product design and development team, the Jiaxing Factory, as well as its showrooms in New York, Los Angeles, Hong Kong and Jiaxing, the Group runs a vertical operation that bridges the gap between factory and retailer directly. As any intermediaries will necessarily incur extra costs to the Group's customers and lead to increased production time, the Directors consider that the Group's vertical operation allows the Group to offer tailored apparel designs and efficient production capabilities together with comprehensive packaging and logistics supports to customers. This would enable the Group's customers to react quickly and cost-effectively in the fast-paced and demanding fashion market environment.

Technical ability to manufacture complex apparel

The Group's Jiaxing Factory has the technical ability to produce both woven and leather apparel, as well as the blending of the two. The Directors consider that the majority of the Group's competitors do not possess such technical ability of producing both woven and leather apparel under a single factory. The Directors believe that such technical ability allows the Group to attract and serve a more diversified base of customers with constant demand for newness and innovation in apparel designs and styles.

Established relationship with international fashion retailers

The Group's business relationship with its top 5 customers ranges from 2 years to 11 years. The Group regularly brings new designs to its customers, invites its customers to visit the Group's showrooms, works with its customers on new product developments, and communicates with its customers through face-to-face meetings and sales presentations. Through such frequent contacts, the Group believes that it has a sound understanding of the needs, budgets and preferences of its customers, which helps maintain the relationship between the Group and its customers.

Stringent quality control measures to ensure high quality of products

The Group adopts stringent quality control measures to prevent delivery of substandard products to customers. The Group performs quality inspections on raw materials provided by third-party raw material suppliers, semi-finished products and finished products manufactured at its Jiaxing Factory as well as products supplied by third-party product suppliers based on the acceptable quality level standard (or commonly known as the AQL), which is an industry standard that provides a statistical measurement of the maximum percentage of defective goods considered acceptable in a particular sample size. In addition, the Group evaluates and chooses third-party raw material suppliers and third-party product suppliers carefully based on their ability to deliver products on time, product quality, price, technical capabilities and track records.

The Group considers that by establishing a high standard for quality, the Group will be able to gain trust and confidence from customers, which would in turn result in increased sales of the Group. The Group did not experience any material product return or complaint from its customers as a result of product quality issue during the Track Record Period, which is considered by the Group to be attributable to the Group's stringent quality control measure.

BUSINESS STRATEGIES

The principal business objective of the Group is to further strengthen its position as an established vertically integrated apparel designer, manufacturer and supplier. The Group intends to achieve its future expansion plans by pursuing the following key strategies:

Further developing the own brand products operation

The Group intends to further develop its own brand products operation because own brand products operation would allow the Group to (i) enjoy higher profit margins compared to private label products; (ii) enhance its production efficiency and have better control on its production schedules, as the Group can make the final decision on every detailed specification of its own brand products and there is no need to wait for customers' approval; (iii) enhance public awareness of the Group's brands and develop brand loyalty; and (iv) reduce reliance on the Group's major customers and on private label products operation.

The Group intends to expand its own brand products operation by (i) participating in more trade fairs and fashion shows to increase its brand exposure to the market; (ii) recruiting more marketing personnel to visit, make presentations to, and develop relationship with existing and potential customers of the Group's own brand products; and (iii) increasing the marketing efforts targeting higher end fashion boutiques so as to capture the type of consumers who are more sensitive to fashion trend, who look for uniqueness, who are more likely to shop at smaller boutique stores rather than chain department stores, and who generally have a greater peer influence in terms of brand awareness.

Enhancing the Group's manufacturing facilities

The Group intends to upgrade and expand its manufacturing facilities, so as to enhance its production efficiency and technical ability and to increase production capacity. As the Group further develops its business, its production capability and capacity will need to be enhanced in order to cope with customers' increasing demand in terms of production volume, efficiency, quality and technical difficulty. The Group expects that more efficient and technically advanced manufacturing facilities will be required in the future to replace old ones and/or to enhance the Group's current production capability and capacity. Such manufacturing facilities include but not limited to automated computerised fabric cutting machines, automated apparel product hanging systems, computerised sewing machines and automated computerised fabric spreading machines, which are expected to increase the production efficiency and production capacity of the Group's cutting, sewing and finishing operations for both sample and bulk productions as well as to enhance the overall quality of the Group's finished products. The purchase and the use of more automated and computerised production systems and machinery are also expected to reduce cost and the Group's dependence on the availability of labour.

Further strengthening the Group's design capability

The Directors consider that a strong design team equipped with extensive design knowledge and experience in the apparel and fashion industry will be key to its continuing success. The Group intends to expand the design team by recruiting more experienced designers. The Group also intends to arrange more intensive training courses for the team members on selection of raw materials, fashion industry knowledge and communication skills with an aim to provide better services to customers. In addition, the Group intends to strengthen its design capability and efficiency by upgrading its various design and sketching software and database.

Implementation of the business strategies

As at the Latest Practicable Date, the Group did not have any acquisition plan.

For further details on the implementation of the above-mentioned business strategies of the Group, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

PRODUCTS

Types of products

The Group principally designs, manufactures, and sells apparel products with a focus on women's fashion outerwear such as coats and jackets, dresses, activewear, pants and jeans.

The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels. The table below sets out the breakdown of the Group's turnover during the Track Record Period by product category:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products	275,258	89.9	293,249	88.6	57,372	85.0	53,355	87.7
Own brand products	31,056	10.1	37,839	11.4	10,154	15.0	7,504	12.3
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: All of the Group's sales of private label products can be regarded as OEM sales as the designs of private label products are generally modified based on customers' request even though the original designs or inspirations are provided by the Group.

The Group's products are mainly for women, as illustrated in the following breakdown of the Group's turnover during the Track Record Period:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Women	270,545	88.3	293,254	88.6	50,516	74.8	55,693	91.5
Men	35,769	11.7	37,834	11.4	17,010	25.2	5,166	8.5
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Set out below are some sample products of the Group:

Own brand products under the "BLANC NOIR" label




Own brand products under the "SUGARFLY" label




Own brand products under the "RUNWAY NEW YORK" label




Sales volume

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the sales volume of the Group amounted to approximately 2,257,000, 2,498,000 and 553,000 units of finished apparel and accessories respectively. Set out below are the total sales quantities of each product category during the Track Record Period:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	Units sold ('000)	*%*	*Units sold ('000)*	*%*	*Units sold ('000)* (unaudited)	*%*	*Units sold ('000)*	*%*
Private label products	2,112	93.6	2,314	92.6	620	91.4	513	92.8
Own brand products	145	6.4	184	7.4	58	8.6	40	7.2
Total	**2,257**	**100.0**	**2,498**	**100.0**	**678**	**100.0**	**553**	**100.0**

Price and gross profit margin

Set out below are the average selling prices per unit of finished product sold by the Group to its customers for each product category during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2012	Five months ended 31 May 2013
	HK$ per unit	*HK$ per unit*	*HK$ per unit* (unaudited)	*HK$ per unit*
Private label products	130.3	126.7	92.5	103.9
Own brand products	214.2	205.7	176.2	189.7
Overall	**135.7**	**132.5**	**99.6**	**110.1**

The selling price of each of the product categories depends on (i) the complexity of the product design; (ii) the quantity of an order; (iii) the delivery schedule set out by customers; and (iv) the costs of raw materials. Accordingly, the selling price of the Group's products may differ considerably in different purchase orders by different customers.

Set out below are the average gross profit margin for each product category during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2012	Five months ended 31 May 2013
	%	*%*	*%* (unaudited)	*%*
Private label products	21.0	23.6	16.5	20.4
Own brand products	28.3	32.1	22.1	26.2
Overall	**21.7**	**24.5**	**17.3**	**21.1**

Seasonality

The apparel and accessories market exhibits seasonality and is subject to dynamic changes in trends and consumers' preferences. Generally, demand for the Group's apparel products is relatively higher in winter. In preparation for the peak season in winter, customers normally place orders with the Group for winter collection in the second to the third quarter of the year while the Group delivers the corresponding finished goods to customers in the second half of the calendar year. During each the two years ended 31 December 2012, the Group's sales recognised were higher during the period from July to November, which accounted for approximately 67.7% and 65.1% of the Group's annual turnover for each of the two years ended 31 December 2012 respectively. For the five months ended 31 May 2013, the Group's turnover was approximately HK$60.9 million, representing approximately 18.4% of the Group's annual turnover for the year ended 31 December 2012, which was generally in line with the conventional trend of slack season of the Group. Notwithstanding the net profit of the Group recorded for each of the two years ended 31 December 2012, the Group recorded a net loss of approximately HK$3.1 million and HK$4.5 million for the five months ended 31 May 2012 and the five months ended 31 May 2013 respectively, primarily as a result of the aforesaid seasonal factor.

The following table sets out the amount of sales recognised by the Group during the first five months of 2010, 2011, 2012 and 2013 respectively to illustrate the historical seasonality:

	Year ended 31 December 2010	**Year ended 31 December 2011**	**Year ended 31 December 2012**	**Year ending 31 December 2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue for the first five months of the year (A)	46,565#	56,647#	67,526#	60,859
Revenue for the whole year (B)	259,929#	306,314	331,088	N/A
A/B	17.9%	18.5%	20.4%	N/A

\# *denotes unaudited figure.*

During the general slack period of summer season, the major product types sold by the Group generally include private label products of sportswear and performance clothing, such as athletic t-shirts, pants and wind jackets, as well as other fashion products with thin fabrics, such as trench coats, jackets, skirts and pants.

Trademarks

As at the Latest Practicable Date, the Group owned a number of trademarks registered in Hong Kong, the PRC and the USA, a full list of which is available in the paragraph headed "Intellectual property rights" set out in Appendix V to this prospectus. Among the trademarks owned by the Group, the following are the main brands of the Group's own brand products:

Trademark	Use of the trademark
BLANC NOIR	The BLANC NOIR collection features key items in men's and women's fashion outerwear and sportswear. The BLANC NOIR collection is positioned as "simple yet striking cutting edge fashion for sophisticated young contemporary men and women". The Group's products under the BLANC NOIR brand are mainly offered to well-known department store chains in the United States.
bn	The BN trademark is a variation of the BLANC NOIR trademark. The BN collection features substantially the same style of items as the BLANC NOIR collection and targets the same group of customers and consumers.
BE BY BLANC NOIR	The BE BY BLANC NOIR trademark is a variation of the BLANC NOIR trademark and has substantially the same market positioning as BLANC NOIR. The key difference from the BLANC NOIR collection is that the BE BY BLANC NOIR collection offers mainly fashion sportswear. The Group's products under the BE BY BLANC NOIR brand target the same group of customers as those of BLANC NOIR, i.e. well-known department store chains in the United States.
Sugarfly	The SUGARFLY collection offers trend-driven items and caters a selection targeted at girls and junior young women. The SUGARFLY collection is positioned as "an exciting mix of clever trends and unique innovation to arrive at incredibly full-featured fashion for the junior contemporary young woman". The Group's products under the SUGARFLY brand are mainly offered to well-known department store chains in the United States.
runway NEW YORK	The RUNWAY NEW YORK collection features high-tier women's contemporary outerwear. The RUNWAY NEW YORK collection is positioned as a "premiere affordable luxury collection". The Group's products under the RUNWAY NEW YORK brand are mainly targeting at fashion boutiques and high-tier retailers in the United States.

For the Group's products under the RUNWAY NEW YORK brand, the Group pre-selects a limited number of styles and projects inventory for immediate delivery to its customers. For the Group's products under the BLANC NOIR and the SUGARFLY brands, the Group, on the one hand, produces and recommends new designs to its customers on a continuous basis and commences mass production upon confirming a particular design with its customer and after receiving a purchase order from the customer; and, on the other hand, the Group also pre-selects a limited number of styles and projects inventory for immediate delivery to its customers.

The Group recognises the importance of protecting and enforcing the Group's intellectual property rights. The Group relies on various intellectual property laws, especially trademark laws, to protect its proprietary rights. If any attempted or actual infringement of the Group's trademarks come to the Group's attention, the Group will take appropriate actions (including without limitation legal actions) to protect its trademarks to the full extent allowable by law.

During the Track Record Period, one incident of infringement of the Group's trademark came to the Group's attention. The incident took place in 2011 when it came to the Group's attention that a company by the name of Blanc & Noir with registered address in Vancouver, Canada manufactured and distributed clothing under the name of "Blanc & Noir" through a website www.blancandnoir.com and through retailers in the United States, Canada, and other locations worldwide. The Group considered that the name "Blanc & Noir" was confusingly similar to the Group's "BLANC NOIR" trademark and that the incident was an intentional attempt on the part of Blanc & Noir to leverage on the goodwill and reputation of the Group under its proprietary "BLANC NOIR" brand name. In October 2011, the trademark attorneys of the Group in the United States, upon the instruction of the Group, sent a letter to Blanc & Noir demanding Blanc & Noir to (i) forthwith cease and desist all use of the name "Blanc & Noir" or any other name confusingly similar to the Group's trademarks; (ii) take immediate steps to remove the name "Blanc & Noir" from the tags on their clothing; (iii) delete the name "Blanc & Noir" from all advertising and promotional materials, business cards, invoices and the like; and (iv) cease using the www.blancandnoir.com website bearing the "Blanc & Noir" name. Although Blanc & Noir did not provide a written and positive confirmation to the Group confirming that it had complied with the Group's demands set out in the letter, to the best of the Group's knowledge, based on the Group's observation that (a) the website www.blancandnoir.com had ceased to operate in the distribution of clothing; and (b) the Group was no longer aware of any clothing distributed under the name of "Blanc & Noir" in the market, the Group believes that Blanc & Noir had complied with the Group's demands stated in the letter up to the Latest Practicable Date. As such trademark infringement incident involved only the use of a name that was confusingly similar to the Group's "BLANC NOIR" trademark and the Group was not aware of any attempt by Blanc & Noir to contact or establish relationship with or market counterfeit products to the Group's potential or existing customers, the Directors consider that the Group did not suffer any observable loss as a result of the incident.

Product return and requirements on product quality and safety

The Group's products may be subject to certain product quality and/or safety requirements in the PRC, the United States and Canada. Please refer to the section headed "Regulations" in this prospectus for details of such requirements. The Directors confirm that the Group has complied with all relevant requirements on product quality and customer protection for its overseas sales during the Track Record Period and up to the Latest Practicable Date.

The Group normally does not accept product returns from its customers except for product quality issues or the Group's failure to comply with customers' relevant product requirements stated in the vendor's manuals, social compliance agreements and/or master sourcing agreements, such as non-conformity of specifications, late delivery, or incorrect quantities shipped against the relevant purchase order without proper authorisation. The Group did not experience any material product return or complaint from its customers as a result of product quality issue during the Track Record Period, which is considered by the Group to be attributable to the Group's stringent quality control. Please refer to the paragraph headed "Production and quality control" below in this section for further details of the Group's quality control. The following table illustrates the amount of the Group's returned goods (in terms of sales amount) during the Track Record Period:

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Five months ended 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Product return that were not resold subsequently (A)	67	377	274
Product return that were resold or intended to be resold subsequently (B) *(note 1)*	—	3,233	—
	67	3,610	274
Revenue of the Group (C) *(note 2)*	306,314	331,088	60,859
A/C	0.02%	0.11%	0.45%
B/C	—%	0.98%	—%
(A+B)/C	0.02%	1.09%	0.45%

Notes:

1. One batch of 29,709 pieces of private label apparel products (amounting to approximately HK$2,532,000 at cost and approximately HK$3,233,000 in original sales amount) that had been delivered to customer were returned to the Group in the fourth quarter of 2012 due to alterations as additionally requested by the customer. The alterations involve primarily the washing of the apparel which was not originally requested by the customer. Having considered the nature of the return, the Directors consider that such return was a one-off incident and was unrelated to the Group's quality control. Such batch of returned private label products remained as the Group's inventory (at cost in the amount of approximately HK$2,532,000) as at 31 December 2012 and as at 31 May 2013 pending for completion of the alterations. The majority of the alterations were subsequently completed in June 2013 and approximately 98.9% (i.e. 29,392 pieces) of the entire batch of products were sold and delivered in June to August 2013 while the remaining approximately 1.1% (i.e. 317 pieces) is expected to be delivered by the end of the fourth quarter of 2013 when all alterations are completed. The original sales amount of approximately HK$3,233,000 in respect of such batch of products has not been recognised in the Group's revenue for the year ended 31 December 2012 nor for the five months ended 31 May 2013 due to the return of the products for additional alterations. Revenue was/will be recognised only upon delivery and pass of title of the products after completion of the alterations.

2. The Group's revenue for each of the year/period during the Track Record Period have already been net of all product returns.

As shown in the above table, the amounts of product returns were insignificant compared to the Group's revenue. As such, the Directors consider that the product returns did not indicate any deficiency on the Group's quality control measures.

Product liabilities

The Group is exposed to potential product liability claim. Under the general principles of product liability law, liability to a consumer for injuries alleged to be caused by a product that the consumer purchased should attach to each party in the chain of sale, i.e., from the manufacturer to the retailer and everyone in between. Although, as a matter of convenience and due to the fact that the consumer often knows only the retailer but not the other parties in the chain of sale, consumers often sue the retailer only, it remains a possibility that the Group may be subject to potential product liability claim in respect of injuries alleged to be caused by the Group's product that a consumer purchased.

The Group's products are principally sold to overseas markets in the United States and Canada, where the legal concept of product liability is generally considered to be relatively mature. Nevertheless, the Group considers that the risk of potential product liability claim is relatively remote in view of the nature of the Group's products, and in general, the Group does not maintain product liability insurance for its products except in occasional cases when specifically requested by its customers. The Directors consider that the lack of product liability insurance is consistent with common industry practice. During the Track Record Period and up to the Latest Practicable Date, the Group was not aware of any actual or threatened product liability claim against the Group.

Notwithstanding the Group's view that the risk of potential product liability claim is relatively remote in view of the nature of the Group's products, the Group has put in place stringent quality control procedures on its raw materials, semi-products and finished products in order to avoid potential quality issues or any potential product liability claim as a result of injuries caused by the Group's products. The Group performs quality inspections on raw materials provided by third-party raw material suppliers, semi-finished products and finished products manufactured at its Jiaxing Factory as well as products supplied by third-party product suppliers based on the acceptable quality level standard (or commonly known as the AQL), which is an industry standard that provides a statistical measurement of the maximum percentage of defective goods considered acceptable in a particular sample size. The Group did not experience any material product return or complaint from its customers as a result of product quality issue during the Track Record Period, which is considered by the Group to be attributable to the Group's stringent quality control. For further details of the Group's quality control procedures, please refer to the sub-section headed "Production and quality control" below in this section.

Please also refer to the paragraph headed "The Group is exposed to potential product liability claim, which could adversely affect its reputation, business, prospects, financial condition and results of operations" under the section headed "Risk factors" in this prospectus for the risk of potential product liability to which the Group may be exposed.

Anti-dumping duties

The Group's products are not subject to any anti-dumping duties in the United States, Canada or other countries.

For further information on anti-dumping in the United States and Canada, please refer to the section headed "Regulations" in this prospectus.

CUSTOMERS

Characteristics of the Group's customers

The Group's customers for private label products mainly include well-known apparel brand owners and fashion specialty chain retailers located in the United States as well as a Canadian-based apparel brand owner and wholesaler. The Group's customers for own brand products ranged from well-known retail chain department stores to independent fashion boutiques in the United States. For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group had not less than 32, 43 and 24 customers respectively.

The number of customers of the Group decreased from approximately 43 for the year ended 31 December 2012 to approximately 24 for the five months ended 31 May 2013, which was mainly attributable to the following reasons: (i) the number of customers includes only those customers with revenue contribution to the Group during the respective period/year; (ii) a substantial number of the Group's customers only start placing order with the Group in the second quarter each year for peak-season winter clothing and such revenue will only be recognised when the Group delivers the products to the customers in the third or fourth quarter of the year; and (iii) there are also a substantial number of the Group's customers including relatively small fashion boutiques and department stores which will normally only place order with the Group in the second half each year during the peak season period for the Group's own brand products that are available for immediate delivery.

The Group selects its customers in a prudent way as the Group prefers long-term relationships with its customers instead of one-off orders placed by random customers. It is also the Group's policy that the customers of the Group must be financially sound in order to minimise the risk of not receiving payments from its customers. Please refer to the paragraph headed "Payment terms and accounts receivable" below in this sub-section for further details on how the Group minimises the credit risks.

The Group's customers typically place a single purchase order with the Group for every purchase, instead of entering into long-term purchase agreements with the Group.

Salient terms of a typical sales transaction

In a typical sales transaction for both private label and own brand products, the customer will first issue a purchase order to the Group, and the Group will issue a sales order in return. In a typical purchase order and sales order, the following salient terms are contained:

(i) Product description:

A brief description of the products, including the type of apparel, style, main materials required, colour and size, is specified.

(ii) Order details:

The number of pieces for each colour and/or size, the unit price and the total amount, are specified. For customers which have sent vendor's manuals to the Group, and/or have entered into social compliance agreements and/or master sourcing agreements with the Group, they may expressly reserve the right to cancel the purchase order if the Group fails to comply with the customers' quality control policies and procedures in such vendor's manuals, social compliance agreements and/or master sourcing agreement.

(iii) Payment terms:

The Group normally allows a credit period of 10 to 60 days. Alternatively, the Group also accepts letter of credit issued by recognised financial institutions and advance payment by telegraphic transfer.

(iv) Delivery details:

The ship date is specified, which is usually 60 to 120 days from the date of the purchase order for private label products and own brand products which involve tailored designs and manufacturing processes. For customers' purchase of own brand products from the Group's inventory that are available for immediate delivery, delivery is usually within approximately 10 days. For customers which have sent vendor's manuals to the Group, and/or have entered into social compliance agreements and/or master sourcing agreements with the Group, they may also expressly specify the amount of penalty per day to be charged for delayed shipments in such vendor's manuals, social compliance agreements and/or master sourcing agreement.

The delivery term is usually "Free On Board Shanghai" (or commonly denoted as "FOB Shanghai"), meaning that the Group will pay for transportation of the goods to the port of Shanghai plus loading costs, while the customer will pay for the marine freight transport, insurance, unloading, and transportation from the arrival port to the final destination. The responsibility of the goods passes from the Group to the customers when the goods pass the ship's rail at the port of Shanghai. Other than Shanghai, other ports in the PRC may also be used, such as Xiamen. Customers may also specify its own designated forwarding agent in the PRC so that the Group will simply have to deliver the goods to such forwarding agent at the designated location. After delivering the goods to the designated port or forwarding agent, the goods will usually be delivered to the customers by sea freight. In some cases, the Group may also deliver the goods directly to a logistics firm in the United States appointed by the Group for further delivery to the Group's customers.

(v) Other:

The purchase orders placed by certain customers may also be subject to other terms of their vendor's manual, the master sourcing agreement and/or other social compliance agreements that the Group has entered into with them. For details of the vendor's manuals, master sourcing agreement and social compliance agreements, please refer to the sub-paragraph headed "Social compliance agreements, master sourcing agreement and vendor's manuals" under the paragraph headed "Production and quality control" below in this section.

Some of the Group's customers may also specify that certain raw materials, such as branded trims, tags and labels, shall be sourced from suppliers nominated by the customers.

Location of customers

Set out below is a breakdown of the Group's turnover during the Track Record Period by location of the customers:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
The USA	216,102	70.6	217,669	65.7	25,840	38.3	29,050	47.7
Canada	80,942	26.4	109,495	33.1	40,487	60.0	30,600	50.3
Others *(Note)*	9,270	3.0	3,924	1.2	1,199	1.7	1,209	2.0
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: During the Track Record Period, other locations include the PRC, Australia, countries in Europe and the Middle East.

Denomination of sales

Set out below is a breakdown of the Group's turnover by currency denomination during the Track Record Period:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
In US$	299,815	97.9	329,713	99.6	67,084	99.3	60,155	98.8
In RMB	6,499	2.1	1,375	0.4	442	0.7	704	1.2
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

As the Group's sales are predominantly denominated in US$ while its costs are primarily denominated in RMB, the movements in the exchange rate between US$ and RMB have a direct effect on the Group's financial performance. For instance, the appreciation of RMB against US$ will lead to increased cost of sales and decreased profit margin for the Group. For details, please refer to the paragraph headed "Hedging of currency risk" below in this section.

During the Track Record Period, the Group used foreign exchange structured forward contracts to mitigate exchange rate exposure of RMB against US$. For details of such financial instruments, please refer to the paragraph headed "Hedging of currency risk" below in this section.

Payment terms and trade receivables

For most of the Group's major customers, the Group usually allows a credit period of 10 to 60 days to its customers.

In order to minimise the risk of not receiving payments from its customers, the Group selects its customers in a prudent way and avoids offering credit periods to customers with unknown or doubtful financial conditions. For some of the Group's major customers, the Group has also entered into arrangements with a financial institution in the United States and a bank in Hong Kong which offer trade receivables credit protection against the Group's trade receivables. Under such arrangements, the bank or the financial institution charges the Group a fee ranging from 0.5% to 0.75% of the amount of the trade receivables of the Group under a specified transaction. In return, if the Group ultimately becomes unable to collect the trade receivables due to events such as the financial difficulty or insolvency of the Group's customer, the Group will be entitled to receive compensation for the trade receivables from the bank or the financial institution.

Alternatively, the Group also accepts letter of credit issued by recognised financial institutions and advance payment by telegraphic transfer.

The following table sets out a breakdown of the Group's trade and bill receivables as at the end of each year/period during the Track Record Period by payment method:

	As at 31 December 2011		**As at 31 December 2012**		**As at 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Telegraphic transfer covered by trade receivables credit protection	22,582	56.3	17,586	35.5	6,862	27.9
Telegraphic transfer without trade receivables credit protection	13,025	32.4	23,329	47.1	16,038	65.3
Letter of credit	3,519	8.8	7,992	16.1	1,488	6.1
Others	983	2.5	668	1.3	181	0.7
Total	**40,109**	**100.0**	**49,575**	**100.0**	**24,569**	**100.0**

The percentage of trade and bill receivables covered by trade receivables credit protection reduced from approximately 56.3% as at 31 December 2011 to approximately 27.9% as at 31 May 2013 because the majority of the trade receivables as at 31 May 2013 was attributable to customers for which the Group does not normally seek credit protection arrangements. During the Track Record Period, the Group only entered into trade receivables credit protection arrangements in respect of certain major customers of the Group based primarily on whether trade receivables credit protection is offered by the relevant financial institution or bank in respect of each particular customer at a fee that is reasonable from the Group's perspective. For instance, based on the Directors' experience, the relevant financial institution or bank does not normally offer trade receivables credit protection at reasonable cost in respect of customers that are not publicly listed and/or that are less well-known. In doing business with major customers for which no trade receivables credit protection is available at reasonable cost, the Group will assess the default risks of the customer and whether to continue to do business with the customer by taking into consideration the historical payment records of the customer and years of business relationship. The Directors confirm that there has not been any material change in the customer mix of the Group among the Group's major customers during the Track Record Period (as disclosed in the paragraph headed "Top customers" below in this sub-section headed "Customer") nor the customers the Group selected for trade receivables credit protection throughout the Track Record Period. The fluctuation in the percentage of coverage as shown in the above table represents merely the fluctuation in the outstanding balance of trade receivables attributable to those customers selected for trade receivables credit protection as at the respective cut-off date of the financial year/period. As such, the Directors confirm that the decrease in the percentage of trade and bill receivables covered by trade receivables credit protection did not indicate any adverse change in the creditability of the Group's customers.

Top customers

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the percentage of the Group's total turnover attributable to the Group's largest customer amounted to approximately 26.4%, 33.1% and 50.3% respectively, while the percentage of the Group's total turnover attributable to the Group's five largest customers combined amounted to approximately 83.2%, 84.7% and 94.7% respectively.

Set out below is a breakdown of the Group's turnover by top customers of the Group:

For the year ended 31 December 2011

	HK$'000	*%*
Customer A (1st largest customer)	80,942	26.4
Customer B (2nd largest customer)	53,973	17.6
Customer C (3rd largest customer)	49,903	16.3
Customer D (4th largest customer)	47,006	15.4
Customer E (5th largest customer)	23,122	7.5
Five largest customers combined	254,946	83.2
All other customers	51,368	16.8
Total turnover	**306,314**	**100.0**

For the year ended 31 December 2012

	HK$'000	*%*
Customer A (1st largest customer)	109,495	33.1
Customer C (2nd largest customer)	54,301	16.4
Customer B (3rd largest customer)	48,142	14.5
Customer D (4th largest customer)	38,092	11.5
Customer F (5th largest customer)	30,341	9.2
Five largest customers combined	280,371	84.7
All other customers	50,717	15.3
Total turnover	**331,088**	**100.0**

For the five months ended 31 May 2013

	HK$'000	*%*
Customer A (1st largest customer)	30,600	50.3
Customer D (2nd largest customer)	12,706	20.9
Customer F (3rd largest customer)	6,049	9.9
Customer C (4th largest customer)	4,142	6.8
Customer B (5th largest customer)	4,111	6.8
Five largest customers combined	57,608	94.7
All other customers	3,251	5.3
Total turnover	**60,859**	**100.0**

None of the Directors, their associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest customers of the Group during the Track Record Period.

Set out below is the background information of the five largest customers of the Group during the Track Record Period:

Customer	Principal business	Location	Type of products purchased from the Group	Year(s) of business relationship	Typical credit terms offered by the Group and payment method
Customer A	Wholesaling of casual and sports apparel	Canada	Private label products	11	60 days credit terms, paid by telegraphic transfer
Customer B	Retailing of casual apparel and accessories	United States	Private label products	9	30 days credit terms, paid by telegraphic transfer
Customer C	Retailing of ladies' fashion apparel and accessories	United States	Private label products	3	10 days credit terms, paid by letter of credit and telegraphic transfer
Customer D	Retailing of ladies' fashion apparel and accessories	United States	Private label products	11	30 days credit terms, paid by telegraphic transfer
Customer E	Operating department stores	United States	Private label and own brand products	2	45 days credit terms, paid by telegraphic transfer
Customer F	Retailing of casual apparel and accessories	United States	Own brand products	7	45 days credit terms, paid by cheque

Customer A is a Canadian-based apparel brand owner and wholesaler. It is a private company founded in 1986. Customer A has its own brands and operates an online retail operation. It also supplies various types of apparel and accessories products to other brand owners and retailers under the brands of its customers. Customer A is, however, not a listed company and therefore its operational and financial information are not publicly available.

Customer B is a well-known international specialty chain retailer selling apparel and accessories under its well-known brands. It is listed on the New York Stock Exchange and is headquartered in the United States. According to its latest annual report, Customer B directly operates more than 500 retail stores in the United States and Canada and more than 300 stores in various countries outside of the United States and Canada. Customer B has approximately 15,200 employees around the world. For its latest financial year, Customer B recorded net sales of approximately USD2.7 billion and net profit of approximately USD181.5 million.

Customer C is a well-known specialty chain retailer of women's fashion apparel and accessories with its own brands. It is listed on the New York Stock Exchange and is headquartered in the United States. According to its latest annual report, Customer C operates more than 500 stores with 2.7 million selling square feet in the United States. Customer C has more than 6,000 employees. For its latest financial year, Customer C recorded net sales of approximately USD966.4 million and net profit of approximately USD2.1 million.

Customer D is a well-known international specialty chain retailer which designs, develops and produces contemporary women's apparel and accessories. It is listed on the New York Stock Exchange and is headquartered in the United States. According to its latest annual report, Customer D operates more than 240 stores. It has a total selling area of approximately 970,000 square feet with more than 3,000 employees. For its latest financial year, Customer D recorded net sales of approximately USD484.7 million and net loss of approximately USD77.4 million.

Customer E is a well-known retailer which sells merchandise and services to consumers through its department stores. It is listed on the New York Stock Exchange and is headquartered in the United States. According to its latest annual report, Customer E operates more than 1,000 department stores with aggregate area of 111.6 million square feet in the United States. Customer E has more than 116,000 employees. For its latest financial year, Customer E recorded net sales of approximately USD13.0 billion and net loss of approximately USD985.0 million.

Customer F is a well-known retailer of apparel, shoes, cosmetics and accessories through their department stores. It is listed on the New York Stock Exchange and is headquartered in the United States. According to its latest annual report, Customer F operates 240 stores in the United States with total selling area of more than 25 million square feet. Customer F has approximately 61,000 employees. For its latest financial year, Customer F recorded net sales of approximately USD11.8 billion and net profit of approximately USD735.0 million of net income.

Plans and measures to reduce reliance on major customers

Sales to the Group's top five customers accounted for approximately 83.2%, 84.7% and 94.7% of the Group's total revenue for each of the two years ended 31 December 2012 and the five months ended 31 May 2013. Further, the Group had approximately 71.0%, 84.3% and 92.3% gross trade receivable balances from the top five customers as at 31 December 2011 and 2012 and 31 May 2013 respectively.

The Group recognises that reducing its reliance on major customers is key to achieving sustainable long-term growth. The Group's top five customers are primarily customers of the Group's private label products operation. In this connection, the Group has been developing its own brand products operation in an attempt to diversify its income sources and reduce its reliance on the major customers who are predominantly private label customers. Further developing the Group's own brand products operation is also one of the business strategies that the Group will focus on in its future plan. For details of the Group's future plan and use of proceeds in this regard, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

SUPPLIERS, RAW MATERIALS AND INVENTORY

Raw material suppliers, product suppliers, and subcontractors

In the Group's production process, the Group may require certain products and/or services from the following parties:

(i) Third-party raw material suppliers. The Group purchases raw materials for the production of apparel products from third-party raw material suppliers, which mainly include traders and manufacturers of fabric and leather as well as providers of other raw materials such as buttons, zippers, packing materials, labels and other accessories.

(ii) Third-party product suppliers. Instead of carrying out the production at its Jiaxing Factory, the Group may choose to outsource the whole or the core parts of the manufacturing process of some of its products to third-party product suppliers, which are mainly apparel traders and manufacturers.

(iii) Subcontractors. The Group may subcontract certain auxiliary procedures, such as washing and embossing, to external specialised subcontractors.

For the sake of clarity, in this prospectus, suppliers of the Group refer only to third-party raw materials suppliers and third-party product suppliers but do not include subcontractors (which are simply referred to as subcontractors in this prospectus) because:

- the Group's purchases of raw materials from third-party raw material suppliers as well as the Group's purchases of semi-finished and finished products from third-party product suppliers as a result of outsourcing are both accounted for as "cost of materials" in the Group's financial statements; while

- the fees paid by the Group to its subcontractors for auxiliary procedures are accounted for as "subcontracting fees" in the Group's financial statements.

Further information regarding the Group's suppliers (i.e. third-party raw material suppliers and third-party product suppliers) are discussed in this sub-section headed "Suppliers, raw materials and inventory", while further information regarding the Group's subcontractors are discussed in the sub-section headed "Subcontracting" below under this section.

Characteristics of the Group's suppliers

Suppliers of the Group include (i) third-party raw material suppliers; and (ii) third-party product suppliers. During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group engaged approximately 349, 324 and 184 third-party raw material suppliers and approximately 40, 40 and 19 third-party product suppliers respectively.

The major raw materials used for the Group's production include fabric and leather. In addition, the Group also requires other raw materials including buttons, zippers, packing materials, labels and other accessories for its production.

Third-party product suppliers are mainly apparel traders and manufacturers in the PRC to which the Group outsources the whole or the core parts of the manufacturing process of some of the Group's products.

The Group generally places purchase orders with its suppliers after the customer's order is confirmed. The Group's purchase order will set out the type, pricing and quantity of raw materials that the Group requires based on the specifications designated by the customers.

As the apparel and fashion industry is characterised by rapid changes of style and trends, the Group did not enter into any long-term agreement with, or commit any minimum quantities to, its third-party raw material suppliers and third-party product suppliers.

Salient terms of a typical purchase transaction

In a typical purchase transaction, the Group will issue a purchase order (for the purchase of raw materials) or a production order (for the purchase of semi-finished or finished products) to the supplier. In a typical purchase order or production order, the following salient terms are contained:

(i) Product description:

A brief description of the products is contained, including, for raw materials, the technical specification of the fabrication, quantity and colour; and for semi-finished or finished products, the type of apparel, style, main materials required, colour and size.

(ii) Order details:

The quantity is specified, i.e., for raw materials, the number of yards for each type of raw materials; and for semi-finished or finished products, the number of pieces for each colour and/or size. The unit price and the total amount are also specified.

(iii) Payment terms:

The Group's suppliers usually grant credit periods of 15 to 120 days to the Group. Payment will usually be made by telegraphic transfer. Two major suppliers of the Group have granted credit periods of 120 days to the Group due to long and good relationships as the Group has maintained 5 years of business relationship with each of these two suppliers.

(iv) Delivery details:

For the purchase of raw materials and semi-finished products, the Group usually requires its suppliers to deliver the goods at the cost of the suppliers to the Jiaxing Factory. For the purchase of finished products, the Group generally requires its suppliers to deliver the goods at the cost of the suppliers directly to the forwarding agent appointed by the Group or by the Group's customer at a designated PRC port.

Pursuant to the purchase order (or a production order), the product supplier or raw material supplier shall be responsible for all claims arising on account of inferior quality and/or other non-conformities with the specifications. The Group reserves the right to withhold part payment on any shipment made not to its satisfaction.

Location of suppliers

The Group's suppliers are mainly located in the PRC. Set out below is a breakdown of the Group's purchases by suppliers' locations during the Track Record Period:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
The PRC	169,147	89.6	166,381	86.5	38,967	73.1	42,440	88.2
Taiwan	9,686	5.1	12,736	6.6	4,764	8.9	3,252	6.8
Hong Kong	8,485	4.5	7,204	3.7	3,796	7.1	2,001	4.2
Others *(note)*	1,408	0.8	5,986	3.2	5,779	10.9	430	0.8
Total	**188,726**	**100.0**	**192,307**	**100.0**	**53,306**	**100.0**	**48,123**	**100.0**

Note: During the Track Record Period, other locations include Canada, Italy, Japan, Korea, Germany and the United States.

Denomination of purchases

Set out below is a breakdown of the Group's purchases by currency denomination during the Track Record Period:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
US$	108,719	57.6	112,028	58.3	32,028	60.1	24,710	51.3
RMB	72,257	38.3	73,561	38.3	17,795	33.4	21,318	44.3
HK$	7,750	4.1	6,718	3.4	3,483	6.5	2,095	4.4
Total	**188,726**	**100.0**	**192,307**	**100.0**	**53,306**	**100.0**	**48,123**	**100.0**

As mentioned in the paragraph headed "Location of customers and denomination of sales" above under the subsection headed "Customers" in this section, the movements in the exchange rate between US$ and RMB have a direct effect on the Group's financial performance. Please refer to the paragraph headed "Hedging of currency risk" below in this section for details of the Group's currency risk and the foreign exchange financial instruments used by the Group during the Track Record Period for mitigating exchange rate exposure of RMB against US$.

Top suppliers

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the percentage of the Group's total purchases attributable to the Group's largest supplier amounted to approximately 18.3%, 9.5% and 13.6% respectively, while the percentage of the Group's total purchases attributable to the Group's five largest suppliers combined amounted to approximately 45.2%, 36.8% and 46.5% respectively.

Set out below is a breakdown of the Group's total purchases by top five suppliers of the Group during the Track Record Period:

For the year ended 31 December 2011

	HK$'000	*%*
Supplier A (1st largest supplier)	34,470	18.3
Supplier B (2nd largest supplier)	19,593	10.4
Supplier C (3rd largest supplier)	11,847	6.3
Supplier D (4th largest supplier)	10,702	5.7
Supplier E (5th largest supplier)	8,532	4.5
Five largest suppliers combined	85,144	45.2
All other suppliers	103,582	54.8
Total purchases	**188,726**	**100.0**

For the year ended 31 December 2012

	HK$'000	*%*
Supplier A (1st largest supplier)	18,229	9.5
Supplier F (2nd largest supplier)	14,613	7.6
Supplier B (3rd largest supplier)	14,167	7.4
Supplier D (4th largest supplier)	13,078	6.8
Supplier C (5th largest supplier)	10,655	5.5
Five largest suppliers combined	70,742	36.8
All other suppliers	121,565	63.2
Total purchases	**192,307**	**100.0**

For the five months ended 31 May 2013

	HK$'000	*%*
Supplier F (1st largest supplier)	6,545	13.6
Supplier D (2nd largest supplier)	5,758	12.0
Supplier G (3rd largest supplier)	3,933	8.2
Supplier H (4th largest supplier)	3,377	7.0
Supplier B (5th largest supplier)	2,745	5.7
Five largest suppliers combined	22,358	46.5
All other suppliers	25,765	53.5
Total purchases	**48,123**	**100.0**

None of the Directors, their associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of the Group during the Track Record Period.

Set out below is the background information of the five largest suppliers of the Group during the Track Record Period:

Supplier	**Type of supplier (third-party raw material supplier and third-party product supplier)**	**Principal business**	**Location**	**Year(s) of business relationship**	**Typical credit terms offered to the Group and payment method**
Supplier A	Third-party product supplier	Manufacturing of garment	PRC	7	60 days credit terms, paid by telegraphic transfer
Supplier B	Third-party product supplier	Trading of various merchandise	PRC	9	60 days credit terms, paid by telegraphic transfer
Supplier C	Third-party raw material supplier	Trading of raw materials of garment	PRC	7	30 days credit terms, paid by telegraphic transfer
Supplier D	Third-party product supplier	Manufacturing of garment	PRC	5	120 days credit terms, paid by telegraphic transfer
Supplier E	Third-party raw material supplier	Trading of raw materials and garment	Taiwan	6	30 days credit terms, paid by telegraphic transfer
Supplier F	Third-party product supplier	Manufacturing of garment	PRC	8	60 days credit terms, paid by telegraphic transfer

Supplier	Type of supplier (third-party raw material supplier and third-party product supplier)	Principal business	Location	Year(s) of business relationship	Typical credit terms offered to the Group and payment method
Supplier G	Third-party raw material supplier	Trading of raw materials of garment	PRC	Less than 1 year	45 days credit terms, paid by letter of credit
Supplier H	Third-party raw material supplier	Manufacturing and trading of raw materials of garment	PRC	6	30 days credit terms, paid by telegraphic transfer

Third-party product suppliers

Nature of and reasons for outsourcing arrangement

The Group either manufactures its products at its Jiaxing Factory or outsources the whole or core parts of the manufacturing process to third-party product suppliers, which are mainly apparel traders or manufacturers in the PRC. The table below sets out the relevant breakdown of the Group's turnover during the Track Record Period attributable to products manufactured by the Group's Jiaxing Factory and products supplied by third-party product suppliers:

	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Jiaxing Factory	177,026	57.8	182,806	55.2	25,198	37.3	28,824	47.4
Third-party product suppliers *(note)*	129,288	42.2	148,282	44.8	42,328	62.7	32,035	52.6
	306,314	100.0	331,088	100.0	67,526	100.0	60,859	100.0

Note: Such figures include the Group's turnover attributable to products supplied by third-party product suppliers with raw materials supplied by the Group to the third-party product suppliers for further processing and/or with raw materials procured by the third-party product suppliers themselves.

When determining whether to manufacture the products at the Group's Jiaxing Factory or to outsource to third-party product suppliers, the Group will take into consideration the level of utilisation of capacity of the Jiaxing Factory, the economic efficiency and opportunity cost of carrying out the production of the order at the Jiaxing Factory, and the type of the materials involved in the products (i.e. woven wear, leather wear, or knitwear). In general, the majority of the products manufactured at the Group's Jiaxing Factory are woven and leather products (which entail higher selling prices in general), while the manufacturing process of some of the Group's woven and leather products and the majority of its knitwear products are outsourced to third-party product suppliers. The table below sets out the breakdown of the Group's turnover during the Track Record Period by type of material mainly involved in the products:

	Year ended 31 December 2011		**Year ended 31 December 2012**		**Five months ended 31 May 2012**		**Five months ended 31 May 2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Woven and leather	233,598	76.3	227,807	68.8	29,050	43.0	40,913	67.2
Knit	72,716	23.7	103,281	31.2	38,476	57.0	19,946	32.8
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

The Group considers that such outsourcing arrangement benefits the Group in terms of the utilisation of the Group's manufacturing capacity and is more economically efficient to the Group's overall operation.

Basis of selection of third-party product suppliers

The Group carefully evaluates third-party product suppliers taking into account of their technical capability, track records, ability to provide high-quality products on-time, services, prices and production capacities. Based on these factors, the Group selects and maintains a list of approved third-party product suppliers, which is updated on a continuous basis.

Prior to placing purchase orders with third-party product suppliers, the Group will generally obtain a number of quotations from its list of approved third-party product suppliers and select the most suitable ones based on fee quotes and track records. In addition to cost, the Group also negotiates on other terms of purchase including credit terms, payment method and time of delivery.

Quality control on third-party product suppliers

The Group's quality control personnel retain the right to conduct checks on all production materials of the third-party product suppliers to ensure that they comply with the Group's specifications. In addition, the Group's third-party product suppliers are not permitted to subcontract any part of the manufacturing process to other suppliers/manufacturers without the Group's prior consent.

During the manufacturing process, the Group will carry out site visits to the third-party product suppliers (or, if the third-party product suppliers further outsource the manufacturing process to other suppliers/manufacturers with the Group's prior consent, the ultimate manufacturing factories) and examine the quality of the semi-products and finished products. In some cases, the customers may also engage external consultant or send their own personnel to conduct on-site quality inspections on the third-party product suppliers.

Relationship with third-party product suppliers

The Group has established a stable working relationship with the third-party product suppliers. During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group engaged approximately 40, 40 and 19 third-party product suppliers respectively. Please refer to the paragraph headed "Top suppliers" above in this subsection for further information regarding the relationship between the Group and its third-party product suppliers.

The Group generally places production orders with the third-party product suppliers after the customer's order is confirmed. The Group's production order will set out the type, pricing and quantity of finished apparel products that the Group requires based on the specifications of the customers. As the apparel and fashion industry is characterised by rapid changes of style and trends, the Group did not enter into any long-term agreement with, or commit any minimum quantities to, the third-party product suppliers.

Inventory control

The Group's inventories include raw materials, work in progress and finished goods:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Raw materials and consumables	7,728	8,983	16,875
Work in progress	1,731	813	1,522
Finished goods	14,331	17,479	23,663
Total	**23,790**	**27,275**	**42,060**

As each customer may adopt different designs inspired by the Group and may modify the design and/or specify its own preference for raw materials, the Group, in most cases, sources raw materials and other accessories from its suppliers for production only after the customers have confirmed their orders and their specifications. This allows the Group to avoid excessive procurement of raw materials. As such, the Group normally maintains low level of inventory of raw materials.

The Group maintains a certain level of inventory for various pre-selected styles of own brand products based on projected sales volume and anticipated fashion trends. Maintaining inventory for the Group's own brand products operation is necessary because some of the customers of the Group's own brand products often require products that are immediately available and require delivery on short notice. Nevertheless, the Group would only maintain a relatively larger quantity of inventory for products that are expected to be popular or commonly accepted.

For of the two years ended 31 December 2012 and the five months ended 31 May 2013, the Group's inventory turnover days were 36 days, 40 days and 132 days respectively. For a detailed inventory analysis, please refer to the paragraph headed "Inventory analysis" under the section headed "Financial information" in this prospectus.

During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the provisions for obsolete or slow-moving inventories amounted to approximately HK$293,000, HK$nil and HK$nil respectively. The Group reviews the inventories at each reporting date and makes allowance for impairment of obsolete, slow-moving and impaired items. The Group estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price. The Group makes allowance for impairment if the net realisable value is below the carrying amount.

Fluctuations in prices of labour and raw materials

Prices of raw materials required by the Group, such as fabrics, fluctuated considerably in the past. In addition, the rising labour costs and the appreciation of RMB against US$ in the past few years have also contributed to the increase in the Group's costs of sales. For details, please refer to the section headed "Industry overview" in this prospectus.

Nevertheless, the Group's gross profit margin remained relatively stable during the Track Record Period, which amounted to approximately 21.7%, 24.5% and 21.1% respectively for each of the two years ended 31 December 2012 and the five months ended 31 May 2013, as the Group managed to pass most of such increases in costs to its customers.

The Group does not focus on competing in price. Instead, the Group considers that its primary competitive advantage relates to its strong and innovative product design and development capabilities. For details, please refer to the paragraph headed "Competitive strengths" above in this section and the paragraph headed "Product design and development" below in this section. With the Group's strong and innovative product design and development capabilities, the Group believes that it has the ability to pass the majority of the increases in costs to its customers by charging a higher price, thereby maintaining its profit margin without significantly reducing the willingness of the Group's customers to do business with the Group. In addition, one of the Group's business strategies is to further develop its own brand products operation. As the Group's own brand products generally entailed higher profit margins than private label products during the Track Record Period (as illustrated in the paragraph headed "Price and gross profit margin" under the subsection headed "Products" above in this section), such business strategy of developing the Group's own brand products operation is expected to positively affect the Group's overall profit margin and counteract the possible effect of potential rising costs.

Sensitivity analysis

Costs of materials

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's costs of materials on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 7% and 10%, which correspond to and cover the maximum year-on-year and period-on-period fluctuations of the Group's average unit cost of materials during the Track Record Period and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall average unit cost of materials	7%	10%	–7%	–10%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax				
Year ended 31 December 2011	(12,844)	(18,348)	12,844	18,348
Year ended 31 December 2012	(13,260)	(18,943)	13,260	18,943
Period ended 31 May 2012	(3,091)	(4,415)	3,091	4,415
Period ended 31 May 2013	(2,275)	(3,251)	2,275	3,251
Change in profit after tax				
Year ended 31 December 2011	(10,403)	(14,862)	10,403	14,862
Year ended 31 December 2012	(10,887)	(15,552)	10,887	15,552
Period ended 31 May 2012	(2,537)	(3,625)	2,537	3,625
Period ended 31 May 2013	(1,868)	(2,669)	1,868	2,669

Subcontracting cost

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's subcontracting cost on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 1% and 20%, which correspond to and cover the maximum year-on-year and period-on-period fluctuations of the Group's average subcontracting cost during the Track Record Period and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall average subcontracting cost	1%	20%	–1%	–20%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax				
Year ended 31 December 2011	(303)	(6,069)	303	6,069
Year ended 31 December 2012	(305)	(6,093)	305	6,093
Period ended 31 May 2012	(30)	(602)	30	602
Period ended 31 May 2013	(58)	(1,160)	58	1,160
Change in profit after tax				
Year ended 31 December 2011	(246)	(4,916)	246	4,916
Year ended 31 December 2012	(250)	(5,002)	250	5,002
Period ended 31 May 2012	(25)	(495)	25	495
Period ended 31 May 2013	(48)	(953)	48	953

Labour cost

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in the Group's labour cost on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 7% and 34%, which correspond to and cover the maximum year-on-year and period-on-period fluctuations of the Group's average labour cost during the Track Record Period and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall average labour cost	7%	34%	–7%	–34%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax				
Year ended 31 December 2011	(558)	(2,711)	558	2,711
Year ended 31 December 2012	(809)	(3,929)	809	3,929
Period ended 31 May 2012	(300)	(1,457)	300	1,457
Period ended 31 May 2013	(321)	(1,559)	321	1,559
Change in profit after tax				
Year ended 31 December 2011	(452)	(2,196)	452	2,196
Year ended 31 December 2012	(664)	(3,226)	664	3,226
Period ended 31 May 2012	(246)	(1,196)	246	1,196
Period ended 31 May 2013	(263)	(1,280)	263	1,280

Exchange rate

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in exchange rate on the Group's profits during the Track Record Period. The hypothetical fluctuation rates are set at 2% and 5%, which correspond to and cover the maximum year-on-year and period-on-period fluctuations of exchange rate during the Track Record Period and are therefore considered reasonable for the purpose of this sensitivity analysis:

Hypothetical fluctuations in overall average exchange rate	2%	5%	–2%	–5%
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Change in profit before tax				
Year ended 31 December 2011	(2,347)	(6,052)	2,255	5,476
Year ended 31 December 2012	(2,724)	(7,026)	2,617	6,357
Period ended 31 May 2012	(427)	(1,100)	410	995
Period ended 31 May 2013	(558)	(1,439)	536	1,302
Change in profit after tax				
Year ended 31 December 2011	(1,901)	(4,902)	1,826	4,435
Year ended 31 December 2012	(2,237)	(5,768)	2,149	5,219
Period ended 31 May 2012	(350)	(903)	336	817
Period ended 31 May 2013	(458)	(1,181)	440	1,069

Measures to mitigate the risk of potential increase in raw material prices

In view of the potential increases in raw material prices and other costs of production, the Group strives to constantly explores and evaluates different types of raw materials and production methods that are cost-effective while meeting customers' tastes and demands, as well as different suppliers and subcontractors that are able to offer reasonable pricing while meeting all requirements of the Group. It is also the Group's usual practice to attempt to, if possible, make purchases or place production orders to its suppliers and subcontractors for similar goods/services on a combined basis in bulk quantities instead of making multiple orders in small quantities in order to achieve bulk purchase/order discount.

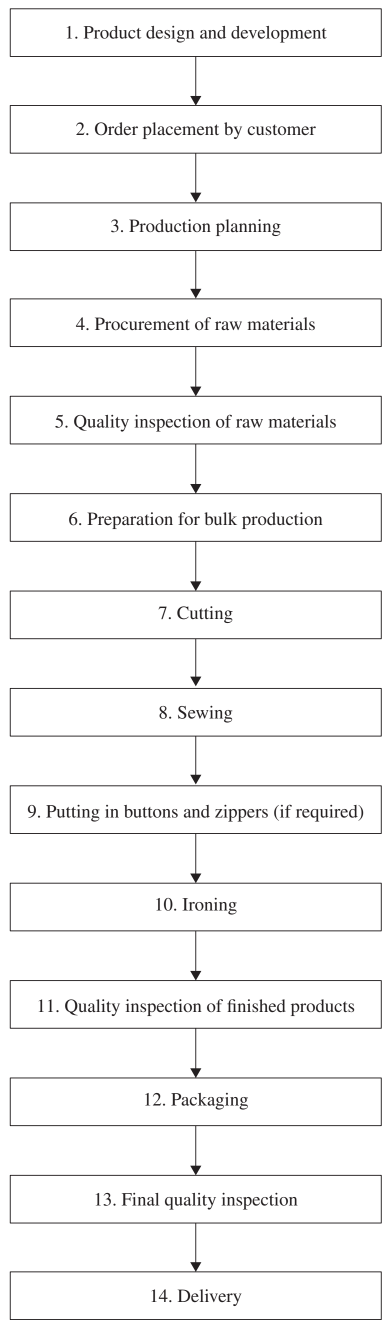
In addition, as mentioned above under the paragraph headed "Fluctuations in prices of labour and raw materials", the Group does not focus on competing in price. Instead, the Group considers that its primary competitive advantage relates to its strong and innovative product design and development capabilities. For details, please refer to the paragraph headed "Competitive strengths" above in this section and the paragraph headed "Product design and development" below in this section. With the Group's strong and innovative product design and development capabilities, the Group believes that it has the ability to pass the majority of the increases in costs to its customers by charging a higher price, thereby maintaining its profit margin without significantly reducing the willingness of the Group's customers to do business with the Group. The Group's profit margin remained relatively stable during the Track Record Period, which amounted to approximately 21.7%, 24.5% and 21.1% respectively for each of the two years ended 31 December 2012 and the five months ended 31 May 2013, as the Group managed to pass most of the increases in costs to its customers.

Furthermore, one of the Group's business strategies is to further develop its own brand products operation. As the Group's own brand products generally entail higher profit margins than private label products during the Track Record Period (as illustrated in the paragraph headed "Price and gross profit margin" under the subsection headed "Products" above in this section), such business strategy of developing the Group's own brand products operation is expected to positively affect the Group's overall profit margins and counteract the possible effect of the potential rising costs.

PRODUCTION AND QUALITY CONTROL

Production flows

Set out below is the flow chart summarising the key workflow of a typical production process of the Group:



Step 4 to 10 and step 12 can be outsourced to third-party product suppliers after taking into consideration the level of utilisation of capacity of the Jiaxing Factory, the economic efficiency and opportunity cost of carrying out the production of the order at the Jiaxing Factory, and the type of the materials involved in the products. For details, please refer to the paragraph head "Third-party product suppliers" under the sub-section headed "Suppliers, raw materials and inventory" above in this section.

In general, it takes approximately 60 to 120 days from customers' order placement (step 2) to the completion of final quality inspection (step 13). The actual production time required depends on a number of factors, such as the complexity of the product design and the manufacturing process, the quantity of an order, the availability of raw materials, and the production and/or delivery time required by the Group's raw material and/or product suppliers. As such, the actual production time may differ considerably for different orders, ranging in general from about 60 to 120 days.

Product design and development

The Group provides and recommends new product designs and inspirations to its customers on a continuous basis. The Group's customers may adopt or develop a design based on those recommended or inspired by the Group and may suggest modifications to the design. Alternatively, customers may provide their own designs to the Group. For further details of the Group's product design and development, please refer to the paragraph headed "Product design and development" below in this section.

Order placement by customer

After confirming a product design with its customer, the Group will discuss the details of the purchase order with the customer, including the quantity, price, delivery date, product specifications and other specific requirements. The customer will then place a purchase order with the Group with all such details confirmed.

Production planning

After receiving the purchase order, the Group will decide whether to manufacture the products at its Jiaxing Factory or to outsource the whole or part of the manufacturing process to third-party product suppliers after taking into consideration the level of utilisation of capacity of the Jiaxing Factory, the economic efficiency and opportunity cost of carrying out the production of the order at the Jiaxing Factory, and the nature of materials involved in the products (i.e. woven wear, leather wear, or knitwear). The following paragraphs describe the production process at the Jiaxing Factory. For details of the Group's outsourcing arrangement, please refer to the sub-paragraph headed "Third-party product suppliers" under the paragraph headed "Suppliers, raw materials and inventory" above in this section.

Procurement of raw materials

The Group generally places purchase orders with its suppliers after the customer's order is confirmed. The Group's purchase order will set out the type, price and quantity of raw materials that the Group requires based on the specifications of the customers. The Group will ensure that all necessary raw materials are available to the Group before the commencement of the scheduled bulk production.

Quality inspection of raw materials

When the raw materials are delivered to the Group, the Group will check whether the quantity is correct and will perform an inspection on the quality of the raw materials.

Quality inspection on fabric and leather can include the inspection on the external and internal quality. Inspection on external quality is mainly concerned with determining whether there are any observable defects such as damages, stains, weave faults and colour variations, while inspection on internal quality is mainly concerned with the main properties of the fabrics, such as colour fastness and weight.

The Group also performs quality inspection on other trims and accessories, such as checking for observable defects and their conformities with the Group's specifications.

Preparation for bulk production

Before commencement of bulk production, the Group will carry out certain technical preparation works, which include two main steps: (i) establishing the technical specifications of every production detail; and (ii) developing the production technical specification pack template.

The first step involves establishing the technical specifications of every production detail that will be referred to throughout the production process, including detailed specifications with respect to cutting, sewing, trims and accessories, ironing and packaging.

The second step involves developing the production technical specification pack template, which must be precise in every dimension as the template will be used in bulk production.

Cutting

After completing the technical preparation works, all fabrics and/or leathers will be cut based on the relevant technical specifications and checked by the Group's quality control team.

Sewing

After the fabrics and/or leathers are cut into appropriate pieces, they will be sewn and assembled into garments and further checked by the Group's quality control team.

Putting in buttons and zippers

If necessary, buttons and zippers will be sewn into the garments and buttonholes will also be made.

Ironing

Before packaging, the garments will generally be ironed to ensure that they have the correct size, shape and appearance through application of appropriate temperature, humidity and pressure during the ironing process.

Quality inspection of finished products

The Group will perform quality inspection on finished products to ensure that all product specifications are consistent with customers' requirements and to ensure the high quality of the finished products.

Packaging and final quality inspection

All finished products will be packed carefully to ensure that the packaging is arranged orderly with neat appearance and that the packaging contains correct information as to the style, size, colour of the products and the delivery information. Upon customers' request, a final quality inspection may be performed by the quality control personnel of the Group or the Group's customers after all finished products are packed. Such quality inspection will be performed by randomly selecting the goods to be inspected and removing the packaging in order to perform the inspection.

Delivery

After packaging, the Group or the third-party product suppliers engaged by the Group will generally arrange for the delivery of the finished products to the designated loading port or the designated forwarders of its customers. For further information on the typical delivery details, please refer to the sub-paragraph headed "Delivery details" under the paragraph headed "Salient terms of a typical sales transaction" under the sub-section headed "Customers" above in this section.

Quality control

When performing quality inspection, the Group adopts the acceptable quality level standard (also commonly known as the AQL standard), which is a common industry standard that provides a statistical measurement of the maximum percentage of defective goods considered acceptable in a particular sample size.

Ms. Winnie Tien, a member of the Group's senior management, is responsible for the Group's quality control. For details of Ms. Winnie Tien's profile, please refer to the paragraph headed "Senior management" under the section headed "Directors and senior management" in this prospectus.

As at 31 December 2011, 31 December 2012 and the Latest Practicable Date, the Group's quality control team comprised a total of 28, 31 and 31 employees respectively, who had approximately 1 to over 12 years' experience in the field of quality control in the apparel and fashion industry.

Transfer pricing arrangement

In a typical transaction where the products are to be manufactured at the Group's Jiaxing Factory, customers' purchase orders are issued to Runway HK, and Runway HK then places a production order to Runway Jiaxing for the manufacturing of the products. When the manufacturing of the products is completed, the ownership of the products manufactured at the Jiaxing Factory are transferred from Runway Jiaxing to Runway HK at a price determined in accordance with the Group's transfer pricing policy (while the products are delivered directly from the Jiaxing Factory without physically passing through Hong Kong). The Group has implemented a transfer pricing policy in order to regulate such intra-group sales, which is principally based on a cost-plus mark-up method. The personnel of the

Group's accounting and finance department are responsible for preparing the pricing for intra-group sales having regard to the cost-plus mark-up basis and the principle of arms' length principle. Such pricing will be approved by Mr. Chan Ka Yu, the chief financial officer of the Group, after checking whether the cost-plus mark-up basis and the principle of arms' length principle are complied with. Any deviation from the Group's transfer pricing policy will be reported and reviewed by Mr. Tien, the chairman of the Board and an executive Director. For background of Mr. Tien and Mr. Chan Ka Yu, please refer to the section headed "Directors and senior management" in this prospectus.

As advised by the PRC Legal Advisers, pursuant to the current Enterprise Income Tax Law (中華人民共和國企業所得稅法), transactions in respect of the purchase, sale and transfer of products between enterprises under direct or indirect control by the same third party shall be regarded as related parties transactions. Related parties transactions shall comply with the arm's length principle (獨立交易原則). If the failure of compliance with such principle would result in reducing the income or taxable income of the enterprise or its related parties, the tax authority shall be empowered to make adjustments in accordance with reasonable methods. The PRC Legal Advisers, having taken into account the written confirmations issued by 嘉興市秀洲區國家稅務局 (Jiaxing Xiuzhou National Tax Bureau) on 28 June 2013 and by 浙江省嘉興市地方稅局直屬分局 (The Direct Branch of Jiaxing Local Tax Bureau of Zhejiang Province) on 28 June 2013 (which are considered by the PRC Legal Advisers as the competent tax authorities to issue such confirmations), have advised that Runway Jiaxing, the Group's PRC subsidiary involved in the intra-group sales, has complied with the relevant tax requirements, did not evade taxes, and was not involved in any tax-related non-compliances, including, without limitation, any anti-tax avoidance rules in relation to transfer pricing arrangement.

Social compliance agreements, master sourcing agreement and vendor's manuals

The Group has entered into social compliance agreements and/or master sourcing agreement with, and/or received vendor's manuals from, some of its customers. Such social compliance agreements, master sourcing agreement and vendor's manuals set out, among other things, (i) specific requirements and standards for the production of the goods, components, trim, materials and packaging; (ii) the general terms and conditions applicable to the customers' purchase orders; and (iii) the code of conduct and social responsibilities with which the Group is required to comply. For example, the Group agreed not to hire child labours and agreed to provide a safe working environment for its labours. In addition, the Group agreed not to distribute or otherwise sell or give away any products which are defective or rejected or which are produced in excess of the actual quantity required and not taken up by the customer, and will completely destroy such goods which bear the customers' trademarks or names, including tagless labels and labels that are embroidered, printed, engraved or otherwise incorporated directly onto the goods. The Group may also allow its customers to send their own personnel or to engage external consultant to perform on-site inspection on the Group's compliance in this regard.

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the Group had not breached any covenants contained in any of these social compliance agreements, master sourcing agreement and vendor's manuals.

To ensure that the Group's suppliers and subcontractors also comply with the social compliance and product quality requirements set out by the Group's customers under the relevant social compliance agreements and/or master sourcing agreements and/or vendor's manuals, the Group has performed on-site assessments on the relevant factories of the Group's suppliers/subcontractors on an annual basis during the Track Record Period, covering, among other things, the general production capability and quality, quality control, and social compliance measures.

An assessment report is prepared on each assessment and such report is reviewed by Ms. Li Yinzhen, the head of Jiaxing Factory, who will decide whether the supplier/subcontractor is eligible to be included (for new suppliers/subcontractors) or to remain (for existing suppliers/subcontractors) on the Group's list of approved suppliers/subcontractors. For the background and profile of Ms. Li Yinzhen, please refer to the section headed "Directors and senior management" in this prospectus.

In addition, some of the Group's customers would also request the Group to engage external consultant to perform on-site social compliance and general quality control assessment of third-party product suppliers of the Group.

Production facilities, capacity and utilisation

The main production facilities of the Group are located in the Group's owned Jiaxing Factory. As at the Latest Practicable Date, the Group owned approximately 213 sets of production machinery and equipment such as sewing stations, fabric cutting machines, ironing stations and computer drawing systems. All production machinery and equipment of the Group were sourced from the PRC. In general, the Group's production machinery and equipment have an estimated useable life of 10 years. The following table sets out the age of the Group's production machinery and equipment:

	Number of sets of production machinery and equipment
Within 2 years	24
2 to 4 years	21
4 to 6 years	23
6 to 8 years	30
More than 8 years *(Note)*	115
	213

Note: The majority of the 115 sets of production machinery and equipment that are aged more than 8 years are sewing machines, with a small number of various types of other machineries such as button-attaching machines, fabric cutting machines, packing machines, bonding machines, pressing and ironing equipment, over-lock machines, tacking machines and buttonhole machines.

As at the Latest Practicable Date, the Directors consider that the existing production machinery and equipment of the Group were in good operating conditions in general. However, as approximately half of the Group's production machinery and equipment are approaching their estimated usable life of 10 years, the Group estimates that starting from 2014, some of the Group's production machinery and equipment may need to be replaced depending on the operating condition of each machine. As disclosed in the section headed "Future plans and use of proceeds" in this prospectus, the Group plans to start examining the status of its production machinery and equipment during the period from the Latest Practicable Date up to the end of 31 December 2013 and to develop a replacement plan and schedule based on the evaluation result. For the six months ending 30 June 2014, approximately HK$1.0 million is expected to be used for purchasing new production machinery and equipment for replacing old ones, and enhancing the Group's production efficiency and capacity. Another HK$5.5 million is expected to be used in this connection for the six months ending 31 December 2014. For further information, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

The Group conducts regular maintenance on its production machinery and equipment. Such regular maintenance works are mainly performed on on-going basis by each of the Group's production staff responsible for operating their respective set of production machinery and equipment, as most of such maintenance works involve simple procedures such as injecting lubricants when they run out and cleaning the dust that pile up in the key component of the equipment to ensure smooth sewing and production operation. It is not necessary to suspend the operation of the Jiaxing Factory in order to carry out regular maintenance and as such, the Group had not experienced any disruption in its production due to regular maintenance during the Track Record Period and up to the Latest Practicable Date.

The Group plans for its production based on the actual number and size of orders from customers. The Group also reviews its production plan regularly in order to ensure that there is sufficient production capacity to handle customers' orders and that finished products can be delivered in a timely manner. After taking into consideration, among other things, the level of utilisation of capacity of the Jiaxing Factory and the economic efficiency and opportunity cost of carrying out production of a particular order at the Jiaxing Factory, the Group may also outsource the whole or the core parts of the manufacturing process to third-party product suppliers. For details of such outsourcing arrangement, please refer to the paragraph headed "Third-party product suppliers" under the sub-section headed "Suppliers, raw materials and inventory" above in this section.

In general, the Group's production of its own brand products allows the Group to better utilise its production capacity and have better control on its production schedule and planning when compared to the production of private label products, as the Group can make the final decision on every detailed specification of its own brand products and there is no need to wait for customers' approval (which is generally needed for private label products).

Set out below is the estimated production capacity and approximate utilisation rate of the Jiaxing Factory during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2013
Estimated annual/period production capacity (in thousands of pieces of finished apparel) *(note 1)*	1,255	1,163	526
Approximate output volume for the year/period (in thousands of pieces of finished apparel)	894	932	180
Approximate utilisation rate for the year/period *(note 2)*	71.2%	80.1%	34.2%

Notes:

1. The annual production capacity is estimated based on the assumption that the Jiaxing Factory operates for 298 days per year and 10 hours per day. The production capacity for the five-month period is estimated based on the assumption that the Jiaxing Factory operates for 123 days per period and 10 hours per day. The actual number of working days of the Jiaxing Factory was approximately 294 days, 298 days and 116 days during each of the two years ended 31 December 2012 and the five months ended 31 May 2013 respectively. The actual average working hours per day was approximately 10.09 hours, 10.49 hours and 10.23 hours during each of the two years ended 31 December 2012 and the five months ended 31 May 2013 respectively.

   As illustrated in the above table, the estimated annual production capacity of the Group decreased from approximately 1,255,000 pieces of finished apparel to approximately 1,163,000 pieces of finished apparel. Other than the assumption mentioned in the preceding paragraph, another additional parameter is required for the estimation, being the maximum number of pieces of finished apparel that the Jiaxing Factory is capable of producing per hour. The Directors consider that such parameter cannot be estimated with reasonable accuracy, due to varying designs and production complexity involved. As such, for illustration purpose only, the Directors used the actual number of pieces of finished apparel that the Jiaxing Factory actually produced per hour on average during the busiest peak production period of the respective year as the said parameter in estimating the annual production capacity. Based on actual production data, it was observed that the actual number of pieces of finished apparel that the Jiaxing Factory actually produced per hour during the peak production period was slightly higher in 2011 on average than that in 2012. The Directors consider that such difference arose because the apparel products that the Jiaxing Factory produced in 2012 were on average more complex and more difficult in the context of skills and procedures required for production than those in 2011, resulting in slightly fewer number of finished apparel being produced per hour in 2012 on average.

2. The utilisation rate is calculated as the approximate output volume for the year/period divided by the estimated annual/period production capacity.

The utilisation rate of the Jiaxing Factory increased from approximately 71.2% for the year ended 31 December 2011 to approximately 80.1% for the year ended 31 December 2012, which was generally in line with the Group's growth in business during the period. The utilisation rate of the Jiaxing Factory for the five months ended 31 May 2013, which was the conventional slack season for the Group, was approximately 34.2%, which was lower than the annual utilisation rate of approximately 80.1% for the year ended 31 December 2012 due to seasonal fluctuation.

SUBCONTRACTING

Nature of and reason for subcontracting

The Group normally manufactures woven and leather apparel at its Jiaxing Factory. While the Jiaxing Factory is capable of undertaking all of the core manufacturing procedures such as cutting, sewing, ironing and quality inspection, the Group also subcontracts some auxiliary procedures, such as washing and embossing, to external specialised subcontractors when the Group does not have the capability or capacity to complete such auxiliary procedures at its Jiaxing Factory.

The following table sets out the amount of subcontracting fees, which were typically determined based on the quotation from subcontractors and arm's length negotiation between the Group and the subcontractors, incurred by the Group during the Track Record Period:

	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2012	Five months ended 31 May 2013
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Subcontracting fee	30,346	30,465	3,012	5,801

Basis of selection of subcontractors

The Group carefully evaluates the subcontractors taking into account of their technical capability, track records, services, prices, production capacities, ability to complete the auxiliary procedures in a timely manner and product quality. Based on these factors, the Group selects and maintains a list of approved subcontractors, which is updated on a continuous basis.

Before the Group places subcontracting orders with respective subcontractors, it will generally obtain a number of quotations from the list of approved subcontractors and select the most suitable one based on fee quotes and track records. In addition to subcontracting fees, the Group also negotiates on other terms of subcontracting service including terms of payment, method and time of delivery with the subcontractors.

The Group performs quality inspection on the products provided by the subcontractors to ensure that they meet the required quality standard.

Relationship with and background of subcontractors

The Group has established a stable working relationship with its subcontractors. For each of the two years ended 31 December 2012 and five months ended 31 May 2013, the Group engaged approximately 101, 95 and 46 subcontractors respectively, with which the Group has maintained 1 to 6 years of business relationship. The subcontractors are typically factories located in the vicinity of the Jiaxing Factory and are specialised in one or more of the auxiliary procedures such as washing and embossing.

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, the percentage of the Group's total subcontracting expenses attributable to the Group's largest subcontractor amounted to approximately 17.4%, 17.8% and 22.3% respectively, while the percentage attributable to the five largest suppliers combined amounted to approximately 38.2%, 40.9% and 49.6% respectively.

None of the Directors, their associates, or any Shareholders who owned more than 5% of the share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest subcontractor of the Group during the Track Record Period.

Salient terms of a typical subcontracting transaction

In a typical subcontracting transaction, the Group will issue a process order to the subcontractor. In a typical process order, the following salient terms are contained:

(i) Processing description:

A brief description of the processing procedure is contained, for example, washing, embossing and etc.

(ii) Order details:

The quantity is specified, i.e., the number of pieces for each colour and/or size to be processed. The unit price and the total amount are also specified.

(iii) Payment terms:

The Group's subcontractors usually grant credit periods of 30 to 90 days to the Group. Payment will usually be made by telegraphic transfer.

(iv) Delivery details:

For the processed products, the Group usually requires its subcontractors to deliver the goods at the cost of the subcontractors to the Jiaxing Factory.

PRODUCT DESIGN AND DEVELOPMENT

Product design and development capability

As the apparel and fashion industry is characterised by rapid changes of style and trends, the Group considers that its business and financial performance rely, to a considerable extent, on its product design and development capability. The Group believes that its business model is design-driven and that its product design and development capability is one of its primary competitive strengths.

The Group maintains a product design and development team which has the following key functions and capabilities:

- gauging global fashion trends through various sources such as attending key tradeshow events;
- exploring new materials and new blending of materials and patterns for customers' consideration and inspiration;
- creating new collections of designs on a continuous basis which are typically tailored for each customer matching its budget and style;
- producing design sketches developed in response to customer specifications with the support of in-house graphic team;
- channelling and re-designing supply chain garment concepts into marketable items conducive to target market;
- presenting new styles and innovative designs to customers; and
- producing prototypes to customers.

Product design and development team

Mr. Gozashti is responsible for the Group's product design and development. For his detailed profile, please refer to the paragraph headed "Executive Directors" under the section headed "Directors and senior management" in this prospectus.

As at 31 December 2011, 31 December 2012 and the Latest Practicable Date, the Group's product design and development team comprised a total of 39, 44 and 43 employees respectively, who had approximately 1 to 11 years' experience in the apparel and fashion industry. In addition, during the Track Record Period, the Group also engaged two design consultants to provide product design and development services to the Group. The external design consultants charged the Group on a job-by-job basis at a pre-agreed hourly rate. These external design consultants are designers in the United States working on a freelance basis. The Group engaged them on a job-by-job basis for cost-saving reasons as the salary and other benefits required to be paid to experienced designers in the United States for full-time employment tend to be relatively high.

For each of the two years ended 31 December 2012 and the five months ended 31 May 2013, expenses incurred for the design and development activities of the Group amounted to approximately HK$3.3 million, HK$3.2 million and HK$1.3 million respectively. Such expenses were mainly attributable to (i) staff costs of the product design and development team; (ii) design consultancy fee; and (iii) consumables and other miscellaneous costs related to products and development. Such amounts were all recognised as expense in the Group's combined statements of comprehensive income.

Proprietary online product development platform

The Group maintains a proprietary online product development platform, known as the Clothing Technology Initiative (the "CTI"), which allows customers to create and submit new ideas of apparel design to the Group directly and electronically. Based on the ideas and intended features and functions specified by the Directors, the Group engaged an external information technology company located in Hong Kong to develop and maintain the software program of CTI. The use of the CTI is intended to provide the Group's customers with sources of inspiration and ideas for product design and development and to shorten the time between initial product design and the mass production so as to allow the Group's customers to respond more quickly to market trends.

The CTI contains an organised and extensive library of raw materials and trims for the Group's customers to choose from and to mix and match. Such raw materials and trims are updated by the Group regularly in anticipation of the swift changing fashion trends in the global apparel market. Therefore, CTI is valuable resources of the Group. It is password-controlled and it is not accessible by the general public. As confirmed by the Directors, none of the Group's PRC customers was given access to CTI during the Track Record Period. The CTI system is maintained by an external information technology firm located in Hong Kong engaged by the Group.

As the numerous available raw materials and trims can be viewed and selected by the Group's customers through the online CTI platform and submitted electronically to Runway HK for prototype development, the use of the CTI would considerably shorten the time between initial product design and mass production and allow the Group's customers to respond more quickly to market trends.

SALES AND MARKETING

Sales and marketing

The sales and marketing department of the Group is principally responsible for identifying and approaching potential customers, handling enquiries from existing customers, and following up orders and shipments of products for customers. To maintain close relationship with existing customers and foster new business relationships with potential customers of the Group, the sales and marketing department pays regular visits to existing customers in the United States and Canada in attempt to keep pace with customers' requirements and development trend and direction. The Group also showcases to potential customers the Group's product designs and production capability through face-to-face presentations or by inviting them to visit the production facilities of the Group located at the Jiaxing Factory and/or the Group's showrooms in New York, Los Angeles, Hong Kong and Jiaxing.

Points of sales

During the Track Record Period and as at the Latest Practicable Date, the Group operated four showrooms, which are located in New York, Los Angeles, Hong Kong and at the Jiaxing Factory respectively. The Group presents product samples and conducts face-to-face presentation of new product designs to its customers in the showrooms. In addition, the Group operates a website, www.runwayusa.com, to serve its smaller customers such as small retailers and fashion boutiques to allow them to view the Group's products online.

Once the Group's products are sold to its customers, the products are typically retailed by the Group's customers at their respective retail stores and department stores. The Group does not have its own retail operation. The Group's business model involves no distributorship, franchising or consignment arrangements.

Pricing policy

During the Track Record Period, the Group in general used a cost-plus basis to determine the price of its apparel products with the consideration of (i) the possible retail price of the product; and (ii) the mark-up generally acceptable to the Group's customers in determining the retail price based on the Directors' experience in dealing with the customers. Other factors such as the complexities of the specifications of the product, the costs of raw materials, the size of the order, as well as the estimated time required and labour costs for the processing of the order are taken into account. In view of the different budgets of different customers, the Group's designers will in general provide designs that are tailored for the specific customer's budget and style.

Please refer to the sub-paragraph headed "Price and gross profit margin" under the paragraph headed "Products" of this section for the average selling prices of the Group's products during the Track Record Period.

HEDGING OF CURRENCY RISK

Currency risk

The Group derives the majority of its revenue in US$ while its costs are mostly denominated in RMB. Appreciation of RMB against US$ will therefore directly decrease the profit margin of the Group if the Group is unable to increase the selling prices of its products accordingly. If the Group increases the selling prices of its products as a result of the appreciation of RMB, it may in turn affect the Group's competitiveness against other competitors. To the extent that the Company needs to convert the net proceeds of the Placing and future financing into RMB for the Group's operations, appreciation of the RMB against the relevant foreign currencies would have an adverse effect on the purchasing power of the RMB amount that the Company would receive from the conversion.

The exchange rates between RMB and the US$ are subject to changes in the PRC Government's policies and international political and economic conditions. Currently, there remains considerable international pressure on the appreciation of RMB against US$.

At the end of each reporting period during the Track Record Period, foreign currency denominated financial assets and liabilities, translated into HK$ at the respective rates at that date, are as follows:

	Financial assets	**Financial liabilities**	**Notional amounts of derivative financial instruments**(Note) (i.e. foreign exchange structured forward contracts)	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011				
RMB	11,996	(30,808)	298,271	279,459
US$	57,771	(45,889)	77,220	89,102
As at 31 December 2012				
RMB	14,113	(40,154)	111,556	85,515
US$	63,605	(46,362)	—	17,243
As at 31 May 2013				
RMB	13,773	(42,895)	488,559	459,437
US$	28,719	(39,625)	—	(10,906)

Note: Notional amounts of derivative financial instruments are nominal or face amounts of foreign exchange structured forward contracts. The amounts are notional as there is no actual exchange of such principal amounts.

Foreign exchange rate sensitivity analysis

As US$ is pegged to HK$, the Group does not expect any significant movement in the HK$/US$ exchange rate. No sensitivity analysis in respect of the Group's financial assets and liabilities denominated in US$ is disclosed as in the opinion of the Directors, such sensitivity analysis does not give additional value in view of the insignificant movement in the US$/HK$ exchange as at the reporting dates.

The following table indicates the approximate changes in the Group's profit after income tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of each reporting period during the Track Record Period. The sensitivity analysis of the Group's exposure to foreign currency risk at the end of each reporting period during the Track Record Period has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year and held constant throughout the year.

HK$ to RMB	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*
Appreciated by 3%	1,159	1,209	1,862
Depreciated by 3%	1,178	1,277	1,247

Foreign exchange structured forward contracts

As the appreciation of RMB against US$ has a negative impact on the Group's profit margin, during the Track Record Period, the Group entered into certain foreign exchange structured forward contracts with two banks in Hong Kong to hedge against such currency risk. The foreign exchange structured forward contracts were given various names by the two banks, including but not limited to "USD/CNY Turbo Forward (Deliverable/Multiple)" and "Offshore Deliverable USD/CNY Ratio Capped Forward". According to the terms of such foreign exchange structured forward contracts, a certain amount of money will be payable by the bank to the Group and/or by the Group to the bank on roughly a monthly basis, depending on the exchange rate of RMB/US$ at the various valuation dates specified in each foreign exchange structured forward contract. With these monthly settlement features, the Directors do not consider the foreign exchange structured forward contracts to have a similar pay-off as a simple currency put options nor the same as USD/CNH futures (i.e., USD/offshore RMB futures). In essence, the foreign exchange structured forward contracts worked in such a way that the more the RMB appreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group will receive from the banks, subject to certain ceiling; and the more the RMB depreciates against US$ as compared to a pre-agreed exchange rate, the higher the net amount of payment that the Group would be required to pay to the banks. Despite the fact that the Group's reporting currency is HKD, its revenue is mainly denominated in USD while its costs are mainly denominated in RMB. Therefore, the Directors consider that using the RMB/USD foreign exchange structured forward contracts could hedge against the currency risk.

For accounting purpose, outstanding foreign exchange structured forward contracts are stated at fair value in the combined statements of financial position of the Group, and fluctuations of the exchange rate of RMB/US$ will result in fair value gain/loss of derivative financial instruments to be recognised in the combined statements of comprehensive income of the Group.

Outstanding foreign exchange structured forward contracts as at the Latest Practicable Date

During the Track Record Period, the Group entered into 10 foreign exchange structured forward contracts for hedging purpose, among which 7 had already ended during the Track Record Period. Three foreign exchange structured forward contracts remained outstanding as at the Latest Practicable Date, which will end on 7 January 2015, 25 February 2015 and 29 July 2014 respectively. There was no cost associated with the entering into of the 10 foreign exchange structured forward contracts.

During the years ended 31 December 2012 and the five months ended 31 May 2013, net fair value gain of approximately HK$2,071,000, HK$2,332,000 and HK$3,721,000 respectively (five months ended 31 May 2012 (unaudited): HK$2,837,000) were recognised and included in "changes in fair value of derivative financial instruments" in the combined statements of comprehensive income of the Group respectively.

The following paragraphs outline the key terms of the 3 outstanding foreign exchange structured forward contracts as at the Latest Practicable Date:

With respect to the first contract: on the respective valuation dates (each of which is roughly a month apart), (i) if the spot exchange rate of RMB/USD is equal to or lower than 6.37, the Group will receive a fixed amount of RMB36,000 from the bank; (ii) if the spot exchange rate of RMB/USD is equal to or lower than the 6.40 but greater than 6.37 RMB/USD, the Group will have to pay to the bank a fixed amount of US$1,200,000 while the bank will at the same time pay to the Group a fixed amount of RMB7,680,000; and (iii) if the spot exchange rate of RMB/USD is greater than the 6.40, the Group will have to pay to the bank a fixed amount of US$2,400,000 while the bank will at the same time pay to the Group a fixed amount of RMB15,360,000.

With respect to the second contract: on the respective valuation dates (each of which is roughly a month apart), (i) if the spot exchange rate of RMB/USD is equal to or lower than 6.36, the Group will receive a fixed amount of RMB33,000 from the bank; (ii) if the spot exchange rate of RMB/USD is equal to or lower than the 6.39 but greater than 6.36 RMB/USD, the Group will have to pay to the bank a fixed amount of US$1,100,000 while the bank will at the same time pay to the Group a fixed amount of RMB7,029,000; and (iii) if the spot exchange rate of RMB/USD is greater than the 6.39, the Group will have to pay to the bank a fixed amount of US$2,200,000 while the bank will at the same time pay to the Group a fixed amount of RMB14,058,000.

With respect to the third contract: on the respective valuation dates (each of which is roughly a month apart), (i) if the spot exchange rate of RMB/USD is equal to or lower than 6.305, the Group will receive a fixed amount of RMB25,000 from the bank; and (ii) if the spot exchange rate of RMB/USD is greater than the 6.305, the Group will have to pay to the bank a fixed amount of US$1,000,000 while the bank will at the same time pay to the Group a fixed amount of RMB6,305,000.

Exposure in respect of the outstanding foreign exchange structured forward contracts

Assuming an immediate depreciation of 5% of RMB against USD

The following table illustrates the Group's exposure subsequent to 31 October 2013 in respect of the 3 outstanding foreign exchange structured forward contracts assuming that an immediate depreciation of 5% of RMB against USD compared to the exchange rate of US$1:RMB6.10 as at the Latest Practicable Date took place on 31 October 2013 and the exchange rate then held constant throughout the relevant contract periods (while assuming the exchange rate of US$:HK$ will hold constant at US$1: HK$7.8):

	Subsequent to 31 October 2013 and up to 31 December 2013	**Year ending 31 December 2014**	**Year ending 31 December 2015**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Potential losses incurred by the Group				
— Contract 1 *(note 1)*	29	175	15	219
— Contract 2 *(note 2)*	80	482	80	642
— Contract 3 *(note 3)*	244	852	—	1,096
	353	1,509	95	1,957

Notes:

1. Contract 1 will expire on 7 January 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.40 million (or approximately HK$18.72 million) while the bank will at the same time pay to the Group a fixed amount of RMB15.36 million (or approximately HK$18.71 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$14,614 to be incurred by the Group each month until contract expiry.

2. Contract 2 will expire on 25 February 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.20 million (or approximately HK$17.16 million) while the bank will at the same time pay to the Group a fixed amount of RMB14.06 million (or approximately HK$17.12 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$40,187 to be incurred by the Group each month until contract expiry.

3. Contract 3 will expire on 29 July 2014. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$1.00 million (or approximately HK$7.80 million) while the bank will at the same time pay to the Group a fixed amount of RMB6.31 million (or approximately HK$7.68 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$121,780 to be incurred by the Group each month until contract expiry.

The assumption of an immediate 5% depreciation of RMB against USD is considered appropriate for the purpose of the above analysis because during the Track Record Period, the maximum annual percentage fluctuation in RMB against USD was approximately 4.7% (appreciation of RMB against USD). Please refer to the paragraph headed "Effectiveness of the hedging" below for further details of the changes in the exchange rate of RMB:USD during the Track Record Period.

As illustrated in the above table, based on the aforementioned assumptions, the total exposure of the Group under the 3 outstanding foreign exchange structured forward contracts throughout their remaining contract periods was approximately HK$1.96 million as at 31 October 2013. However, it should be noted that the above analysis did not take into account the potential decrease in operating costs of the Group as a result of the assumed 5% depreciation of RMB against USD. Based on the Group's operating costs denominated in RMB for the year ended 31 December 2012 of approximately HK$133.49 million and assuming that all other variables of the operating costs denominated in RMB remain unchanged and the exchange rate of US$:HK$ holds constant at US$1:HK$7.8, a 5% depreciation of RMB will result in a decrease in the Group's operating costs by approximately HK$6.67 million, which is sufficient to offset the Group's entire exposure under the 3 outstanding foreign exchange structured forward contracts.

Assuming an immediate depreciation of 10% of RMB against USD

The following table illustrates the Group's exposure subsequent to 31 October 2013 in respect of the 3 outstanding foreign exchange structured forward contracts assuming that an immediate depreciation of 10% of RMB against USD compared to the exchange rate of US$1:RMB6.10 as at the Latest Practicable Date took place on 31 October 2013 and the exchange rate then held constant throughout the relevant contract periods (while assuming the exchange rate of US$:HK$ will hold constant at US$1: HK$7.8):

	Subsequent to 31 October 2013 and up to 31 December 2013	**Year ending 31 December 2014**	**Year ending 31 December 2015**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Potential losses incurred by the Group				
— Contract 1 *(note 1)*	1,730	10,378	865	12,973
— Contract 2 *(note 2)*	1,637	9,820	1,637	13,094
— Contract 3 *(note 3)*	942	3,296	—	4,238
	4,309	23,494	2,502	30,305

Notes:

1. Contract 1 will expire on 7 January 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.40 million (or approximately HK$18.72 million) while the bank will at the same time pay to the Group a fixed amount of RMB15.36 million (or approximately HK$17.86 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$864,858 to be incurred by the Group each month until contract expiry.

2. Contract 2 will expire on 25 February 2015. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$2.20 million (or approximately HK$17.16 million) while the bank will at the same time pay to the Group a fixed amount of RMB14.06 million (or approximately HK$16.34 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$818,361 to be incurred by the Group each month until contract expiry.

3. Contract 3 will expire on 29 July 2014. Under the hypothetical scenario, the Group will have to pay the bank a fixed amount of US$1.00 million (or approximately HK$7.80 million) while the bank will at the same time pay to the Group a fixed amount of RMB6.31 million (or approximately HK$7.34 million based on the exchange rate assumed in the hypothetical scenario) on roughly a monthly basis, representing a net potential loss of approximately HK$470,790 to be incurred by the Group each month until contract expiry.

As illustrated in the above table, based on the aforementioned assumptions, the total exposure of the Group under the 3 outstanding foreign exchange structured forward contracts throughout their remaining contract periods was approximately HK$30.3 million as at 31 October 2013. However, it should be noted that the above analysis did not take into account the potential decrease in operating costs of the Group as a result of the assumed 10% depreciation of RMB against USD. Based on the Group's operating costs denominated in RMB for the year ended 31 December 2012 of approximately HK$133.49 million and assuming that all other variables of the operating costs denominated in RMB remain unchanged and the exchange rate of US$:HK$ holds constant at US$1:HK$7.8, a 10% depreciation of RMB will result in a decrease in the Group's operating costs by approximately HK$13.35 million, which can offset approximately 44% of the Group's entire exposure under the 3 outstanding foreign exchange structured forward contracts.

Assuming an immediate appreciation of 5% of RMB against USD

The following table illustrates the Group's potential gain subsequent to 31 October 2013 in respect of the 3 outstanding foreign exchange structured forward contracts assuming that an immediate appreciation of 5% of RMB against USD compared to the exchange rate of US$1:RMB6.10 as at the Latest Practicable Date took place on 31 October 2013 and the exchange rate then held constant throughout the relevant contract periods (while assuming the exchange rate of US$:HK$ will hold constant at US$1: HK$7.8):

	Subsequent to 31 October 2013 and up to 31 December 2013	**Year ending 31 December 2014**	**Year ending 31 December 2015**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Potential gain by the Group				
— Contract 1 *(note 1)*	97	581	48	726
— Contract 2 *(note 2)*	89	533	89	711
— Contract 3 *(note 3)*	67	236	—	303
	253	1,350	137	1,740

Notes:

1. Contract 1 will expire on 7 January 2015. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB36,000 on roughly a monthly basis, representing a potential gain of approximately HK$48,456 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

2. Contract 2 will expire on 25 February 2015. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB33,000 on roughly a monthly basis, representing a potential gain of approximately HK$44,418 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

3. Contract 3 will expire on 29 July 2014. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB25,000 on roughly a monthly basis, representing a potential gain of approximately HK$33,650 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

As illustrated in the above table, based on the aforementioned assumptions, the total potential gain of the Group under the 3 outstanding foreign exchange structured forward contracts throughout their remaining contract periods was approximately HK$1.74 million as at 31 October 2013. However, it should be noted that the above analysis did not take into account the potential increase in operating costs of the Group as a result of the assumed 5% appreciation of RMB against USD. Based on the Group's operating costs denominated in RMB for the year ended 31 December 2012 of approximately HK$133.49 million and assuming that all other variables of the operating costs denominated in RMB remain unchanged and the exchange rate of US$:HK$ holds constant at US$1:HK$7.8, a 5% appreciation of RMB will result in an increase in the Group's operating costs by approximately HK$6.67 million.

Assuming an immediate appreciation of 10% of RMB against USD

The following table illustrates the Group's potential gain subsequent to 31 October 2013 in respect of the 3 outstanding foreign exchange structured forward contracts assuming that an immediate appreciation of 10% of RMB against USD compared to the exchange rate of US$1:RMB6.10 as at the Latest Practicable Date took place on 31 October 2013 and the exchange rate then held constant throughout the relevant contract periods (while assuming the exchange rate of US$:HK$ will hold constant at US$1: HK$7.8):

	Subsequent to 31 October 2013 and up to 31 December 2013	**Year ending 31 December 2014**	**Year ending 31 December 2015**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Potential gain by the Group				
— Contract 1 *(note 1)*	102	614	51	767
— Contract 2 *(note 2)*	94	563	94	751
— Contract 3 *(note 3)*	71	249	—	320
	267	1,426	145	1,838

Notes:

1. Contract 1 will expire on 7 January 2015. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB36,000 on roughly a monthly basis, representing a potential gain of approximately HK$51,148 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

2. Contract 2 will expire on 25 February 2015. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB33,000 on roughly a monthly basis, representing a potential gain of approximately HK$46,885 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

3. Contract 3 will expire on 29 July 2014. Under the hypothetical scenario, the bank will have to pay the Group a fixed amount of RMB25,000 on roughly a monthly basis, representing a potential gain of approximately HK$35,519 (based on the exchange rate assumed in the hypothetical scenario) for the Group each month until contract expiry.

As illustrated in the above table, based on the aforementioned assumptions, the total potential gain of the Group under the 3 outstanding foreign exchange structured forward contracts throughout their remaining contract periods was approximately HK$1.84 million as at 31 October 2013. However, it should be noted that the above analysis did not take into account the potential increase in operating costs of the Group as a result of the assumed 10% appreciation of RMB against USD. Based on the Group's operating costs denominated in RMB for the year ended 31 December 2012 of approximately HK$133.49 million and assuming that all other variables of the operating costs denominated in RMB remain unchanged and the exchange rate of US$:HK$ holds constant at US$1:HK$7.8, a 10% appreciation of RMB will result in an increase in the Group's operating costs by approximately HK$13.35 million.

Effectiveness of the hedging

The following table illustrates the effectiveness of the hedging:

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Five months ended 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Operating costs denominated in RMB	114,994	133,490	27,340
Estimated increase in operating costs as a result of appreciation of RMB *(note)* (A)	5,411	3,746	335
Realised gain from the structured forward contracts (B)	1,073	2,323	660
Hedging coverage (B/A)	19.8%	62.0%	197.0%

Note:

The estimated increase in operating costs as a result of appreciation of RMB was determined with reference to the following estimated exchange rates of RMB to HK$ during the Track Record Period based on the historical exchange rates data:

	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012	Five months ended 31 May 2013
Average exchange rate of RMB to HK$ used for the estimation	0.8714	0.8304	0.8071	0.7972
Appreciation of RMB against HK$		4.7%	2.8%	1.2%

The hedging coverage increased significantly from approximately 19.8% for the year ended 31 December 2011 to approximately 62.0% for the year ended 31 December 2012 due to the increased use of foreign exchange structured forward contracts to match the expected increase in operating costs as a result of appreciation of RMB in order to achieve better hedging coverage. The hedging coverage for the five months ended 31 May 2013 was more than 100% because the foreign exchange structured forward contracts were settled on roughly a monthly basis throughout the year while the Group's operating costs are mainly incurred during peak seasons from July to November of each year.

Based on the above, the Directors consider that the use of the foreign exchange structured forward contracts for the Group's hedging of currency risk was effective and did not represent merely a speculation for extra income.

Reasons for choosing the foreign exchange structured forward contracts

As disclosed in the above paragraph headed "Outstanding foreign exchange structured forward contracts as at the Latest Practicable Date", in respect of the outstanding foreign exchange structured forward contracts entered into by the Group, the Group has limited upside gain (ranging from RMB25,000 to RMB36,000 per month for each contract) but potentially very substantial downside loss.

Notwithstanding the above, the Group chose to enter into such type of foreign exchange structured forward contracts and the Directors considered that such contracts were appropriate financial instruments for the Group in hedging its currency risks because such contracts:

(i) are capable of providing the hedging of the risk of the appreciation of RMB against USD as illustrated in the paragraph headed "Effectiveness of the hedging" above;

(ii) do not require any upfront purchase cost or cash outlay;

(iii) can provide the Group with stable monthly cash inflow so long as the exchange rate between RMB and USD remains stable or if RMB appreciates against USD; and

(iv) the downside risk is considered acceptable as the exposure is comparable to the Group's expected decrease in operating costs denominated in RMB as illustrated in the paragraph headed "Exposure in respect of the outstanding foreign exchange structured forward contracts" above.

In addition, during the Track Record Period and up to the Latest Practicable Date, the Directors considered that there remained considerable international pressure on the appreciation of RMB against USD and that the risk of any substantial depreciation of RMB against USD was low.

Use of foreign exchange structured forward contracts after Listing

In view of the potential substantial downside risk of the foreign exchange structured forward contracts, the Group has decided that it will not enter into any additional foreign exchange structured forward contracts after Listing and will not roll over the 3 outstanding foreign exchange structured forward contracts unless Shareholders' approval has been obtained in advance. The Group intends to seek for Shareholders' approval for entering into additional foreign exchange structured forward contracts with principal terms of the proposed contracts provided for Shareholders' consideration, such as the currencies involved, ranges of the relevant reference exchange rates and contract amounts or notional amounts for the foreign exchange transactions, which shall be consistent with the Group's relevant policy as disclosed in the paragraph headed "Policies for approval and monitoring of hedging activities" below. Mr. Tien, Mr. Gozashti and their respective associates shall abstain from voting on the relevant resolution(s). For each additional foreign exchange structured forward contract that the Group enters into (assuming that prior Shareholders' approval has been obtained), the Company will disclose the relevant information of the contract by way of an announcement as well as in its annual report.

Other than the 3 outstanding foreign exchange structured forward contracts, the Group had not entered into any additional foreign exchange structured forward contracts subsequent to the Track Record Period and up to the Latest Practicable Date. The Directors further confirm that the Group has not and will not enter into any additional foreign exchange structured forward contracts (including the roll-over of the 3 outstanding foreign exchange structured forward contracts) after the Latest Practicable Date until advance approval by the Shareholders (other than Mr. Tien, Mr. Gozashti and their respective associates) has been obtained after Listing. After Listing, the Company will propose the relevant resolution(s) for the Shareholders' consideration and, if thought fit, approval as and when considered appropriate by the Group.

Policies for approval and monitoring of hedging activities

During the Track Record Period, the Group's hedging activities were approved by the two executive Directors, namely, Mr. Tien and Mr. Gozashti, and a financial officer of the Group. For the personal profiles of Mr. Tien and Mr. Gozashti, please refer to the section headed "Directors and senior management" in this prospectus.

As mentioned above, other than the 3 outstanding foreign exchange structured forward contracts, the Group has not and will not enter into any additional foreign exchange structured forward contracts (including the roll-over of the 3 outstanding foreign exchange structured forward contracts) in the future unless advance approval by the Shareholders has been obtained after Listing while Mr. Tien, Mr. Gozashti and their respective associates shall abstain from voting on the relevant resolution(s).

In respect of the 3 outstanding foreign exchange structured forward contracts, the Group's chief financial officer, Mr. Chan Ka Yu, will be responsible for the on-going monitoring of the Group's exposure under the outstanding foreign exchange structured forward contracts. The Group's in-house accountants will calculate the Group's total exposure under all outstanding foreign exchange structured forward contracts based on the assumption of a 5% depreciation of RMB against USD. The Group's chief financial officer will review such calculation and assess whether the risk exposure is acceptable. The maximum exposure allowed (assuming an immediate 5% depreciation of RMB against USD), after offsetting the potential estimated decrease in operating costs of the Group as a result of the assumed depreciation of RMB against USD, is currently set at HK$3.5 million, representing approximately 15% of the Group's profit for the year ended 31 December 2012. If such maximum exposure level is reached, the Group will consider requesting for early termination of the outstanding foreign exchange structured forward contracts.

The terms of the 3 outstanding foreign exchange structured forward contracts do not contain any early termination clause and do not expressly allow or forbid early termination. Based on the Group's past experience with the relevant banks, early termination was allowed subject to a one-off settlement that correspond to the mark-to-market gain or loss in respect of the contract upon early termination based on the bank's calculation and the bank's own winding-off procedures in the open markets (i.e., the one-off settlement can be payment by the bank to the Group or payment by the Group to the bank subject to the then market condition).

Mr. Chan Ka Yu, the chief financial officer of the Group and company secretary of the Company and Runway HK, is a member of the Hong Kong Institute of Certified Public Accountants. For further information on the background and profile of Mr. Chan Ka Yu, please refer to the section headed "Directors and senior management" in this prospectus. Although Mr. Chan Ka Yu does not possess experience directly relevant to the use of forward contracts, the Sponsor and the Directors consider that Mr. Chan Ka Yu is capable of overseeing and monitoring the Group's exposure under the outstanding foreign exchange structured forward contracts having considered (i) Mr. Chan Ka Yu's academic background, working experience as well as his professional qualification as a member of the Hong Kong Institute of Certified Public Accountants; and (ii) that the ongoing monitoring of the Group's exposure under the forward contracts only involves relatively simple calculations regarding the hedging effectiveness and potential downside of the hedging instruments.

The Directors consider that the ongoing monitoring of the Group's hedging exposure involves only relatively simple calculations because (a) the Group's hedging needs can be calculated by simply multiplying the Group's expected annual operating costs denominated in RMB by the expected annual appreciation of RMB against USD; and (b) the potential exposure in respect of the hedging instrument can be calculated by summing up all potential monetary losses payable to the bank at an assumed exchange rate in accordance with the terms of the relevant contracts.

INTERNAL CONTROL

Protection of product designs and intellectual property rights

Documents such as product design sketches and technical specification sheets may contain confidential information regarding proprietary product designs of the Group and the Group's customers. The Group has established policies and procedures to protect the intellectual properties of the Group and its customers. For instance, such confidential documents are stored in safeguarded premises and entrance restriction is in place such that only authorised personnel are allowed to enter into such premises. The Group's policies have also stipulated that only certain authorised personnel are allowed to access the confidential documents.

In addition, there may be surplus products that are produced in excess of the actual quantity required or that do not pass the quality assurance review and not delivered to customers. According to the agreements between the Group and its customers, the Group is not allowed to market, distribute, sell or otherwise give away any such surplus products bearing customers' brands to third parties. The Group has internal control measures in place to keep such surplus products separately in a locked room and to destroy such products regularly, if any.

Furthermore, the Group recognises the importance of protecting and enforcing the Group's own intellectual property rights in relation to the trademarks owned by the Group. The Group relies on various intellectual property laws, especially trademark laws, to protect its proprietary rights. If any attempted or actual infringement of the Group's trademarks comes to the Group's attention, the Group will take appropriate actions (including without limitation legal actions) to protect its trademark to the full extent allowable by law. During the Track Record Period, one incident of infringement of the Group's trademark came to the Group's attention. For details, please refer to the sub-paragraph headed "Trademarks" under the paragraph headed "Products" above in this section.

Ms. Winnie Tien, a member of the senior management of the Group, is responsible for implementing the relevant policies and procedures in protecting intellectual properties. For details of her profile, please refer to the section headed "Directors and senior management" in this prospectus.

Hedging of currency risk

During the Track Record Period, the Group entered into certain foreign exchange structured forward contracts with two banks in Hong Kong to hedge against currency risk of RMB against US$. For details of the Group's internal control policies for the approval and monitoring of hedging activities, please refer to the sub-paragraph headed "Policies for approval and monitoring of hedging activities" under the paragraph headed "Hedging of currency risk" above in this section.

MARKET AND COMPETITION

As disclosed in the section headed "Industry overview" in this prospectus, there are a large number of market players in the fashion and apparel industry and competition in the PRC apparel manufacturing industry is intense. Apparel manufacturers such as the Group targeting international apparel groups and speciality chain retailers in the United States and Canada are competing mainly on (i) product design and development capabilities and the ability to anticipate fashion trends; (ii) reliability of product quality and timely delivery; (iii) price competitiveness; and (iv) ability to operate under various social compliance requirements set out by the customers. For details of the competitive landscape and the future opportunities and challenges faced by the Group, please refer to the "Industry overview" section in this prospectus.

The Directors believe that the Group competes favourably with its competitors in terms of design capability, product quality and timely delivery. For details of the Group's competitive strengths, please refer to the paragraph headed "Competitive strengths" above in this section.

INSURANCE

The Group maintains insurance policies against loss or damage to its office, business interruption, and for employees' compensation and medical insurance for its staff in Hong Kong. The Group also maintains insurance coverage against risk of loss or damage to its Jiaxing Factory in the PRC, from losses arising from fires and explosions, as well as certain foul weather conditions such as storms, tornados and flooding.

The Group is exposed to potential product liability claim in respect of injuries alleged to be caused by the Group's product that a consumer purchased. Nevertheless, the Group considers that the risk of potential product liability claim is relatively remote in view of the nature of the Group's products, and in general, the Group does not maintain product liability insurance for its products except in occasional cases when specifically requested by its customers. The Directors consider that the lack of product liability insurance is consistent with common industry practice. During the Track Record Period and up to the Latest Practicable Date, the Group was not aware of any actual or threatened product liability claim against the Group. For further details of the potential product liability to which the Group may be exposed, please refer to the paragraph headed "Product liabilities" under the sub-section headed "Products" above in this section. Please also refer to the paragraph headed "The Group is exposed to potential product liability claim, which could adversely affect its reputation, business, prospects, financial condition and results of operations" under the section headed "Risk factors" in this prospectus for the relevant risk factor.

HEALTH AND WORK SAFETY

The Group has established procedures to provide its workers with a safe and healthy working environment by providing work safety rules in the staff manual for the production staff to follow. In addition, the Group provides its employees with occupational safety education and training to enhance their awareness of safety issues.

In order to protect the rights of workers to receive medical cure and monetary compensation after suffering from work injuries or occupational diseases, the Group has procedures in place to handle work-related accidents and occupational diseases at its Jiaxing Factory. If a worker is injured as a result of work-related accidents or is diagnosed as suffering from occupational diseases, the Group will apply, on behalf of the injured or sick worker, for compensation from local social security authorities in accordance with the Group's procedures. The Group will assist the relevant social security authorities to verify the details of the accident and assess the condition of the worker. Compensation will be paid from occupational injury insurance fund managed by the social security authorities and the Group may also provide allowances to the injured or sick worker in accordance with the Group's policies. If the worker recovers from the injury or disease eventually, the Group will also arrange a suitable position within the Group for the worker after considering the worker's preference and actual condition.

During the Track Record Period and up to the Latest Practicable Date, there was no material breach of work safety rules by the Group's production staff, and the Group did not experience any significant incidents or accidents in relation to workers' safety or any non-compliance with the applicable laws and regulations relevant to the work safety and health issues.

ENVIRONMENTAL PROTECTION

The operation of Jiaxing Factory is subject to environmental-related requirements in the PRC. For instance, enterprises shall adopt effective measures to prevent and control any pollutions and harms caused to the environment pursuant to the applicable laws and regulations, including but not limited to the Environmental Protection Law of the PRC (中華人民共和國環境保護法). For further details in relation to the environmental protection requirements in relation to the Group's operation of the Jiaxing Factory, please refer to the paragraph headed "Environmental protection" under the subsection headed "PRC laws and regulations" under the section headed "Regulations".

The manufacturing processes of Jiaxing Factory do not involve the discharge of any industrial waste. As such, during the Track Record Period, the Group did not incur any cost associated with the compliance with applicable environmental laws and regulations. The Group does not anticipate that it will incur any such expenditure in the future.

The Group has obtained a written confirmation issued by 嘉興市秀洲區環境保護局 (Jiaxing Xiuzhou Environmental Protection Bureau) (the local environmental protection authority which is, in the opinion of the PRC Legal Advisers, competent to issue such confirmation) confirming that Runway Jiaxing was able to abide by the relevant PRC environmental protection laws and regulations and had not been penalised by the environmental protection authority during the Track Record Period.

EMPLOYEES

Number of employees by function and geographical location

As at 31 December 2011, 31 December 2012 and the Latest Practicable Date, the Group had a total of 358, 388 and 410 permanent full-time employees.

Set out below is the number of employees of the Group by function and geographical location as at 31 December 2011 and 2012 and as at the Latest Practicable Date:

	As at 31 December 2011				As at 31 December 2012				As at the Latest Practicable Date			
	HK	PRC	USA	Total	HK	PRC	USA	Total	HK	PRC	USA	Total
Accounting and finance	4	3	1	**8**	4	3	1	**8**	4	4	1	**9**
Administration	4	3	—	**7**	5	4	—	**9**	4	4	—	**8**
Product design and development	—	36	3	**39**	1	40	3	**44**	1	39	3	**43**
Production	—	221	—	**221**	—	238	—	**238**	—	261	—	**261**
Quality control	1	27	—	**28**	1	30	—	**31**	1	30	—	**31**
Sales and marketing	13	—	3	**16**	13	—	4	**17**	13	—	4	**17**
Procurement	19	13	—	**32**	17	14	—	**31**	17	15	—	**32**
Logistics	5	1	—	**6**	5	3	—	**8**	5	2	—	**7**
Information technology	1	—	—	**1**	2	—	—	**2**	2	—	—	**2**
Total	**47**	**304**	**7**	**358**	**48**	**332**	**8**	**388**	**47**	**355**	**8**	**410**

Relationship with staff

The Directors confirm that the Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff or skilled personnel during the Track Record Period. During the Track Record Period and up to the Latest Practicable Date, there were no labour union established by the Group's employees.

The Directors consider that the Group has maintained good relationship with its respective employees. The Directors confirm that the Group has complied with all applicable labour laws and regulations in the PRC (save for the non-compliances in relation to the social insurance contributions and the housing provident fund contributions as disclosed in paragraph headed "Non-compliances" below in this section) and has not employed any child labour.

Training and recruitment policies

The Group intends to use its best effort to attract and retain appropriate and suitable personnel to serve the Group. The Group assesses the available human resources on a continuous basis and will determine whether additional personnel are required to cope with the business development of the Group.

The Group provides various types of trainings to its employees. The Group provides trainings to new employees to explain the Group's internal rules and to enhance employees' safety awareness. In addition, the Group provides trainings to its existing employees on quality control standards, computer and information security, health and work safety, environmental protection, use and storage of chemicals, first-aid, and use of protective equipment. Through these trainings, the Group intends to cultivate a sense of work safety among its employees and to enhance the technical skills relevant to employees' responsibilities.

Remuneration policy

The Group entered into separate labour contracts with each of its employees in accordance with the applicable labour laws in Hong Kong, the PRC and the United States.

The remuneration package the Group offers to its employees includes salary, bonuses and other cash subsidies. In general, the Group determines employee salaries based on each employee's qualifications, position and seniority. The Group has designed an annual review system to assess the performance of its employees, which forms the basis of its decisions with respect to salary raises, bonuses and promotions.

PROPERTIES

Owned properties

The Group owns a piece of land located at No. 493 Dade Road, Xiuzhou District, Jiaxing, the PRC (中國嘉興市秀洲區大德路493號) with a gross area of approximately 13,068 sq. m. as well as the buildings located on such piece of land (i.e. the Jiaxing Factory). The Jiaxing Factory is used by the Group as its main manufacturing base. The Group also has a showroom within its Jiaxing Factory for marketing purpose.

Leased properties

As at the Latest Practicable Date, the following were the key properties leased by the Group from independent third parties for its operation:

Location	Lettable area	Key terms of the tenancy	Use of the property
Hong Kong			
Unit 1303A & the whole of 14th Floor Park Building 476 Castle Peak Road Kowloon, Hong Kong	(i) Unit 1303A: 1,505 sq.ft. (139.8 sq.m.) (ii) 14th Floor: 6,301 sq.ft. (585.4 sq.m.)	The lease is for a period from 1 September 2012 to 31 August 2014 at a monthly rent of HK$136,990 as at the Latest Practicable Date.	The property is leased by the Group for use as the Group's headquarters.
Unit C6, 2nd Floor Por Mee Factory Building 500 Castle Peak Road Kowloon, Hong Kong	565 sq.ft. (52.5 sq.m.)	The lease is for a period from 6 October 2012 to 31 August 2014 at a monthly rent of HK$5,300 as at the Latest Practicable Date.	The property is leased by the Group for general storage purpose.
The United States			
Western portion of 16th Floor 260 West 39th Street Manhattan New York, the United States	2,162 sq.ft. (200.9 sq.m.)	The lease is for a period from 1 August 2011 to 31 July 2016 at a monthly rent of USD9,250 as at the Latest Practicable Date, which shall be increased to USD9,750 towards the end of the tenancy agreement.	The property is leased by the Group for use as its showroom of product samples and venue for presentation of new product designs to customers.

Location	Lettable area	Key terms of the tenancy	Use of the property
Suite B-801–803 110 East 9th Street Los Angeles California, the United States	2,423 sq.ft. (225.1 sq.m.)	The lease is for a period from 1 July 2013 to 30 June 2018. The monthly rent payable was US$4,846 as at the Latest Practicable Date, which shall be eventually increased to US$5,141 towards the end of the tenancy agreement.	The property is leased by the Group for use as its showroom of product samples and venue for presentation of new product designs to customers.
Suite B-692 110 East 9th Street Los Angeles California, the United States	440 sq.ft. (40.9 sq.m.)	The lease is for a period from 1 July 2013 to 30 June 2015 at a monthly rent of USD440.	The property is leased by the Group for general storage purpose.

For further details of the Group's property interests, please refer to the property valuation report set out in Appendix III to this prospectus.

Building orders issued by the Building Authority

With respect to the premises situated at Unit C6, 2nd Floor, Por Mee Factory Building (the "Building"), 500 Castle Peak Road, Kowloon, Hong Kong (the "Storage"), the Group has become the tenant since 6 July 2010. The Group currently uses the Storage for storage of documents and product samples.

Prior to the Group becoming the tenant of the Storage, two building orders dated 31 August 2009 (the "Building Orders") had been issued by the Building Authority against the landlord of the Storage (the "Landlord") and the Incorporated Owners of the Building (the "Incorporated Owners") respectively in connection with the unauthorised building works at the Storage and the common staircases of the Building pursuant to section 24(1) of the Buildings Ordinance (Cap. 123 of the Laws of Hong Kong). A summary of the details of the Building Orders are set out as below:

Responsible person(s)	**Date of order**	**Unauthorised building works involved**	**Particulars of breach**
The Landlord	31 August 2009	(i) the roller shutter installed at the entrance of the Storage; (ii) removal of fire resisting door and subsequent replacement by a door of inadequate fire rating at the entrance of the Storage; and (iii) installation of a metal gate at the rear staircase	— (i), (ii) and (iii) had been carried out without obtaining the required approval and consent from the Buildings Department as required under section 14 of the Buildings Ordinance. — (i) and (iii) were in breach of Regulation 41(1) of the Building Planning Regulations (Cap. 123F of the Laws of Hong Kong) which requires the building to be provided with means of escape in case of emergency as required by the intended use of the building. — (ii) was in breach of Regulation 90 of the Building (Construction) Regulations (Cap. 123B of the Laws of Hong Kong) which requires the building to be designed and constructed so as to inhibit or provide adequate resistance to the spread of fire and smoke, and to maintain stability of the building in case of fire.
The Incorporated Owners	31 August 2009	(i) a roller shutter at the exit of staircase no. 1, 2, 3, 4 and 5; (ii) two openings formed in the staircase no. 1 enclosure wall; (iii) two openings formed in the staircase no. 5 enclosure wall; and (iv) removal of compartmentation wall between staircase no. 4	— (i), (ii), (iii) and (iv) had been carried out without obtaining the required approval and consent from the Buildings Department as required under section 14 of the Buildings Ordinance. — (i) was in breach of Regulation 41(1) of the Building Planning Regulations which requires the building to be provided with means of escape in case of emergency as required by the intended use of the building. — (ii), (iii) and (iv) were in breach of Regulation 90 of the Building (Construction) Regulations which requires the building to be designed and constructed so as to inhibit or provide adequate resistance to the spread of fire and smoke, and to maintain stability of the building in case of fire.

Pursuant to the Building Orders, the Landlord and the Incorporated Owners were required to demolish the unauthorised building works as stipulated in the respective Building Orders and reinstate the parts of the Building in accordance with the plans approved by the Building Authority within 60 days of the date of the Building Orders. As at the Latest Practicable Date, no letter of compliance had been issued by the Building Authority in respect of the Building Orders pursuant to the records of the Land Registry.

The Building Orders had been addressed to the Landlord and the Incorporated Owners prior to the Group becoming the tenant of the Storage, the Group was unaware of the existence of the Building Orders and the relevant unauthorised building works until copies of the Building Orders were retrieved by the Hong Kong Legal Advisers from the Land Registry and sent to the Group in July 2013. As advised by the Hong Kong Legal Advisers, the Landlord and the Incorporated Owners are responsible for carrying out the rectification works in accordance with the respective Building Orders, and the Group, as the tenant of the Storage, should not be subject to any liability under the Buildings Ordinance with respect to the Building Orders.

After the Group became aware of the existence of the Building Orders and the relevant unauthorised building works, the Group has requested the Landlord to rectify the unauthorised building work in compliance with the Building Orders. However, up to the Latest Practicable Date, the Directors were not aware of any rectification action being taken by the Landlord or the Incorporated Owners.

Nonetheless, if any rectification works are to be carried out by the Landlord and/or the Incorporated Owners and the Group's normal use of the Storage is interrupted or otherwise affected as a result, the Group's business and operations may be affected. The Group is now looking for a suitable location to relocate the Storage and it is the Group's intention to relocate the Storage upon expiry of the current lease on 31 August 2014. Having regard to the less significance of the Storage to the Group's overall operation and taking into account the Group's intention to relocate upon expiry of the current lease, the Group does not anticipate any financial impact or dispute as to whether the Group shall be compensated by the Landlord for the unauthorised building works or any dispute over the rental payments for the remaining lease period. Given that the Storage is used for storage of documents and product samples and the floor area is about 565 sq. ft. only, the Directors consider that the Group is capable of relocating its Storage to other suitable location without any material difficulties. The Group considers that the whole relocation process, including identifying a new storage, entering into the relevant tenancy agreement, carrying out renovation works, removal from the Storage, and moving into the new location, shall take less than three month. As the Group has already started looking for suitable location to relocate the Storage, the Group expects that it will be able to relocate the Storage immediately upon expiry of the current lease on 31 August 2014. The Directors expect that the costs in relation to such relocation will be immaterial having regard to the size of the Storage and the fact that the Storage is currently used for the storage of documents and product samples only.

PROPERTY INTERESTS AND PROPERTY VALUATION

Castores Magi (Hong Kong) Limited, an independent property valuer, has valued the Group's property interests as of 30 September 2013 and is of the opinion that the aggregate value of the Group's property interests as of such date was HK$78.6 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix III to this prospectus.

The statement below shows the reconciliation of the aggregate amounts of properties as reflected in the combined financial information as at 31 May 2013 as set out in Appendix I to this prospectus with the valuation of these properties as at 30 September 2013 as set out in Appendix III to this prospectus.

	HK$'000
Net book value of the following properties as at 31 May 2013	
— Buildings included in property, plant and equipment	13,167
— Payments for leasehold land held for own use under operating leases	2,208
	15,375
Less: Movements for the four months ended 30 September 2013	
— Depreciation and amortisation	(257)
Net book value of the properties as at 30 September 2013	15,118
Net valuation surplus	63,451
Valuation as at 30 September 2013	78,569

NON-COMPLIANCE

The Directors confirm that as at the Latest Practicable Date, save as disclosed below under this paragraph, the Group has complied with all applicable laws and regulations in the jurisdiction in which it operates and has obtained all the necessary permits, certificates and licences for its operations during the Track Record Period.

Summary of non-compliances

A summary of the Group's historical non-compliances during the Track Record Period is set out as below:

Name of the subsidiary	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Runway Jiaxing	Runway Jiaxing failed to make certain housing provident fund contributions into the designated bank accounts for the benefits of its employees.	The Group did not possess sufficient knowledge on and did not engage external adviser to provide professional advices on the relevant requirements under the relevant PRC laws and regulations before the preparation for the Listing. Also, some of the Group's employees at the time had no intention to participate in the scheme as they did not want to bear their part of the housing provident fund contribution.	Since June 2013, the Group has made the required contributions to the housing provident fund for employees of Runway Jiaxing. The Group has adopted the measures as set out in the paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" under this section to ensure the continuous compliance with the relevant PRC laws and regulations in relation to making contributions to the housing provident fund.	The PRC Legal Advisers have advised that under the relevant PRC laws and regulations, the relevant authorities may order the Group to settle the outstanding contributions within a prescribed period for failing to make contributions to the housing provident fund or apply to the local court for compulsory enforcement when such period expires, and impose a fine ranging from RMB10,000 to RMB50,000 for failing to comply with the requirement in relation to the registration of housing provident fund and accounts opening within a time limit.
Runway HK	Runway HK failed to notify the Companies Registry, in the prescribed form, of the change of particulars (including residential address and passport number) of Mr. Tien and Mr. Gozashti within 14 days of such changes.	The former company secretary of Runway HK was responsible for all the statutory filings of Runway HK with the Companies Registry. Although Runway HK had made the corresponding updates of Mr. Tien's and Mr. Gozashti's particulars in its annual returns filed with the Companies Registry in 2004 and 2010 respectively, Runway HK did not use the specified form to notify the Companies Registry within the prescribed time limit for each of the changes since the former company secretary of Runway HK misbelieved that Runway HK only had to update the directors' particulars in the next annual return and no separate notification was required.	Upon discovery of the non-compliance incidents in 2013, Runway HK submitted the prescribed forms to the Companies Registry on 13 May 2013 and 15 July 2013 respectively for the purpose of notifying the Companies Registry of the changes in directors' particulars pursuant to section 158(4) of the Companies Ordinance. The Group has adopted the measures as set out in the paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" under this section to ensure the due delivery of the requisite notifications to the Companies Registry pursuant to the Companies Ordinance.	According to the relevant provisions of the Companies Ordinance, Runway HK, Mr. Tien and Mr. Gozashti as directors of Runway HK and the former company secretary of Runway HK at the material times shall be liable to a maximum penalty of HK$10,000 for each default and, for each continued default, to a daily default fine of HK$300. Each of Runway HK, Mr. Tien, Mr. Gozashti and the former company secretary of Runway HK is therefore liable to a maximum penalty of HK$1,254,200 for all the above non-compliance incidents in relation to the Companies Ordinance in case of successful prosecution.

Housing provident fund

Under the relevant PRC laws and regulations, the Group is required to register with the relevant authorities and maintain relevant accounts with designated banks for making contributions to the housing provident fund for its employees. During the Track Record Period, Runway Jiaxing had failed to make certain housing provident fund contributions into the designated bank accounts for the benefits of its employees. This was due to the fact that (i) the Group did not possess sufficient knowledge on and did not engage external advisers to provide professional advices on the relevant requirements under the relevant PRC laws and regulation before the preparation for the Listing; and (ii) some of the Group's employees at the material time had no intention to participate in the scheme as they did not want to bear their part of the housing provident fund contribution. As advised by the PRC Legal Advisers, according to 住房公積金管理條例 (Regulations on Management of Housing Provident Fund), if a company fails to register its housing provident fund with the local housing provident fund management centre, the company may be ordered by the housing provident fund management centre to make the registration within a time limit. If the company still fails to comply with such order within the time limit, a fine ranging from RMB10,000 to RMB50,000 may be imposed. If a company fails to pay the housing provident fund contribution in accordance with the relevant regulations, the housing provident fund management centre is entitled to order it to make payment before a specified deadline, and if the company still fails to do so, the housing provident fund management centre may apply to the court for enforcement of the unpaid amount.

Since June 2013, the Group has made the required contributions to the housing provident fund for employees of Runway Jiaxing. Up to the Latest Practicable Date, the Group had not been penalised for the above non-compliance and had not received any order from the relevant authority to pay the outstanding amount of housing provident fund contribution.

The Group has obtained a written confirmation issued by 嘉興市住房公積金管理中心 (Jiaxing Housing Provident Fund Management Centre) (the local housing provident fund administration bureau which is, in the opinion of the PRC Legal Advisers, competent to issue such confirmation) confirming that Runway Jiaxing has now registered its employees under the relevant housing provident funds and has made the required housing provident fund contributions since registration in accordance with the relevant requirements.

The Group has made provision of HK$500,000, HK$500,000 and HK$250,000 for each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 respectively in its financial statements in respect of the above-mentioned non-compliance, which were calculated based on the amount of outstanding housing provident fund contributions in accordance with the relevant PRC laws and regulations.

Companies Ordinance

Pursuant to section 158(4) of the Companies Ordinance, where there is any change in the Runway HK's directors, reserve director (if any), secretary or joint secretaries (if any) or in any of their particulars contained in the register, Runway HK shall send to the Companies Registry a notification in the specified form of the change and of the date on which it occurred, and such other matters as may be specified in the form within 14 days from the change.

Both Mr. Tien and Mr. Gozashti have been directors of Runway HK since its incorporation. There were changes in the particulars of Mr. Tien and Mr. Gozashti in 2004 and 2010 respectively, including residential address and passport number. The former company secretary of Runway HK was responsible for all the statutory filings of Runway HK with the Companies Registry. Although Runway HK had made the corresponding updates of Mr. Tien's and Mr. Gozashti's particulars in its annual returns filed with the Companies Registry in 2004 and 2010 respectively, Runway HK did not use the specified form to notify Companies Registry within the prescribed time limit for each of the changes since the former company secretary of Runway HK misbelieved that Runway HK only had to update the directors' particulars in the next annual return and no separate notification was required.

Upon discovery of the above non-compliance incidents in 2013, Runway HK submitted the prescribed forms to the Companies Registry on 13 May 2013 and 15 July 2013 respectively for the purpose of notifying the Companies Registry of the changes in directors' particulars pursuant to section 158(4) of the Companies Ordinance. The prescribed forms for Mr. Tien and Mr. Gozashti were filed 930 days and 3,184 days respectively after the prescribed time limit. According to the relevant provisions of the Companies Ordinance, Runway HK, Mr. Tien and Mr. Gozashti as directors of Runway HK and the former company secretary of Runway HK at the material times shall be liable to a maximum penalty of HK$10,000 for each default and, for each continued default, to a daily default fine of HK$300. Each of Runway HK, Mr. Tien, Mr. Gozashti and the former company secretary of Runway HK is therefore liable to a maximum penalty of HK$1,254,200 for all the above non-compliance incidents in relation to the Companies Ordinance in case of successful prosecution. The Hong Kong Legal Advisers have advised that it is for the Companies Registry to take any potential action against the Group for such non-compliances. No action had been taken by the Companies Registry in relation to such non-compliances as at the Latest Practicable Date.

The Hong Kong Legal Advisers have advised that it is unlikely for the Group to be required to pay the maximum penalty of HK$1,254,200 upon conviction for the non-compliance with the Companies Ordinance since according to the statistics of the Companies Registry for the period from 1 January 2011 to 31 October 2013, the average fine for the non-compliance by listed companies in Hong Kong with similar requirements under the Companies Ordinance was in the range of HK$20,000 to HK$30,000 and the maximum fine was HK$150,000.

No provision had been made in the financial statements of the Group in respect of the above-mentioned non-compliance as the Directors have taken into consideration that (i) the actual amount of penalty cannot be estimated with reasonable accuracy; (ii) the Group has fully rectified the non-compliance; (iii) the Group has adopted the measures as set out in the paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" under this section to ensure the due delivery of the requisite notifications to the Companies Registry pursuant to the Companies Ordinance; and (iv) up to the Latest Practicable Date, the Group was not aware of any action that had been taken by the Companies Registry in relation to such non-compliance.

Indemnity given by the Controlling Shareholders

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group against all liabilities arising from the above non-compliance of Runway Jiaxing in relation to the failure to make the required housing provident fund contributions and the non-compliance of Runway HK in relation to the failure to make the required statutory filing in Hong Kong within the prescribed time limit. Please refer to the subsection headed "Tax and other indemnities" in the section headed "Other information" of Appendix V to this prospectus for further details.

Key measures taken to avoid the recurrence of the non-compliance incidents

In order to ensure ongoing compliance with the relevant laws and regulations, the Directors have adopted, among others, the following key measures:

— dedicating one administrative staff for carrying out the calculation, administration and actual payment of the housing provident fund;

— assigning Mr. Chan Ka Yu, the Group's chief financial officer and the company secretary of the Company, to review and approve the work of the said administrative staff. Please refer to the section headed "Directors and senior management" in this prospectus for further information on the profile and background of Mr. Chan Ka Yu;

— Mr. Chan Ka Yu, the company secretary of the Company, will be responsible for reviewing and updating the compliance policy and procedures on an annual basis for ensuring that the compliance policy and procedures are up to date in accordance with the regulatory requirements;

— induction training will be arranged for any newly appointed directors, company secretary or financial controller so as to discuss and study the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;

— the existing directors of the Company have attended directors' training provided by the Hong Kong Legal Advisers so as to discuss and study the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;

— the Board established the Corporate Governance Committee on 22 November 2013, comprising Mr. Tien, Mr. Tang Tsz Kai, Kevin (an independent non-executive Director), Mr. Lai Man Sing (an independent non-executive Director), Mr. Tang Shu Pui Simon (an independent non-executive Director) and Mr. Chan Ka Yu (the Group's chief financial officer and the company secretary of the Company and Runway HK), with Mr. Tang Tsz Kai, Kevin as the chairman of the corporate governance committee, to keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group. The primary functions of the corporate governance committee include, among others, reviewing and making recommendation to the Board in respect of the Group's policies and practices on corporate governance, reviewing and monitoring the Group's policies and practices on corporate governance, reviewing and monitoring the Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board, contained in any constitutional documents of the Group, or imposed by the GEM Listing Rules, other applicable laws, regulations, rules and codes, and ensuring that appropriate monitoring systems are in place to ensure compliance against the relevant internal control systems, processes and policies, and monitoring the implementation of the Group's plan to maintain high compliance with own risk management standards;

— the Group has appointed Messis Capital as its compliance adviser upon Listing to advise the Group on compliance matters in accordance with the GEM Listing Rules;

— Mr. Chan Ka Yu, the Group's chief financial officer and company secretary of the Company, was appointed as the company secretary of Runway HK in July 2013 to ensure the compliance by Runway HK with all the statutory filings under the Companies Ordinance;

— Mr. Chan Ka Yu, the Group's chief financial officer and company secretary of the Company, was appointed as the Group's internal compliance coordinator to (i) monitor the regulatory compliance regarding company secretarial and financial reporting matters including the statutory filing requirements under Companies Ordinance and the regulatory compliance with other laws and regulations in relation to the business of the Group; (ii) monitor the new developments in the rules, laws and regulations relevant to the business of the Group; (iii) keep the Directors, the compliance officer and the relevant staff of the Group abreast of the regulatory requirements including new developments regarding the Group's business and financial reporting; (iv) act as the principal channel of communication between members of the Group and the Company in relation to legal, regulatory and financial reporting compliance matters of the Group; (v) oversee the internal control procedures in general; and (vi) seek advice from the Group's external professional advisers when necessary to ensure the compliance with the relevant rules, laws and regulations and take the appropriate adaptive measures;

— upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, the internal compliance coordinator and/or the compliance officer of the Company will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from external professional advisers and report to the relevant members of the Group and/or the Board;

— all management and staff of the Group will be required to report to and/or notify the internal compliance coordinator, the Directors, the compliance officer or the legal advisers of the Group promptly of any non-compliance or potential non-compliance events; and

— meetings and seminars will be arranged for management and staff of the Group from time to time to discuss and study regulatory requirements and latest updates thereof applicable to the Group's business operations.

Review by ZHONGLEI Risk Advisory Services Limited

On 13 May 2013, the Group engaged ZHONGLEI Risk Advisory Services Limited, an independent internal control adviser (the "Internal Control Adviser"), to perform an internal control review of the Group and provide recommendations to the Group for improvements. The scope of the internal control review include corporate internal control, such as control environment, risk assessment and management, information and communication, monitoring, internal control over various business cycles and financial reporting cycle. In addition, the Group has further engaged the Internal Control Adviser to review and provide recommendations to the Group's preventive measures for preventing those non-compliance incidents as mentioned above.

The Internal Control Adviser is a firm rendering internal control review services, which has been previously engaged in internal control review projects for companies listed on the Stock Exchange, for example, Credit China Holdings Limited (stock code: 8207), Grand Concord International Holdings Limited (stock code: 844), Vision Fame International Holding Limited (stock code: 1315) and China Railway Logistics Limited (stock code: 8089). Besides, the Internal Control Adviser's engagement team includes members of the Hong Kong Institute of Certified Public Accountants.

In relation to the non-compliance incidents mentioned above, the Internal Control Adviser has reviewed and provided recommendations to the Group's internal control design for preventing the recurrence of the above-mentioned non-compliance incidents. The recommendations provided by the Internal Control Adviser have been incorporated into the Group's compliance policy and procedures and the key measures taken by the Group to avoid the recurrence of the non-compliance incidents, which are disclosed in the preceding paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents".

Based on the understanding obtained, the Internal Control Adviser concluded that the Group did not have significant deficiencies in its internal control design for preventing the above non-compliances as of the date of this prospectus.

View of the Directors and the Sponsor

The Directors consider that the abovementioned non-compliance incidents would not affect the suitability of the executive Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules or the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules and that the various internal control measures adopted by the Group are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules having taken into account the fact that (i) the Group has fully rectified the non-compliance in relation to Runway Jiaxing since June 2013 and the non-compliance in relation to Runway HK since July 2013; (ii) the Group has taken the abovementioned measures to avoid recurrence of the non-compliance incidents; (iii) no more non-compliance incidents have taken place since the measures are taken; (iv) the non-compliance incidents were unintentional, did not involve any fraudulent act on the part of the executive Directors, and did not raise any question as to the integrity of the executive Directors.

The Sponsor, after considering the above and having reviewed the internal control measures and the findings of the Internal Control Adviser, concurs with the view of the Directors that (a) the various internal control measures adopted by the Group are adequate and effective under Rule 6A.15(5) of the GEM Listing Rules; (b) the executive Directors have the standard of competence commensurate with the positions as directors of a listed issuer under Rules 5.01 and 5.02 of the GEM Listing Rules; and (c) the abovementioned non-compliance incidents would not affect the suitability of the Directors under Rules 5.01, 5.02 and 11.07 of the GEM Listing Rules and the suitability of listing of the Company under Rule 11.06 of the GEM Listing Rules.

LITIGATION

As at the Latest Practicable Date, there was one outstanding arbitration case in Hong Kong where Runway HK was the claimant while an independent third-party product supplier was the respondent (the "Respondent").

Particulars of the arbitration

The arbitration involved a contract dispute between Runway HK and the Respondent. The Directors confirm that the Respondent was not a long-term supplier of the Group with recurring transactions as the Group has only commenced business relationship with the Respondent since 2011 and there have been only 2 transactions between the Group and the Respondent since the commencement of business relationship including the one that led to the arbitration.

In January 2011, Runway HK outsourced the manufacturing process of certain ladies apparel to the Respondent and placed certain purchase orders (the "Purchase Orders") to purchase the finished apparel (the "Goods") from the Respondent. The total price for the Goods pursuant to the Purchase Orders was US$341,869.80 (the "Contract Price") and the Goods were to be shipped to a number of the Group's customers in the United States.

In August 2011, the Goods were in the process of being shipped. During shipment, it was noted that there were mistakes in the shipping documents which had been prepared by the Respondent. Runway HK considered that such mistakes would very likely lead to the seizure of the Goods by the United States customs for an indefinite period of time pending inspection and investigation. Runway HK therefore requested that the Goods be sent back to the PRC for re-shipping. The Respondent did not comply with Runway HK's request and did not deliver the Goods to the Group's customers or to the Group. Instead, the Respondent kept the Goods in its own possession.

Pursuant to the Purchase Orders, it was an express term that in case of non-delivery within the contracted time for shipment, the Respondent shall be responsible for any consequences arising therefrom. Further, it was an express term that in the event of interruption of transportation or other causes or circumstances beyond the control of Runway HK, Runway HK shall be entitled to cancel the Purchase Orders without payment to the Respondent.

While Runway HK did not pay the Contract Price of US$341,869.80 to the Respondent, Runway HK had, upon the Respondent's request, paid the Respondent a total of US$130,400.00 (the "Paid Amount") for expenses relating to the shipping of the Goods, which the Respondent agreed that such Paid Amount shall be used for offsetting part of the Contract Price.

In October 2011, upon the Respondent's offer, Runway HK agreed to purchase part of the Goods (the "Varied Goods") from the Respondent and paid a sum of US$153,055.92 (the "Varied Goods Price") for the Varied Goods. However, the Respondent only delivered a small portion of the Varied Goods to Runway HK and failed to deliver the rest of the Varied Goods that Runway HK had paid for. Further negotiations between Runway HK and the Respondent were not fruitful.

On 3 May 2012, Runway HK issued a notice of arbitration against the Respondent claiming for, *inter alia*, the undelivered portion of the Varied Goods (which Runway HK had paid for) and the Paid Amount.

On 2 November 2012, the Respondent filed its defense and counterclaim, pursuant to which the Respondent considered that, among other things, Runway HK should fulfill its obligation under the Purchase Orders, namely, to accept the remaining portion of the Goods in addition to the Varied Goods, and to make payment of the outstanding amount of the Contract Price (which the Respondent had calculated to be US$189,813.88).

On 25 April 2013, the tribunal of the arbitration proceedings set down the case for hearing and argument to be heard for 5 days in mid-September 2013.

The arbitration hearing took place over 2 days from 23 to 24 September 2013 but the Respondent was absent for both days. The Runway HK Legal Counsel made the closing submissions to the arbitration tribunal on 4 October 2013. As at the Latest Practicable Date, Runway HK is awaiting the arbitration tribunal to hand down its judgment.

Enforceability of the judgment of the tribunal

The Respondent is a company established in the PRC with its main operation located in the PRC. The PRC Legal Advisers consider that according to the 最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排 (Supreme People's Court's Arrangement Concerning the Mutual Enforcement of Arbitral Awards Between the Mainland and the Hong Kong Special Administration Region) issued on 24 January 2000, there is no material legal obstacles to the enforcement in the PRC of the judgment to be handed down by the tribunal of the arbitration proceedings in Hong Kong in relation to the aforementioned arbitration.

Possible outcomes and maximum potential liability

The Runway HK Legal Counsel has advised that the tribunal of the arbitration proceedings is more likely to find in favour of Runway HK's version of events mainly because of the many difficulties in the Respondent's case and he is of the view that subject to the quality of the evidence of Runway HK's witnesses, Runway HK has slightly better than even chance in succeeding its claim in the arbitration proceedings. Based on the advice of the Runway HK Legal Counsel, the Directors are of the view that Runway HK has slightly better than even chance of success in the arbitration proceedings.

According to the counterclaim filed by the Respondent, if Runway HK ultimately loses in the proceedings, it may have to pay to the Respondent the outstanding amount of the Contract Price (which the Respondent has calculated to be US$189,813.88, or approximately HK$1.48 million) plus other possible damages and costs.

No provision has been made in the Group's financial statements with respect to the aforesaid maximum potential liability of the Group. The Directors consider that no provision is required at this stage of the proceedings in accordance with the Group's relevant accounting policy.

Indemnity given by the Controlling Shareholders

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above arbitrage proceedings of Runway HK. Please refer to the subsection headed "Tax and other indemnities" in the section headed "Other information" of Appendix V to this prospectus for further details.

No other litigation

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

TAXATION

The Group is subject to Hong Kong profits tax, PRC enterprise income tax, PRC withholding income tax and United States federal corporate income tax during the Track Record Period.

Hong Kong profits tax

During the Track Record Period, Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits of Runway HK.

PRC enterprise income tax

The standard tax rate of PRC enterprise income tax is 25% on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose based on existing PRC income tax regulations, practice and interpretation thereof.

Runway Jiaxing is a foreign invested enterprise and is entitled to certain tax concessions. For the year ended 31 December 2011, Runway Jiaxing was subject to a preferential tax rate of 12.5% under the transitional preferential policies of the EIT Law. For the year ended 31 December 2012 and up to the Latest Practicable Date, Runway Jiaxing was subject to the standard tax rate of 25%.

PRC withholding income tax

In accordance with the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) promulgated on 21 August 2006 and effective on 8 December 2006, if a Hong Kong enterprise owns at least 25% equity interest in a PRC enterprise, the dividends paid by the PRC enterprise to the Hong Kong enterprise are subject to a withholding tax of up to 5% of the total amount of the dividends. The withholding income tax rate applicable to the Group is 5%.

United States federal corporate income tax

United States federal corporate income tax is calculated at 15% for each of the Track Record Period on the estimated assessable profits of Runway US.

LICENSES AND PERMITS

There is no specific licensing requirement for conducting the Group's business in Hong Kong, the PRC and the United States in addition to what is generally required for carrying on businesses in these places. Pursuant to the advice of the Hong Kong Legal Advisers, the PRC Legal Advisers and the US Legal Advisers, the Group has obtained all material licenses, permits and certificates which are necessary for its operations in Hong Kong, the PRC and the United States respectively.

DIRECTORS

The Board currently consists of five Directors comprising two executive Directors and three independent non-executive Directors. The following table sets out the information regarding the members of the Board:

Name	Age	Date of joining the Group	Date of appointment as Director	Position	Principal responsibilities
Mr. Hubert TIEN (田曉勃)	44	27 October 2001 (as one of the founders of the Group)	19 June 2013	Executive Director and chairman of the Board	Overseeing the in-house operations, manufacturing and sourcing activities and devising business expansion plans of the Group
Mr. Farzad GOZASHTI	48	27 October 2001 (as one of the founders of the Group)	19 June 2013	Executive Director and chief marketing officer	Overseeing the design, sales and marketing activities and devising business expansion plans of the Group
Mr. TANG Shu Pui, Simon (鄧澍焙)	48	22 November 2013	22 November 2013	Independent non-executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company
Mr. TANG Tsz Kai, Kevin (鄧子楷)	44	22 November 2013	22 November 2013	Independent non-executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company
Mr. LAI Man Sing (黎文星)	45	22 November 2013	22 November 2013	Independent non-executive Director	Providing independent judgment on the issues of strategy, performance, resources and standard of conduct of the Company

Executive Directors

Mr. Hubert TIEN (田曉勃), aged 44, was appointed as an executive Director on 19 June 2013. Mr. Tien is one of the founders of the Group and the chairman of the Board. He is responsible for overseeing the in-house operations, manufacturing and sourcing activities and devising business expansion plans of the Group. Mr. Tien has about 20 years of experience in garment trading, manufacturing and marketing in the United States, Australia and Canada markets. Mr. Tien was a director of Bright Cheer Company Limited ("Bright Cheer"), a textile company, from 1992 to 2004 prior to its dissolution. He ceased to participate in the operation of Bright Cheer in December 2000 and founded the Group with Mr. Gozashti in 2001. Bright Cheer ceased to carry on business afterwards and was dissolved by striking off in 2004 under section 291 of the Companies Ordinance. Mr. Tien is a brother of Ms. Winnie Tien, a member of the senior management of the Group. Mr. Tien has not held any directorship in any public listed company in the past three years.

Mr. Farzad GOZASHTI, aged 48, was appointed as an executive Director on 19 June 2013. Mr. Gozashti is one of the founders of the Group and the chief marketing officer of the Group and the chief executive officer of Runway US. Mr. Gozashti is responsible for overseeing the design, sales and marketing activities and devising business expansion plans of the Group. Mr. Gozashti graduated with a bachelor degree of science in business administration (marketing) from San Francisco State University in California of USA in May 1989. Mr. Gozashti has about 20 years of experience in design and product development. Before he founded the Group with Mr. Tien in 2001, he had also created and launched the apparel line "BLANC NOIR" through FG Industries, Inc., which was a private company engaged in the apparel business in the United States then wholly owned by Mr. Gozashti and was subsequently dissolved in 2006 after transferring the "BLANC NOIR" trademark to Runway HK at a nominal consideration. Mr. Gozashti has not held any directorship in any public listed company in the past three years.

Independent non-executive Directors

Mr. TANG Tsz Kai, Kevin (鄧子楷), aged 44, was appointed as an independent non-executive Director on 22 November 2013. Mr. Tang obtained a degree of Bachelor of Science from University of Toronto in November 1998, a Bachelor of Laws from City University of Hong Kong in November 2004 and a Postgraduate Certificate in Laws from City University of Hong Kong in September 2005. He has been a barrister-at-law in private practising in Hong Kong since 2006, specialising in criminal practice. He was also a part-time research assistant in City University of Hong Kong in 2002.

Mr. Tang does not hold any directorship in other listed companies in the past three years and does not hold any other position with the Company or any of its subsidiaries.

Mr. TANG Shu Pui Simon (鄧澍焙), aged 48, was appointed as an independent non-executive Director on 22 November 2013. Mr. Tang is a practising solicitor and an accredited mediator with the Hong Kong International Arbitration Centre. Mr. Tang is currently a partner of P. C. Woo & Co., Solicitors. Mr. Tang is a member of the Appeal Tribunal of the Hong Kong Federation of Insurers, legal advisor to the General Agents and Managers Association of Hong Kong, founding member and council member of the Hong Kong Institute Patent Attorneys, member of the Basic Law Promotion Steering Committee and member of the Standing Committee on Standards and Development of the Law Society of Hong Kong. Mr. Tang has been a visiting lecturer in Intellectual Property Law in The Hong Kong Polytechnic University and a part time lecturer in Hong Kong University School of Professional and Continuing Education.

At P. C. Woo & Co., Solicitors, Mr. Tang has served clients that operate in, among others, the apparel industry.

Mr. Tang was appointed as a non-executive director of Bestway International Holdings Limited (stock code: 718), the shares of which are listed on the Main Board of the Stock Exchange, with effect from 10 January 2013.

Save as disclosed above, Mr. Tang does not hold any directorship in other listed companies in the past three years and does not hold any other position with the Company or any of its subsidiaries.

Mr. LAI Man Sing (黎文星), aged 45, was appointed as an independent non-executive Director on 22 November 2013.

He obtained his first degree from The London School of Economics and Political Science, University of London, the United Kingdom in August 1990 and earned a Master degree (long distance) in Business Administration from University of Western Sydney, Australia in August 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, also a fellow member of The Australian Society of Certified Practising Accountants.

Mr. Lai worked in the accounting field for over 20 years and he took senior financial position for listed companies. From September 2007 to March 2008, he was the financial controller of Jetup Electronic (Shenzhen) Co., Ltd., a subsidiary of J.I.C. Technology Company Limited (now known as China Renewable Energy Investment Limited) (stock code: 987, the shares of which are listed on the Main Board of the Stock Exchange). He was responsible for producing accounting reports, managing accounting operations and preparing budgets and cashflow projections. Since March 2008, Mr. Lai has served as the financial controller of Mainland Headwear Holdings Limited (stock code: 1100), the shares of which are listed on the Main Board of the Stock Exchange. He was promoted to the position of chief financial officer in February 2010 and has been in charge of the finance department up to the present. In addition, Mr. Lai was an independent director of USmart Mobile Device Inc. (previously known as ACL Semiconductors Inc.), a company listed on the Over the Counter (OTC) markets in the United States with stock code UMDI, from December 2010 to August 2013, during which he also acted as the chairman of its audit committee.

Save as disclosed above, Mr. Lai does not hold any directorship in other listed companies in the past three years and does not hold any other position with the Company or any of its subsidiaries.

The Directors consider that including two independent non-executive Directors with legal background in the Board can strengthen the Group's ability with respect to the Group's ongoing compliance with the relevant laws and regulations after Listing, and that Mr. Tang Shu Pui Simon's prior experience in serving clients which operated in the apparel industry will be beneficial to the Company.

SENIOR MANAGEMENT

The following table sets out the information regarding the senior management team of the Group:

Name	Age	Date of joining the Group	Position	Principal responsibilities
Ms. Winnie TIEN (田慧儀) *(Note)*	43	October 2001	Chief administration officer and head of quality control	Overseeing the Group's administrative matters and quality control
Mr. CHAN Ka Yu (陳家宇)	34	June 2013	Chief financial officer and company secretary	Overseeing the Group's financial reporting and company secretarial matters
Mr. David BLITZ	44	August 2006	Head of sales and marketing for the United States	Overseeing the Group's sales and marketing activities in the US market
Ms. LI Yinzhen (李引珍)	45	April 2006	Head of Jiaxing Factory	Overall management of the manufacturing operation of Jiaxing Factory
Ms. MA Wing Sze (馬詠詩)	43	October 2001	Assistant merchandising manager	Merchandising
Ms. Sue McBRIDE	36	July 2008	Senior designer	Design and development of different types of apparel products

Note: Ms. Winnie TIEN is a sister of Mr. Tien, the chairman of the Board and an executive Director.

Ms. Winnie TIEN (田慧儀), aged 43, is the chief administration officer and head of quality control of the Group principally responsible for overseeing the Group's administrative matters and quality control. Ms. Tien joined the Group on 8 October 2001. Ms. Tien completed a professional diploma course in human resource management (PRC) organised by the Hong Kong Productivity Council in March 2009. Ms. Tien has been participating in the management of the Group's overall operation for over 10 years. She has been primarily responsible for the Group's supervision, quality control, administration and management. Ms. Tien is a sister of Mr. Tien, an executive Director. Ms. Tien has not held any directorship in any public listed company in the past three years.

Mr. CHAN Ka Yu (陳家宇), aged 34, is the chief financial officer of the Group and company secretary of the Company and Runway HK. Mr. Chan joined the Group in late June 2013. He is responsible for overseeing the Group's financial reporting and company secretarial matters of the Group. Mr. Chan graduated with a bachelor of commerce in accounting from the Hong Kong Shue Yan University in October 2009. He is a member of the Hong Kong Institute of Certified Public Accountants.

From September 2010 to April 2012, Mr. Chan was employed as a senior accountant of JBPB & Company ("JBPB") and his last position was senior associate at BDO Limited ("BDO") (due to merger of business between JBPB and BDO). From May 2012 to April 2013, he worked as an investor relations officer for Fantasia Group (China) Company Limited, a subsidiary of Fantasia Holdings Group Co., Limited (stock code: 1777), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chan has not held any directorship in any public listed company in the past three years.

Mr. David BLITZ, aged 44, is the Group's head of sales and marketing for the United States. Mr. Blitz joined the Group in April 2006. He is primarily responsible for overseeing the Group's sales and marketing activities in the US market and in particular, establishing and maintaining customer relationship. Mr. David Blitz has accumulated about 20 years of experience in the fashion industry. Prior to joining the Group, Mr. David Blitz worked in G-III Apparel Group from June 1992 to January 1997. He worked in Amerex Group LLC, an international apparel company, from January 1997 to July 2006. Mr. David Blitz graduated from the University of South Florida with a Bachelor Degree of Science (Business Administration). Mr. Blitz has not held any directorship in any public listed company in the past three years.

Ms. LI Yinzhen (李引珍), aged 45, is the head of Jiaxing Factory principally responsible for the overall management of the manufacturing operation of the Jiaxing Factory. Ms. Li has more than 12 years of experience in apparel manufacturing in the PRC. Before Ms. Li joined the Group in April 2006, she worked at Sky Voice International Company Limited, an apparel manufacturer, from 2000 to 2005. Ms. Li has not held any directorship in any public listed company in the past three years.

Ms. MA Wing Sze (馬詠詩), aged 43, is the Group's assistant merchandising manager principally responsible for merchandising. Ms. Ma joined the Group on 22 October 2001. Ms. Ma has over 20 years of experience in merchandising and marketing in the apparel industry. Prior to joining of the Group, Ms. Ma worked as a merchandiser from 1991 to 2001 for companies including Atex Garments Limited and Rena Gabriel HK Limited. Ms. Ma has not held any directorship in any public listed company in the past three years.

Ms. Sue McBRIDE, aged 37, is the Group's senior designer. Ms. McBride joined the Group in July 2008. She is primarily responsible for the design and development of different types of apparel products of the Group. Ms. McBride has about 11 years of experience in design of garment. Prior to joining the Group, Ms. McBride was employed by Guess? Manufacturing Inc. from August 2002 to May 2008 and she held the full-time position of senior designer. Ms. McBride has not held any directorship in any public listed company in the past three years.

COMPANY SECRETARY

Mr. CHAN Ka Yu (陳家宇) is the company secretary of the Company. Details of the qualifications and experience of Mr. Chan are set out in the paragraph headed "Senior management" in this section.

REMUNERATION POLICY

The executive Directors, the independent non-executive 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 the Group. The Group also reimburses the Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to the Group or executing their functions in relation to the operations of the Group. The Group regularly reviews and determines the remuneration and compensation packages of the Directors and senior management by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of the Directors and the performance of the Group.

After Listing, the remuneration committee of the Company will review and determine the remuneration and compensation packages of the Directors with reference to their experience, responsibilities, workload, the time devoted to the Group and the performance of the Group. The Directors may also receive options to be granted under the Share Option Scheme.

BOARD COMMITTEES

Audit Committee

The Company established the Audit Committee on 22 November 2013 with its written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal control system, nominate and monitor external auditors and to provide advice and comments to the Board on matters related to corporate governance.

The Audit Committee consists of three members, being Mr. Lai Man Sing, Mr. Tang Shu Pui, Simon and Mr. Tang Tsz Kai, Kevin. Mr. Lai Man Sing currently serves as the chairman of the Audit Committee.

Remuneration Committee

The Company established the Remuneration Committee on 22 November 2013 with its written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Remuneration Committee are to make recommendations on the remuneration of the Group's senior management and to recommend members of the Board.

The Remuneration Committee consists of four members, being Mr. Tang Shu Pui, Simon, Mr. Tang Tsz Kai, Kevin, Mr. Lai Man Sing and Mr. Tien. Mr. Tang Shu Pui, Simon currently serves as the chairman of the Remuneration Committee.

Nomination Committee

The Company established the Nomination Committee on 22 November 2013 with its written terms of reference by reference to the code provisions of the Corporate Governance Code and Corporate Governance Report set out in Appendix 15 to the GEM Listing Rules. The primary duties of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board and/or in senior management.

The Nomination Committee consists of four members, being Mr. Tang Shu Pui, Simon, Mr. Lai Man Sing, Mr. Tang Tsz Kai, Kevin and Mr. Tien. Mr. Lai Man Sing currently serves as the chairman of the Nomination Committee.

Corporate Governance Committee

The Company established the Corporate Governance Committee on 22 November 2013 with its written terms of reference. The primary duties of the Corporate Governance Committee are to keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group. For details, please refer to the sub-paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents" in the paragraph headed "Non-compliance" under the section headed "Business" in this prospectus.

The Corporate Governance Committee consists of five members, being Mr. Tien, Mr. Tang Tsz Kai, Kevin, Mr. Lai Man Sing, Mr. Tang Shu Pui, Simon and Mr. Chan Ka Yu. Mr. Tang Tsz Kai, Kevin currently serves as the chairman of the Corporate Governance Committee.

COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed the Sponsor as its compliance adviser. Pursuant to Rule 6A.23 of the GEM Listing Rules, the Company will consult with and seek advice from the compliance adviser on a timely basis in the following circumstances:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where the Company proposes to use the proceeds of the Placing in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in this prospectus; and

(4) where the Stock Exchange makes an inquiry of the listed issuer under Rule 17.11 of the GEM Listing Rules.

The term of appointment of the compliance adviser of the Company shall commence on the Listing Date and end on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the financial results for the second full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

CONTROLLING SHAREHOLDERS

Immediately after completion of the Placing and the Capitalisation Issue (without taking into account Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option or options which may be granted under the Share Option Scheme), each of Mr. Tien, Mr. Gozashti, All Divine and Fortune Zone is entitled to exercise or control the exercise of 30% or more of voting rights at general meetings of the Company. As such, each of Mr. Tien, Mr. Gozashti, All Divine and Fortune Zone is regarded as a Controlling Shareholder.

Apart from the Group, the Controlling Shareholders did not have any interests in any other businesses that compete or are likely to compete, either directly or indirectly, with the business of the Group during the Track Record Period and as at the Latest Practicable Date.

Details of the shareholdings of the Controlling Shareholders are set forth in the section headed "Substantial Shareholders" and the section headed "Disclosure of Interests" in Appendix V to this prospectus.

INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Having considered the following factors, the Directors believe that the Group is capable of carrying on the Group's business independently from the Controlling Shareholders and their associates after the Placing:

Management and administrative independence

The Board consists of five Directors, of whom two are executive Directors and the remaining three are independent non-executive Directors. Each of the Directors is aware of his/her fiduciary duties as a Director of the Company which requires, among other things, that he/she acts for the benefit and in the best interests of the Company and does not allow any conflict between his/her duties as a director and his/her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and the Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant meetings of the Board in respect of such transactions and shall not be counted in the quorum. In addition, the Company has a senior management team to make the business decisions independently. The three independent non-executive Directors will also bring independent judgment to the decision-making process of the Board.

Most members of the senior management of the Group have, for all or substantially all of the Track Record Period, undertaken senior management supervisory responsibilities in the business of the Group. The responsibilities of the senior management team of the Group include dealing with operational financial research and inventory management matters, making general capital expenditure decisions and the daily implementation of the business strategy of the Group. This ensures the independence of the daily management and operations of the Group. Further details are set out in the section headed "Directors and senior management" in this prospectus.

Clear delineation of businesses

All Divine and Fortune Zone, all being Controlling Shareholders, were incorporated under the laws of BVI and are investment holding companies. As such, the Directors are of the view that the nature of the business activities carried on by the Group on the one hand, and those carried on by All Divine and Fortune Zone respectively on the other hand, are clearly distinct and that there is a clear delineation between the business of the Group and the business of All Divine and Fortune Zone respectively.

Financial independence

The Company has an independent financial system and makes financial decisions according to the Group's own business needs. The Directors confirm that any guarantee, loan or pledge provided by the Controlling Shareholders in favour of the Group will be released or settled, as the case may be, upon the Listing. As at 31 May 2013, there were approximately HK$4.6 million due from the directors and approximately HK$0.8 million due to the directors. The amount due from/to the directors will be settled before the Listing. Save as aforesaid, as at the Latest Practicable Date, there was no guarantee, loan or pledge provided to the Controlling Shareholders. The Directors believe that the Company is capable of obtaining financing from independent third parties, if necessary, without reliance on the Controlling Shareholders after the Listing. Therefore, the Group will be financially independent from the Controlling Shareholders after the Listing.

Operational independence

The Group has established its own organisational structure made up of individual departments, each with specific areas of responsibilities. The Group has not shared any operational resources, such as office premises, sales and marketing and general administration resources with the Controlling Shareholders and its associates during the Track Record Period. The Group has also established a set of internal controls to facilitate the effective operation of its business. The Group's suppliers are all independent from the Controlling Shareholders. The Group does not rely on the Controlling Shareholders or their associates and have its independent access to the customers for the sale of products and suppliers for the provision of goods and materials.

The Directors consider that the Group's operations do not depend on the Controlling Shareholders because (i) there is no competing business between the Group and any of the Controlling Shareholders and (ii) the Group will not be relying on any guarantee provided by any of the Controlling Shareholders in respect of bank borrowings nor have the Group been given any guarantee for the benefit of any of the Controlling Shareholders upon Listing.

On the basis of the matters disclosed in this section, the Directors believe that the Group is capable of carrying on its business independently of the Controlling Shareholders and their respective associates.

DEED OF NON-COMPETITION

Subject to the terms therein, the Controlling Shareholders have entered into a deed of non-competition on 26 November 2013 in favour of the Group (the "Deed of Non-Competition") pursuant to which, each of the Controlling Shareholders has irrevocably and unconditionally undertaken to and covenanted with the Company (for itself and for the benefit of each member of the Group) that during the continuation of the Deed of Non-Competition, each of the Controlling Shareholders shall not, and shall procure each of his/its associates and/or companies controlled by he/it will not, whether on his/its own account of in conjunction with or on behalf of any person, firm or company and whether directly or indirectly and whether for profit or otherwise, carry on a business which is, or to be interested or involved or engaged in or acquire or hold any rights or interest or otherwise involved in (in each case whether as a shareholder, partner, principal, agent or otherwise and whether for profit, reward or otherwise) any business which competes or is likely to compete directly or indirectly with the business currently and from time to time engaged by the Group (including but not limited to design, manufacture and trading of apparels and businesses ancillary to any of the foregoing, in each case, as more particularly described in this prospectus in Hong Kong, the United States, the PRC and any other country or jurisdiction to which the Group markets, sells, distributes, supplies or otherwise provides such products and/or in which any member of the Group carries on business mentioned above from time to time (the "Restricted Business").

Pursuant to the Deed of Non-Competition, each of the Controlling Shareholders has also undertaken that if each of the Controlling Shareholders and/or any of his/its associates is offered or becomes aware of any project or new business opportunity (the "New Business Opportunity") that relates to the Restricted Business, whether directly or indirectly, he/it shall (i) promptly in any event not later than seven days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use his/its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to him/it and/or his/its associates.

The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity. If the Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days (the "30-day Offering Period") of receipt of notice from the relevant Controlling Shareholder, the relevant Controlling Shareholder and/or his/its associates shall be permitted to invest in or participate in the New Business Opportunity on his/its own accord. With respect to the 30-day Offering Period, the Directors consider that such period is adequate for the Company to assess any New Business Opportunity. In order to ensure that the Group has adequate time to assess some complicated business opportunities, the Controlling Shareholders have agreed to extend the offering period from 30 business days to a maximum of 60 business days should the Group require so by giving written notice within the 30-day Offering Period to the Controlling Shareholders.

In addition, upon Listing, each of the Controlling Shareholders has also undertaken:

(i) in favour of the Company to provide the Company and the Directors (including the independent non-executive Directors) from time to time with all information necessary, including but not limited to monthly turnover records (such as purchase orders placed by customers, corresponding invoices and any other relevant documents considered necessary by the independent non-executive Directors), for the annual review by the independent non-executive Directors with regard to compliance of the terms of the Deed of Non-Competition and the enforcement of the non-competition undertakings in the Deed of Non-Competition;

(ii) to provide to the Company, after the end of each financial year of the Company, a declaration made by each of the Controlling Shareholders which shall state whether or not the Controlling Shareholders have during that financial year complied with the terms of the Deed of Non-Competition, and if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in the annual report of the Company for the relevant financial year, such annual declaration shall be consistent with the principles of making voluntary disclosures in the corporate governance report; and

(iii) to the Company to allow the Directors (including the independent non-executive Directors), their respective representatives and the auditors to have sufficient access (with reasonable prior notice) to the records of the Controlling Shareholders and his/its associates to ensure their compliance with the terms and conditions under the Deed of Non-Competition.

Further, each of the Controlling Shareholders has undertaken that during the period in which he/it and/or his/its associates, individually or taken as a whole, remains as a Controlling Shareholder:

(i) he/it will not invest or participate in any project or business opportunity that competes or may compete, directly or indirectly, with the business activities engaged by the Group from time to time unless pursuant to the provisions stipulated in the Deed of Non-Competition;

(ii) he/it will not solicit any existing or then existing employee of the Group for employment by him/it or his/its associates (excluding the Group);

(iii) he/it will not without the consent from the Company, make use of any information pertaining to the business of the Group which may have come to his/its knowledge in his/its capacity as the Controlling Shareholder for any purposes; and

(iv) he/it will procure his/its associates (excluding the Group) not to invest or participate in any project or business opportunity mentioned above unless pursuant to the provisions stipulated in the Deed of Non-Competition.

The Deed of Non-Competition will take effect upon Listing and shall expire on the earlier of:

(i) the day on which the Shares cease to be listed on the GEM or other recognized stock exchange; or

(ii) the day on which the Controlling Shareholders and his/its associates, individually or taken as a whole, cease to own, in aggregate, 30% or more of the then issued share capital of the Company directly or indirectly or cease to be deemed as Controlling Shareholder and do not have power to control the Board or there is at least one other independent Shareholder other than the Controlling Shareholders and his/its respective associates holding more Shares than the Controlling Shareholders and his/its respective associates taken together.

Each of the Controlling Shareholders also represented and warranted to the Company in the Deed of Non-Competition that neither of it/he nor any of its/his associates is currently interested, involved or engaging, directly or indirectly (whether as a shareholder, partner, principal, agent or otherwise, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit, reward or otherwise), in the Restricted Business otherwise than through the Group.

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

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

CORPORATE GOVERNANCE MEASURES

The Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of the Shareholders:

(1) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her associates is materially interested unless a majority of the independent non-executive Directors expressly requested him/her to attend;

(2) the independent non-executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by the Controlling Shareholders;

(3) the Controlling Shareholders undertake to provide all information requested by the Company which is necessary for the annual review by the independent non-executive Directors and the enforcement of the non-competition undertaking;

(4) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the non-competition undertaking of the Controlling Shareholders in the annual reports of the Company;

(5) the Controlling Shareholders will make an annual declaration on compliance with their non-competition undertaking in the annual report of the Company;

(6) the independent non-executive Directors will be responsible for deciding whether or not to allow any Controlling Shareholder and/or his/its associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and

(7) the independent non-executive Directors may appoint independent financial adviser 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 the Company.

Further, any transaction that is proposed between the Group and the Controlling Shareholders and their respective associates will be required to comply with the requirements of the GEM Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of the Group has experienced any dispute with its shareholders or among its shareholders themselves and the Directors believe that each member of the Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out in this paragraph headed "Corporate governance measures", the Directors believe that the interest of the Shareholders will be protected.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware the Directors confirm that, immediately following the completion of the Placing and the Capitalisation Issue but without taking into account any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option and the options that may be granted under the Share Option Scheme, there are no other person or entity (other than the following Controlling Shareholders) who will have interests and/or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the 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 nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Capacity and nature of interests	Number of Shares held	Percentage of shareholding interests
Mr. Tien	Interest in controlled corporation *(Note 1)*	225,000,000 Shares	37.50%
Mr. Gozashti	Interest in controlled corporation *(Note 2)*	225,000,000 Shares	37.50%
All Divine	Beneficial owner *(Note 1)*	225,000,000 Shares	37.50%
Fortune Zone	Beneficial owner *(Note 2)*	225,000,000 Shares	37.50%
Ms. Sallie Gozashti	Interest of spouse *(Note 3)*	225,000,000 Shares	37.50%

Notes:

1. These Shares are held by All Divine, which is wholly and beneficially owned by Mr. Tien. By virtue of the SFO, Mr. Tien is deemed to be interested in the 225,000,000 Shares under the SFO.

2. These Shares are held by Fortune Zone, which is wholly and beneficially owned by Mr. Gozashti. By virtue of the SFO, Mr. Gozashti is deemed to be interested in the 225,000,000 Shares under the SFO.

3. As Fortune Zone is wholly and beneficially owned by Mr. Gozashti, Ms. Sallie Gozashti, being Mr. Gozashti's spouse, is deemed to be interested in the Shares held by Fortune Zone under the SFO.

Other than their business relationship, Mr. Tien and Mr. Gozashti have no other relationship with each other.

Save as disclosed in this prospectus, the Directors are not aware of any person who will, immediately following the completion of the Placing and the Capitalisation Issue, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE CAPITAL

Assuming the Offer Size Adjustment Option is not exercised, the share capital of the Company immediately following the Capitalisation Issue and the Placing will be as follows:

		HK$
Authorised:		
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued or to be issued, fully paid or credited as fully paid:		
2,000,000	Shares in issue as at the Latest Practicable Date	20,000
448,000,000	Shares to be issued pursuant to the Capitalisation Issue	4,480,000
150,000,000	Shares to be issued pursuant to the Placing	1,500,000
600,000,000	Shares	6,000,000

Assuming the Offer Size Adjustment Option is exercised in full, the share capital of the Company immediately following the Capitalisation Issue and the Placing will be as follows:

		HK$
Authorised:		
10,000,000,000	Shares of HK$0.01 each	100,000,000
Issued or to be issued, fully paid or credited as fully paid:		
2,000,000	Shares in issue as at the Latest Practicable Date	20,000
448,000,000	Shares to be issued pursuant to the Capitalisation Issue	4,480,000
172,500,000	Shares to be issued pursuant to the Placing and the Offer Size Adjustment Option	1,725,000
622,500,000	Shares	6,225,000

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(7) of the GEM Listing Rules, at the time of Listing and at all times thereafter, the Company must maintain the minimum prescribed percentage of 25% of the issued share capital of the Company in the hands of the public (as defined in the GEM Listing Rules).

RANKING

The Placing Shares and the Shares which may be issued under the Offer Size Adjustment Option will rank equally with all Shares now in issue or to be allotted and issued and will qualify for all dividends or other distributions declared, made or paid after the date of this prospectus save for the entitlements under the Capitalisation Issue.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the section headed "Share Option Scheme" in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot and issue and deal with the unissued Shares with an aggregate nominal value of not more than:

(a) 20% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme); and

(b) the aggregate nominal value of the share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares as described below.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements providing for the allotment of Shares in lieu of the whole or in part of any cash dividends or options to be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted or upon the exercise of the Offer Size Adjustment Option.

For further details of this general mandate, see the paragraph headed "Written resolutions of the Shareholders" in the section headed "Further information about the Company" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the Company's share capital in issue immediately following completion of the Placing and the Capitalisation Issue (excluding any Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in the section headed "Further information about the Company" in Appendix V to this prospectus.

The general mandate to issue and repurchase Shares will expire:

(a) at the conclusion of the next annual general meeting of the Company;

(b) at the expiration of the period within which the next annual general meeting of the Company is required by any applicable law of the Cayman Islands or the Articles to be held; or

(c) when varied, revoked or renewed by an ordinary resolution of the Shareholders in general meeting,

whichever is the earliest.

For further details of these general mandates, please refer to the paragraphs headed "Written resolutions of the Shareholders" and "Repurchase by the Company of its own securities" respectively in the section headed "Further information about the Company" in Appendix V to this prospectus.

The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Group's combined financial information as of and for each of the two years ended 31 December 2012 and the five months ended 31 May 2013, including the notes thereto, included in Appendix I to this prospectus. The Group's combined financial information has been prepared in accordance with the basis of preparation and accounting policies set out in notes 2.2 and 5 of section II to Appendix I. The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

The Group, founded in Hong Kong in 2001, principally designs, manufactures and sells apparel products with a focus on women's fashion outerwear such as coats and jackets, dresses, activewear, pants and jeans.

The Group is headquartered in Hong Kong and operates its owned Jiaxing Factory in the PRC. The Group also operates four showrooms in New York, Los Angeles, Hong Kong and in its Jiaxing Factory respectively.

The Group's turnover is principally derived from the sales of apparel products. The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels, including "BLANC NOIR", "SUGARFLY" and "RUNWAY NEW YORK".

BASIS OF PRESENTATION

Prior to the Placing, the Group underwent the Reorganisation pursuant to which the Company became the holding company of the Group. Please see the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus for details.

Accordingly, the financial information set out in the Accountants' Report in Appendix I to this prospectus has been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2011 and 2012 and 31 May 2013 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies comprising the Group are combined using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group's results of operations and financial condition during the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed "Risk factors" in this prospectus and as set out below:

Reliance on major customers

The Group's top five customers accounted for approximately 83.2%, 84.7% and 94.7% of its total revenue for each of the two years ended 31 December 2012 and the five months ended 31 May 2013. Further, the Group's top five customers represented approximately 71.0%, 84.3% and 92.3% of its gross trade receivable balances as at 31 December 2011 and 2012 and 31 May 2013, respectively. The Group's top five customers are not obligated in any way to continue placing orders with the Group at the same historical level or at all. If any of these top customers were to substantially reduce the volume and/or the value of the orders it places with the Group or were to terminate its business relationship with the Group entirely, there can be no assurance that the Group would be able to obtain orders from new customers or other existing customers to replace any such loss of sales or that, even if the Group would be able to obtain other orders, they would be on commercially comparable terms. As such, the Group's operations and financial results may be adversely affected.

The Group's business relationships with its top five customers range from 2 years to 11 years. The Group regularly brings new designs to its customers, invites its customers to visit the Group's showrooms, works with its customer on new product development, and communicates with its customers through face-to-face meetings and sales presentations. Through such frequent contact, the Group believes that it has a sound understanding of the needs and preferences of its customers, which helps maintain the relationship between the Group and its customers.

Demand for the Group's products

The Group's customers for private label products mainly include well-known apparel brand owners and fashion specialty chain retailers located in the United States as well as a Canadian-based apparel brand owner and wholesaler. The Group's customers for own brand products range from well-known retail chain department stores to independent fashion boutiques in the United States. Consumption demand for the Group's apparel products is mainly affected by global economic conditions and especially the general condition of the North American economy and apparel market. In particular, the US Federal Reserves has announced the possible tightening of its monetary policy in the near future and as such, the US economic situation may be negatively affected and may become worse than the prevailing conditions and the Group's sales to the US market may be adversely affected if the US economic situation deteriorates.

Product mix

The Group's products can be classified into two categories, namely, private label products and own brand products. The sales of private label products and own brand products accounted for approximately 89.9% and 10.1% for the year ended 31 December 2011, approximately 88.6% and 11.4% for the year ended 31 December 2012, and approximately 87.7% and 12.3% for the five months ended 31 May 2013 respectively, of the Group's total turnover. During each period of the Track Record Period, the Group's overall gross profit margins were approximately 21.7%, 24.5% and 21.1% respectively.

The Group's gross profit margins are partially affected by the proportion of its sales of products with higher gross profit margins (such as winter clothings and own brand products) to its sales of products with lower gross profit margins (such as summer clothings and private label products). Going forward, the Group may continue to adjust its product mix in response to demand and pricing for each type of product.

Costs of materials

Costs of materials include the costs of raw materials, semi-finished products and finished goods, which represent a significant portion of the Group's cost of sales. For each of the two years ended 31 December 2012 and five months ended 31 May 2013, such costs represented approximately 76.5%, 75.8%, and 67.7% of the Group's cost of sales respectively. As such, any significant fluctuation in the price of materials may have a significant impact on the Group's profitability.

In recent years, the Group has experienced price fluctuations for some raw materials due to various factors including changes in demand and supply for commodities; and for some semi-products and finished goods due to the increasing cost of labour and the appreciation of RMB against US$. Nevertheless, the Group has been able to reduce, to a limited extent, the impact of price fluctuations of materials by bulk purchase of these materials, and adjusting the selling price of apparel products. In addition, the Group believes that its long-term relationships with major suppliers would enhance its bargaining power and ability to obtain better prices.

Cost of labour and availability of labour

The Group's production is labour intensive. During the Track Record Period, the direct labour cost accounted for approximately 3.3%, 4.6%, and 9.5% of the Group's total cost of sales respectively. It is probable that there will be a continuous increase in labour cost in the PRC. If the Group is unable to identify and employ other appropriate means to reduce the labour cost, the financial results of the Group's operations may be adversely affected.

Market competition

The Group is expected to face competition from other manufacturers in the apparel manufacturing industry in the PRC. However, the Directors believe that the Group's market position would not be threatened as the Group's customers are mainly international apparel groups based in the US and Canada which require a high standard of quality from its suppliers, and it maintains well-established business working relationships with its existing customers. The Directors believe that the Group competes favourably with its competitors in terms of design capability, product quality and timely delivery. However, if the Group's customers cease to place orders with the Group or the Group fails to compete with other apparel manufacturers, the Group's operations will be adversely affected.

Seasonality

The Group's results of operations are subject to seasonality. The Group generally records higher sales during July to November each year as the Group's customers generally purchase more apparel products from the Group during the period which are mainly winter clothings that entail higher selling prices, such as coats and jackets, in preparation for the winter peak season. As such, the Group's revenue may be subject to seasonal factors depending on the number of purchase orders the Group receives for winter clothings from the customers. Notwithstanding the general market environment, due to the ever-changing fashion trends, it may not be possible to meaningfully predict levels of sales from period to period.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Group's financial position and results of operations as included in this prospectus is based on the combined financial statements prepared using the significant accounting policies set forth in Note 5 to the Accountants' Report set out in Appendix I to this prospectus, which conform with the HKFRS. The critical accounting estimates and judgements that the Group uses in applying its accounting policies are set out in Note 6 to the Accountants' Report set out in Appendix I to this prospectus. Such estimates and judgements are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions or conditions.

Below is a summary of certain significant accounting policies that the Group believes are important to the presentation of its financial results and positions. The Group also has other accounting policies that the Group considers to be significant, the details of which are set forth in Note 5 to the Accountants' Report set out in Appendix I to this prospectus.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost less their estimated residual value over their estimated useful life, using the straight-line method as follows:

Buildings	20 years
Leasehold improvements	4 to 5 years, or over the lease terms, whichever is shorter
Machinery	10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 to 5 years

The assets' estimated residual values, estimated useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on straight-line method as an expense.

Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Cash and cash equivalents

Cash and cash equivalents, including cash and bank balances, comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty; and

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

The Group classifies its financial liabilities as financial liabilities at amortised cost, including trade and bills payables, accruals and other payables, amounts due to directors and interest-bearing borrowings.

(a) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

(b) Other financial liabilities

All other financial liabilities are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires 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 original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year/period.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of return, discounts, rebate and sales related taxes. Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate; and

Sample income is recognised at the time when the transfer of significant risks and rewards of ownership to the customer, this is usually taken as the time when the samples are delivered and the customer has accepted the samples.

Income taxes

Income taxes for the year/period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and payments for leasehold land held for own use under operating leases to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The table below sets forth the Group's combined statements of comprehensive income during the Track Record Period:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	306,314	331,088	67,526	60,859
Cost of sales	(239,751)	(249,866)	(55,819)	(48,003)
Gross profit	66,563	81,222	11,707	12,856
Other income and gains	186	303	96	106
Changes in fair value of derivative financial instruments	2,071	2,332	2,837	3,721
Selling and distribution expenses	(26,834)	(23,786)	(6,907)	(7,055)
Administrative expenses	(27,309)	(30,482)	(11,156)	(14,278)
Other operating expenses	(1,918)	—	—	—
Finance costs	(1,011)	(1,288)	(342)	(212)
Profit/(loss) before income tax	11,748	28,301	(3,765)	(4,862)
Income tax (expense)/credit	(2,331)	(5,149)	665	338
Profit/(loss) for the year/period attributable to the owners of the Company	9,417	23,152	(3,100)	(4,524)
Other comprehensive income, net of tax, attributable to the owners of the Company				
Item that may be reclassified subsequently to profit or loss:				
Exchange gain/(loss) on translation of financial statements of foreign operations	1,144	141	(301)	510
Total comprehensive income for the year/period attributable to the owners of the Company	10,561	23,293	(3,401)	(4,014)

Revenue

The Group's turnover is derived from the sales of apparel products to its customers. The Group's apparel products can be divided into two categories, namely, private label products and own brand products. The Group's sales volume is generally affected by customers' demand and average selling prices of the products.

The Group's turnover increased from approximately HK$306.3 million for the year ended 31 December 2011 to approximately HK$331.1 million for the year ended 31 December 2012 due to the increase in the Group's sales quantities while the turnover for the five months ended 31 May 2013 slightly decreased as compared to the corresponding period in 2012 which was mainly due to the delay in placing orders by certain customers of the Group in 2013 as compared to the customers' ordering schedule in 2012. The Directors consider that such delay is mainly attributable to the following reasons: (i) during the period from late December to early January each year, the Group usually receives considerably fewer orders from its customers in the United States due to, based on the Directors' understanding, the effect of Christmas and New Year and the usual holidays taken by the employees of the Group's customers during the period; (ii) during the period of Chinese New Year (which may start from as early as a few weeks before the Chinese New Year's Day), the ability of the Group to accept customers' orders (which is inevitably affected by the production capacity of the Jiaxing Factory) is significantly limited as a large number of the Group's production staff are usually on holiday; (iii) in 2012, the Chinese New Year happened to be in January and as such, the period of less orders from customers coincided with the period of limited order acceptance ability of the Group and such period was basically limited to January 2012; (iv) in 2013, the Chinese New Year happened to be in February (approximately 3 weeks later than in 2012), leading to the period of less orders from customers and limited order acceptance ability of the Group being extended to a considerably longer period (spanning from January to February) than in 2012; and (v) as customers of the Group generally understand the traditional and cultural background of the Chinese New Year in the PRC and the significant decrease in production ability of factories in the PRC during the period, they would delay placing orders until the Group resumed its normal order acceptance ability after the Chinese New Year period. Due to the above reasons, the Group experienced the aforementioned delay in placing orders by certain customers of the Group in 2013 as compared to the customers' ordering schedule in 2012. As it took time for the volume of orders to pick up gradually after February 2013, the revenue (which is recognised not upon order placement but at the time of delivery when the title of the goods are transferred to the customer which usually takes place another 60 to 120 days after order placement) for the five months ended 31 May 2013 was lower than that for the corresponding period in 2012.

The Directors consider that there may not be a fair and objective basis for estimating the amount of delayed orders and the number of customers involved. Nevertheless, based on the Group's unaudited management accounts, subsequent to 31 May 2013 and up to 31 October 2013, customers' orders had already picked up to a level above that for the corresponding period in 2012 and the Group's business in general exhibited growth in the ten months ended 31 October 2013 as compared to the ten months ended 31 October 2012. In particular, the revenue recognised for the ten months ended 31 October 2013 was approximately HK$297,378,000, representing an increase of approximately 4.1% from approximately HK$285,745,000 for the ten months ended 31 October 2012. In addition, the total amount of orders received for the ten months ended 31 October 2013 amounted to approximately HK$335,686,000, representing a growth of approximately 4.5% from approximately HK$321,160,000 for the ten months ended 31 October 2012.

The Group's total turnover derived from the sales of private label products and own brand products accounted for approximately 89.9% and 10.1% of the Group's total turnover for the year ended 31 December 2011, approximately 88.6% and 11.4% for the year ended 31 December 2012, and approximately 87.7% and 12.3% for the five months ended 31 May 2013 respectively. The following table sets out the Group's turnover by product categories for the years/periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products	275,258	89.9	293,249	88.6	57,372	85.0	53,355	87.7
Own brand products	31,056	10.1	37,839	11.4	10,154	15.0	7,504	12.3
	306,314	100.0	331,088	100.0	67,526	100.0	60,859	100.0

The following table sets out the total sales quantities of private label products and own brand products for the years/periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	Units sold ('000)	*%*	*Units sold ('000)*	*%*	*Units sold ('000)* (unaudited)	*%*	*Units sold ('000)*	*%*
Private label products	2,112	93.6	2,314	92.6	620	91.4	513	92.8
Own brand products	145	6.4	184	7.4	58	8.6	40	7.2
	2,257	100.0	2,498	100.0	678	100.0	553	100.0

The Group's revenue and sales quantities attributable to its own brand products increased during the year ended 31 December 2012 as compared to the year ended 31 December 2011 because it has been the Group's strategy to further develop its own brand products operation as own brand products generally (i) entail higher profit margins; (ii) allow the Group to enhance its production efficiency and have better control on its production schedules as the Group can make the final decision on every detailed specification of its own brand products and there is no need to wait for customers' approval; (iii) enhance public awareness of the Group's brands and develop brand loyalty; and (iv) reduce reliance on the Group's major customers (the majority of which are customers of private label products) and on the Group's private label products operation. The decrease in the sales volume and amount of own brand products during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012 was mainly due to the delay in placing orders by certain customers of the Group which resulted in the delay in the recognition of the relevant sales in 2013.

The following table sets out the average selling price for private label products and own brand products for the years/periods indicated:

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Private label products	130.3	126.7	92.5	103.9
Own brand products	214.2	205.7	176.2	189.7
Overall	135.7	132.5	99.6	110.1

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

The selling price of each of the product categories depends on (i) the complexity of the product design; (ii) the quantity of an order; (iii) the delivery schedule set out by the customers; and (iv) the prices of raw materials. Accordingly, the selling prices of the products vary significantly.

During the Track Record Period, the average selling price for the Group's products was decreasing because the quantities of private label knitwear products sold to the Canadian-based customer of the Group (the largest customer of the Group during the Track Record Period in terms of revenue contribution) was increasing while the average selling prices of such products sold to the customer were relatively lower.

The following table sets out the Group's turnover by location of the customers for the years/ periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
					(unaudited)			
The USA	216,102	70.6	217,669	65.7	25,840	38.3	29,050	47.7
Canada	80,942	26.4	109,495	33.1	40,487	60.0	30,600	50.3
Others *(Note)*	9,270	3.0	3,924	1.2	1,199	1.7	1,209	2.0
Total	**306,314**	**100.0**	**331,088**	**100.0**	**67,526**	**100.0**	**60,859**	**100.0**

Note: During the Track Record Period, other locations include the PRC, Australia, countries in Europe and the Middle East.

The Group's sales to customers located in the United States, Canada and others countries accounted for approximately 70.6%, 26.4% and 3.0% of the Group's total turnover for the year ended 31 December 2011 respectively, approximately 65.7%, 33.1% and 1.2% for the year ended 31 December 2012 respectively, approximately 38.3%, 60.0% and 1.7% for the five months ended 31 May 2012 respectively, and approximately 47.7%, 50.3% and 2.0% for the five months ended 31 May 2013 respectively.

The sales to customers in the United States increased by approximately HK$3.3 million or 12.8% from HK$25.8 million for the five months ended 31 May 2012 to HK$29.1 million for the five months ended 31 May 2013, which was primarily due to increased orders from the Group's private label customers in the United States. The sales to the Group's Canadian-based customer decreased by 24.4% or HK$9.9 million from HK$40.5 million for the five months ended 31 May 2012 to HK$30.6 million for the five months ended 31 May 2013, which was primarily due to the delay in placing orders by the customer during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012.

The Group's sales to customers in the United States remained relatively stable for the year ended 31 December 2012 compared to the year ended 31 December 2011, amounting to approximately HK$216.1 million for 2011 and HK$217.7 million for 2012. The sales to the Group's Canadian-based customer increased by approximately 35.4% or HK$28.6 million from HK$80.9 million for the year ended 31 December 2011 to HK$109.5 million for the year ended 31 December 2012, which was primarily due to increased orders of knitwear products from the Group's Canadian-based customer.

The Group's sales to customers located in other countries fluctuated during the Track Record Period, which was primarily due to changes in the amount of orders from customers in the PRC. The Group considers that the PRC market is not the major target market of the Group and therefore fluctuations of the Group's sales to customers in the PRC will not adversely affect the Group's operating results in the future.

Cost of sales

Cost of sales primarily consists of costs of materials, direct labour cost, subcontracting fee, amortisation of land use right, depreciation of property, plant and equipment, development cost, write-down of inventories to net realisable value, and other production overheads. Costs of materials include the costs of fabric and leather, costs of finished goods purchased from third party product suppliers and costs of accessories including but not limited to buttons, zippers and labels; subcontracting fee includes the fee paid to subcontractors in the PRC; development cost includes the staff's salaries and consumables and other miscellaneous costs related to products design and development; write-down of inventories to net realisable value refers to the written down value of inventories to its net realisable value; and other production overheads include water and electricity, indirect labour cost, travelling expenses, testing fee, consumables, repair and maintenance expenses and other miscellaneous cost related to production. The following table sets out the Group's cost of sales by product categories for the years/periods indicated:

	Year ended 31 December				**Five months ended 31 May**			
	2011		**2012**		**2012**		**2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
					(unaudited)			
Private label products	217,489	90.7	224,155	89.7	47,913	85.8	42,463	88.5
Own brand products	22,262	9.3	25,711	10.3	7,906	14.2	5,540	11.5
	239,751	100.0	249,866	100.0	55,819	100.0	48,003	100.0

The percentage of cost of sales of private label products to the total cost of sales of the Group (approximately 90.7%, 89.7% and 88.5% respectively for each period of the Track Record Period) is generally higher than the percentage of turnover of private label products to the total turnover of the Group (approximately 89.9%, 88.6% and 87.7% respectively for each period of the Track Record Period) given that the Group has relatively less bargaining power on the selling prices of the products under private label products compared to own brand products.

The following table sets out the breakdown of the Group's cost of sales for the years/periods indicated:

	Year ended 31 December				**Five months ended 31 May**			
	2011		**2012**		**2012**		**2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
					(unaudited)			
Costs of materials	183,479	76.5	189,432	75.8	44,153	79.1	32,507	67.7
Direct labour cost	7,973	3.3	11,556	4.6	4,285	7.7	4,585	9.5
Subcontracting fee	30,346	12.7	30,465	12.2	3,012	5.4	5,801	12.1
Amortisation of land use right	42	0.0	43	0.0	18	0.0	18	0.0
Depreciation of property, plant and equipment	2,019	0.8	1,985	0.8	821	1.5	747	1.6
Development cost	3,295	1.4	3,153	1.3	1,004	1.8	1,296	2.7
Write-down of inventories to net realisable value	293	0.1	—	0.0	—	0.0	—	0.0
Other production overheads	12,304	5.2	13,232	5.3	2,526	4.5	3,049	6.4
	239,751	100	249,866	100	55,819	100	48,003	100

The costs of materials increased by a lower rate from the year ended 31 December 2011 to the year ended 31 December 2012 compared to the increase in the turnover for the corresponding period, which was attributable to the bulk purchase orders placed to suppliers in the year ended 31 December 2012 which resulted in relatively lowered pricing. The costs of materials decreased by a higher rate from the five months ended 31 May 2012 to the five months ended 31 May 2013 compared to the decrease in the turnover for the corresponding period, which was attributable to the change in pattern of purchases of materials by adjusting purchase mix of raw materials, semi-products and finished goods during the five months ended 31 May 2013.

The following table sets out the breakdown of the Group's costs of materials for the years/periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Costs of finished goods purchased from third party suppliers	103,836	56.6	113,540	60.0	33,385	75.6	23,941	73.6
Costs of raw materials								
— Costs of fabric and leather	74,295	40.5	71,488	37.7	8,207	18.6	7,040	21.7
— Costs of accessories	5,348	2.9	4,404	2.3	2,561	5.8	1,526	4.7
	183,479	100.0	189,432	100.0	44,153	100.0	32,507	100.0

The costs of materials mainly consisted of the costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories. During the Track Record Period, costs of finished goods increased by approximately 9.3% and decreased by approximately 28.3% for the year ended 31 December 2012 and the five months ended 31 May 2013 respectively. The costs of raw materials of the Group decreased by approximately 4.7% and 20.4% for the year ended 31 December 2012 and the five months ended 31 May 2013 respectively.

Gross profit and gross profit margin

The following table sets out the Group's gross profit and gross profit margin by product categories for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Private label products	57,769	21.0	69,094	23.6	9,459	16.5	10,892	20.4
Own brand products	8,794	28.3	12,128	32.1	2,248	22.1	1,964	26.2
	66,563	21.7	81,222	24.5	11,707	17.3	12,856	21.1

The Group's gross profit amounted to approximately HK$66.6 million, HK$81.2 million and HK$12.9 million for each of the two years ended 31 December 2012 and five months ended 31 May 2013 respectively. The Group's overall gross profit margin was approximately 21.7%, 24.5% and 21.1% for each of the two years ended 31 December 2012 and five months ended 31 May 2013 respectively. Due to the effect of seasonality, the Group generally recorded a relatively lower gross profit margin in the slack season before July each year. In addition, the Group's overall gross profit margin is subject to the proportion of sales of different types of products. The Directors consider that the gross profit margin of sales of own brand products is generally higher than that of sales of private label products.

Other income and gains

For the two years ended 31 December 2012, the Group's other income and gains amounted to approximately HK$0.2 million and HK$0.3 million respectively. For the five months ended 31 May 2012 and 2013, the Group's other income and gains amounted to approximately HK$0.1 million respectively. The other income and gains mainly represented interest income earned on bank deposits, income derived from sales of samples and other miscellaneous income.

Changes in fair value of derivative financial instruments

For each of the two years ended 31 December 2012, the Group recorded gain from changes in fair value of derivative financial instruments for approximately HK$2.1 million and HK$2.3 million respectively. For each of the five months ended 31 May 2012 and 2013, the Group recorded gain from changes in fair value of derivative financial instruments for approximately HK$2.8 million and HK$3.7 million respectively. Details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

Selling and distribution expenses primarily consist of (i) import duty; (ii) transportation costs for delivery of the products; (iii) rental expenses; (iv) staff costs; (v) overseas travelling expenses; and (vi) other selling and distribution expenses. The following table sets out the breakdown of the Group's selling and distribution expenses for the years/periods indicated:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Import duty	9,064	5,472	624	569
Insurance	335	392	162	167
Legal and professional fee	67	47	43	12
Transportation	6,797	6,688	1,639	1,763
Rental expenses	1,454	1,392	608	619
Staff costs	5,187	6,239	2,402	2,022
Telecommunication	66	58	23	29
Overseas travelling	2,354	2,243	818	1,414
Utilities	64	64	25	21
Miscellaneous	1,446	1,191	563	439
	26,834	23,786	6,907	7,055

The Group's total selling and distribution expenses were approximately HK$26.8 million and HK$23.8 million for each of the two years ended 31 December 2012 respectively, which accounted for approximately 8.8% and 7.2% of the Group's turnover. The decrease was mainly attributable to the decrease in import duty paid during the year ended 31 December 2012 as compared to the year ended 31 December 2011 because the types of fabric and/or raw materials involved in the Group's apparel products exported to the United States during the year ended 31 December 2012 were generally subject to a relatively lower import duty. For each of the five months ended 31 May 2012 and 2013, the Group's total selling and distribution expenses were approximately HK$6.9 million and HK$7.1 million representing approximately 10.2% and 11.6% of the Group's turnover respectively, which remained relatively stable. The slight increase was mainly attributable to the increase in overseas travelling during the five months ended 31 May 2013 as compared to the corresponding period in 2012 for the marketing of the Group's products.

Administrative expenses

Administrative expenses primarily consist of (i) bank charges; (ii) rental expenses; (iii) staff costs; (iv) exchange loss, net; and (v) other administrative expenses. The following table sets out the breakdown of the Group's administrative expenses for the years/periods indicated:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Audit fee	52	200	100	100
Bank charges	1,492	1,762	419	423
Depreciation of property, plant and equipment	1,196	1,243	510	504
Amortisation of prepaid land lease	10	11	4	5
Insurance	221	200	108	185
Listing expenses	—	—	—	2,567
Postage and courier	226	345	111	82
Local government levy	950	987	232	326
Legal and professional fee	730	210	63	161
Rental expenses	1,703	1,805	729	748
Repair & maintenance	232	256	122	122
Staff costs	16,750	19,150	7,175	7,693
Travelling expense	427	480	236	133
Telecommunication	307	346	106	135
Utilities	275	301	96	98
Exchange loss, net	1,344	1,362	400	370
Miscellaneous	1,394	1,824	745	626
	27,309	30,482	11,156	14,278

The Group's total administrative expenses amounted to approximately HK$27.3 million and HK$30.5 million for each of the two years ended 31 December 2012 respectively, which accounted for approximately 8.9% and 9.2% of the Group's turnover and remained relatively stable. For each of the five months ended 31 May 2012 and 2013, the Group's total administrative expenses were approximately HK$11.2 million and HK$14.3 million, representing approximately 16.5% and 23.5% of the Group's turnover respectively. The increase was mainly due to the listing expenses incurred during the five months ended 31 May 2013.

Finance costs

The Group's finance costs represent interest expenses on the Group's bank borrowings and obligations under finance leases. The Group's total finance cost amounted to approximately HK$1.0 million and HK$1.3 million for each of the two years ended 31 December 2012 respectively. The Group's total finance cost amounted to approximately HK$0.3 million and HK$0.2 million for each of the five months ended 31 May 2012 and 2013 respectively. Finance costs remained relatively stable during the Track Record Period despite the fact that the total outstanding interest-bearing borrowings of the Group fluctuated substantially as at the end of each year/period during the Track Record Period:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Interest-bearing borrowings			
— Current portion	3,679	2,060	28,424
— Non-current portion	649	418	317
	4,328	2,478	28,741

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Five months ended 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Finance costs	1,011	1,288	212

This was because while the Group's outstanding interest-bearing borrowings exhibited substantial fluctuation throughout the year due to its different working capital needs and seasonal factors, its average monthly outstanding interest-bearing borrowings for the entire year/period during the Track Record Period exhibited less fluctuation:

Outstanding interest-bearing borrowings as at the end of the month	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
January	28,366#	19,933#	5,505#
February	14,969#	13,390#	14,287#
March	9,744#	20,262#	17,773#
April	14,402#	32,514#	22,295#
May	15,917#	39,751#	28,741
June	27,114#	36,010#	27,961#
July	36,760#	41,559#	49,314#
August	28,361#	33,580#	36,754#
September	31,888#	32,780#	31,068#
October	16,678#	24,516#	12,308#
November	4,299#	17,594#	N/A
December	4,328	2,478	N/A
Average month-end balance for the first five months	**16,680#**	**25,170#**	**17,720#**
Average month-end balance for the entire year	**19,402#**	**26,197#**	**N/A**

denotes unaudited figures.

The outstanding interest-bearing borrowings decreased from approximately HK$28.7 million as at 31 May 2013 to approximately HK$12.3 million as at 31 October 2013. The Group improved its liquidity position by generating profit and cash inflow during the period from 1 June 2013 to 31 October 2013, thus, the Group decreased the use of bank financing accordingly. This was generally in line with the decrease in interest-bearing borrowings during the similar period in 2011 and 2012 as disclosed above. As disclosed in the above table, as at 31 October 2011 and 2012, the Group's outstanding interest-bearing borrowings was approximately HK$16.7 million and HK$24.5 million respectively.

Income tax (expense)/credit

The Group's income tax expense amounted to approximately HK$2.3 million and HK$5.1 million for each of the two years ended 31 December 2012 respectively. The effective tax rate was approximately 19.8% and 18.2% for each of the two years ended 31 December 2012. The higher effective tax rate for the year ended 31 December 2011 was due to more non-deductible expenses incurred by Runway Jiaxing. The Group's recorded income tax credit amounted to approximately HK$0.7 million and HK$0.3 million for each of the five months ended 31 May 2012 and 2013 respectively, due to the reason that the Group recorded operating losses during each of the five months ended 31 May 2012 and 2013. The decrease in income tax credit for the five months ended 31 May 2013 was due to the non-deductible listing expenses incurred. The Directors considered that future taxable profit is probable and will be available against which the tax losses can be utilised.

COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2011 compared to year ended 31 December 2012

Turnover

The Group's turnover increased by approximately 8.1% from approximately HK$306.3 million to HK$331.1 million for the year ended 31 December 2012, which was primarily attributable to increase in both sales of private label products by approximately 6.5% or HK$17.9 million and sales of own brand products by approximately 21.5% or HK$6.7 million.

Private label products

Turnover generated from the sales of private label products increased by approximately 6.5% from HK$275.3 million to HK$293.2 million for the year ended 31 December 2012, which was primarily attributable to an increase of approximately 9.5% in sales quantities of private label products from approximately 2.1 million units to 2.3 million units. The increase in sales quantities of private label products in year ended 31 December 2012 was primarily attributable to more sales orders placed by the Group's customers because the Group provided more designs of private label products for customers' selection.

Own brand products

Turnover generated from the sales of own brand products increased by approximately 21.5% from HK$31.1 million to HK$37.8 million for the year ended 31 December 2012, which was primarily attributable to an increase of approximately 26.9% in sales quantities of own brand products from approximately 144,992 units to 183,958 units. The increase in sales quantities of own brand products in the year ended 31 December 2012 was primarily attributable to the expansion of the Group's sales and marketing team during the year ended 31 December 2012 by the recruitment of more sales staff in the US.

Cost of sales

The Group's cost of sales increased by approximately 4.2%, from HK$239.8 million to HK$249.9 million for the year ended 31 December 2012, which was primarily due to (i) an increase of approximately 3.2% or HK$6.0 million in costs of materials; (ii) an increase of approximately 44.9% or HK$3.6 million in direct labour cost; and (iii) increase of approximately 7.5% or HK$0.9 million in other production overheads.

Costs of materials mainly consisted of costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories. Costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories accounted for approximately 56.6% (or HK$103.8 million), 40.5% (or HK$74.3 million) and 2.9% (or HK$5.3 million) for the year ended 31 December 2011 respectively and approximately 59.9% (or HK$113.5 million), 37.8% (or HK$71.5 million) and 2.3% (or HK$4.4 million) for the year ended 31 December 2012 respectively.

Costs of finished goods purchased from third party product suppliers increased by approximately 9.3%, from approximately HK$103.8 million to approximately HK$113.5 million for the year ended 31 December 2012, which was generally in line with the increase in turnover growth during the year.

Costs of fabric and leather slightly decreased by approximately 3.8%, from approximately HK$74.3 million to approximately HK$71.5 million, and costs of accessories decreased by approximately 17.0%, from approximately HK$5.3 million to approximately HK$4.4 million for the year ended 31 December 2012 respectively. Despite the Group's turnover growth for the period, the costs of raw materials decreased as a result of bulk purchases order by the Group.

Subcontracting fees represented approximately 12.7% and 12.2% of total cost of sales for the two years ended 31 December 2012 respectively. For the year ended 31 December 2012, the subcontracting fee slightly increased by approximately 0.4% or HK$0.1 million, which was mainly attributable to more auxiliary production (such as washing and embossing) being outsourced to subcontractors. The Group subcontracts certain auxiliary production procedures to outside subcontractors because the Group does not have capacity or capability to complete such procedure or when it is more economically efficient. The production procedures of each apparel product vary and may require different subcontracting procedures. Therefore, the change in subcontracting fee may not be directly related to sales volume.

Development cost represented approximately 1.4% and 1.3% of the total cost of sales for the two years ended 31 December 2012 respectively. The development cost was approximately HK$3.3 million and HK$3.2 million for each of the two years ended 31 December 2012 respectively, and remained relatively stable for the year ended 31 December 2012.

Direct labour costs represented approximately 3.3% and 4.6% of total cost of sales for the two years ended 31 December 2012 respectively. An increase in direct labour costs of approximately 44.9% or HK$3.6 million on a year-on-year basis from HK$8.0 million to HK$11.6 million for the year ended 31 December 2012, was primarily attributable to (i) increase in number of workers; (ii) increase in wage rate and average working hours of workers; and (iii) increase in discretionary bonus paid to workers in order to improve workers' loyalty and morale.

Other production overheads represented approximately 5.2% and 5.3% of total cost of sales for the two years ended 31 December 2012 respectively. For the year ended 31 December 2012, other production overheads increased slightly by approximately 7.5% or HK$0.9 million which was in line with the growth in sales during the year.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK$14.7 million or 22.0% and the gross profit margin increased from approximately 21.7% to 24.5% for the year ended 31 December 2012. The Group's turnover is derived from the sales of private label products and own brand products, and the gross profit and gross profit margin of the Group were primarily affected by the mix of those of private label products and own brand products. The increase in the Group's gross profit of approximately 22.0% was primarily attributable to the increase in gross profit of both private label products and own brand products in year ended 31 December 2012.

The Group's gross profit and gross profit margin of private label products increased by approximately HK$11.3 million or 19.6% from approximately HK$57.8 million to approximately HK$69.1 million, and increased by approximately 2.6% from approximately 21.0% to approximately 23.6% for the year ended 31 December 2012 respectively, primarily due to (i) increase in turnover; and (ii) decrease in material prices as a result of bulk purchase orders placed to suppliers.

The Group's gross profit and gross profit margin of own brand products increased by approximately HK$3.3 million or 37.5% from approximately HK$8.8 million to approximately HK$12.1 million, and increased by approximately 3.8% from approximately 28.3% to approximately 32.1% for the year ended 31 December 2012 respectively, primarily due to (i) increase in customers' acceptance of designs with higher profit margin; and (ii) more orders of complex style of own brand products with relatively high margin from customers.

Other income and gains

Other income and gains increased by approximately 50.0% from approximately HK$0.2 million to approximately HK$0.3 million for the year ended 31 December 2012, which was primarily attributable to the increase in sundry income.

Changes in fair value of derivative financial instruments

The Group's gain from changes in fair value of derivative financial instruments increased by approximately HK$0.2 million or 9.5% from approximately HK$2.1 million to approximately HK$2.3 million for the year ended 31 December 2012. The details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 11.2% or HK$3.0 million from approximately HK$26.8 million to approximately HK$23.8 million for the year ended 31 December 2012. The decrease was mainly attributable to a decrease in import duty for import of apparel products to the US of approximately HK$3.6 million. The Group's export of apparel products to the US is generally subject to different rates of import duty for apparel products with different fabrication. The nature of the Group's apparel products exported to the US during the year ended 31 December 2012 was generally subject to relatively lower import duty imposed by the customs of the US. On the other hand, the decrease in selling expenses was offset by an increase in staff costs by approximately HK$1.1 million. The other selling and distribution expenses remained relatively stable for the year ended 31 December 2012.

Administrative expenses

The Group's administrative expenses increased by approximately 11.7% or HK$3.2 million from approximately HK$27.3 million to approximately HK$30.5 million for the year ended 31 December 2012. The increase was mainly attributable to (i) increase in staff costs by approximately HK$2.4 million generally as a result of increase in directors' remuneration by approximately HK$1.6 million and increase in number of staff and salary rate by approximately HK$1.0 million; (ii) increase in bank charges by approximately HK$0.3 million; and (iii) increase in miscellaneous expenses by approximately HK$0.4 million.

Finance costs

The Group's finance costs increased by approximately 30.0% or HK$0.3 million from approximately HK$1.0 million to approximately HK$1.3 million for the year ended 31 December 2012, primarily due to an increase in interest expenses on the Group's bank borrowings resulting from an increase in financing from banks during the year ended 31 December 2012 for working capital purposes.

Profit before income tax

Profit before income tax increased by approximately 141.9% or HK$16.6 million from approximately HK$11.7 million for the year ended 31 December 2011 to approximately HK$28.3 million for the year ended 31 December 2012, which was mainly due to the combined effect of increase in turnover and improvement in gross profit margin during the year ended 31 December 2012.

Income tax expense

The Group's income tax expense increased by approximately 121.7% or HK$2.8 million from approximately HK$2.3 million to approximately HK$5.1 million for the year ended 31 December 2012, which was mainly due to increase in profit before income tax as a result of the combined effect of increase in turnover and improvement in gross profit margin for the year ended 31 December 2012. The higher effective tax rate for the year ended 31 December 2011 was due to more non-deductible expenses incurred by Runway Jiaxing.

Profit for the year

The Group's profit for the year increased by approximately 146.8% or HK$13.8 million from approximately HK$9.4 million to approximately HK$23.2 million for the year ended 31 December 2012, which was mainly due to increase in turnover and improvement in gross profit margin for the year ended 31 December 2012.

Five months ended 31 May 2012 compared to five months ended 31 May 2013

Turnover

The Group's turnover decreased by approximately 9.8% from approximately HK$67.5 million for the five months ended 31 May 2012 to approximately HK$60.9 million for the five months ended 31 May 2013, which was primarily attributable to decrease in both sales of private label products by approximately 7.0% or HK$4.0 million and sales of own brand products by approximately 26.5% or HK$2.7 million.

Private label products

Turnover generated from the sales of private label products decreased by approximately 7.0% from approximately HK$57.4 million for the five months ended 31 May 2012 to approximately HK$53.4 million for the five months ended 31 May 2013, which was primarily attributable to a decrease of approximately 17.2% in sales quantities of private label products from approximately 620,004 units to 513,450 units. The decrease in sales quantities of private label products for the five months ended 31 May 2013 was primarily attributable to the delay in placing orders by certain customers of the Group during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012.

Own brand products

Turnover generated from the sales of own brand products decreased by approximately 26.5% from approximately HK$10.2 million for the five months ended 31 May 2012 to approximately HK$7.5 million for the five months ended 31 May 2013, which was primarily attributable to a decrease of approximately 31.4% in sales quantities of own brand products from approximately 57,634 units to 39,564 units. The decrease in sales quantities of own brand products for the five months ended 31 May 2013 was primarily attributable to the reason that certain customers of the Group placed less orders during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012 and instead, they placed their relevant orders after the five months ended 31 May 2013.

Cost of sales

Costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories accounted for approximately 75.6% (or HK$33.4 million), 18.6% (or HK$8.2 million), and 5.8% (or HK$2.6 million) for the five months ended 31 May 2012 respectively and approximately 73.8% (or HK$24.0 million), 21.5% (or HK$7.0 million) and 4.7% (or HK$1.5 million) for the five months ended 31 May 2013 respectively.

Costs of finished goods purchased from third party product suppliers decreased by approximately 28.1%, from approximately HK$33.4 million to approximately HK$24.0 million for the five months ended 31 May 2013, which was mainly due to decrease in sales orders for both private label and own brand products as a result of the delay in placing orders by certain customers of the Group during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012. Costs of fabric and leather slightly decreased by approximately 14.6%, from approximately HK$8.2 million to approximately HK$7.0 million, and costs of accessories decreased by approximately 42.3%, from approximately HK$2.6 million to HK$1.5 million for the five months ended 31 May 2013, which was mainly due to decrease in sales order for both private label and own brand products. Besides, the decrease in costs of materials for the five months ended 31 May 2013 was the result of change in pattern of purchases of materials by adjusting the combination of purchases of raw materials, semi-finished products and finished goods, in order to obtain maximisation of production-cost efficiency.

Subcontracting fee represented approximately 5.4% and 12.1% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. For the five months ended 31 May 2013, the subcontracting fee increased by approximately 92.6% or HK$2.8 million, which was mainly attributable to more auxiliary production being outsourced to subcontractors for economical efficiency reason.

Development cost represented approximately 1.8% and 2.7% of the total cost of sales for the five months ended 31 May 2012 and 2013. The development cost increased by approximately 30.0% or HK$0.3 million from approximately HK$1.0 million for the five months ended 31 May 2012 to approximately HK$1.3 million for the five months ended 31 May 2013 respectively, mainly due to the addition of one designer in the US to strengthen the Group's design capability during the period.

Direct labour costs represented approximately 7.7% and 9.5% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. An increase in direct labour costs of approximately 7.0% or HK$0.3 million on a period-on-period basis from HK$4.3 million to HK$4.6 million for the five months ended 31 May 2013, was primarily attributable to an increase in wage rate.

Other production overheads represented approximately 4.5% and 6.4% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. For the five months ended 31 May 2013, other production overheads increased by approximately 20.7% or HK$0.5 million which was mainly attributable to the increase in indirect labour cost, handling charges and staff's welfare expenses incurred during the period.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK$1.1 million or 9.8% and the gross profit margin increased from approximately 17.3% to 21.1% for the five months ended 31 May 2013. The Group's turnover is derived from the sales of private label products and own brand products, and the gross profit and gross profit margin of the Group were primarily affected by the mix of private label products and own brand products. The increase in the Group's gross profit of approximately 9.8% was primarily attributable to the increase in gross profit margin of both private label products and own brand products for the five months ended 31 May 2013.

The Group's gross profit and gross profit margin of private label products increased by approximately HK$1.4 million or 14.7% from approximately HK$9.5 million for the five months ended 31 May 2012 to approximately HK$10.9 million for the five months ended 31 May 2013, and increased by approximately 3.9% from approximately 16.5% for the five months ended 31 May 2012 to 20.4% for the five months ended 31 May 2013 respectively, primarily due to (i) decrease in sales of knitwear products which had relatively lower gross profit margin in the five months ended 31 May 2012; and (ii) increase in sales of woven and leather wear products which had relatively higher gross profit margin.

The Group's gross profit of own brand products decreased by HK$0.2 million or 9.1% from approximately HK$2.2 million for the five months ended 31 May 2012 to approximately HK$2.0 million mainly due to decrease in sales of own brand products. The Group's gross profit margin of own brand products increased by approximately 4.1% from approximately 22.1% for the five months ended 31 May 2012 to 26.2% for the five months ended 31 May 2013, primarily due to increase in selling price offered by customers as a result of customers' satisfaction and appreciation of the Group's own brand products.

Other income and gains

The other income and gains remained stable at approximately HK$0.1 million for each of the five months ended 31 May 2012 and 2013 respectively.

Changes in fair value of derivative financial instruments

The Group's gain from changes in fair value of derivative financial instruments increased by approximately HK$0.9 million or 32.1% from approximately HK$2.8 million for the five months ended 31 May 2012 to approximately HK$3.7 million for the five months ended 31 May 2013. The details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

The Group's selling and distribution expenses increased slightly by approximately 2.9% or HK$0.2 million from approximately HK$6.9 million for the five months ended 31 May 2012 to approximately HK$7.1 million for the five months ended 31 May 2013. The increase was mainly attributable to increase in overseas travelling expenses of approximately HK$0.6 million and increase in transportation expense of approximately HK$0.1 million; and partly set off by decrease in staff costs by approximately HK$0.4 million. The other selling and distribution expenses remained relatively stable for the five months ended 31 May 2013.

Administrative expenses

The Group's administrative expenses increased by approximately 27.7% or HK$3.1 million from approximately HK$11.2 million for the five months ended 31 May 2012 to approximately HK$14.3 million for the five months ended 31 May 2013. The increase was mainly attributable to increase in listing expenses, legal and professional fee and staff costs by approximately HK$2.6 million, HK$0.1 million, and HK$0.5 million respectively, and offset by decrease in travelling expenses by approximately HK$0.1 million.

Finance costs

The Group's finance costs decreased by approximately 33.3% or HK$0.1 million from approximately HK$0.3 million for the five months ended 31 May 2012 to approximately HK$0.2 million for the five months ended 31 May 2013, primarily due to decrease in utilisation of banking facilities as a result of decrease in sales and improvement in bank balances for the five months ended 31 May 2013.

Loss before income tax

The first half-year is conventionally the slack season of the Group's apparel products which focus on winter-wear. Therefore, scheduled shipments to customers normally take place more in the second half of the year. Accordingly, turnover generated in the first half of the year is relatively lower than the second half of the year. Thus the Group recorded loss before income tax of approximately HK$3.8 million and HK$4.9 million for each of the five months ended 31 May 2012 and 2013 respectively, taking into account the fixed expenses incurred during the same period. Loss before income tax increased by approximately 28.9% or HK$1.1 million mainly due to the combined effect of the fluctuation set out above.

Income tax credit

The Group recorded income tax credit of approximately HK$0.7 million and HK$0.3 million for each of the five months ended 31 May 2012 and 2013 respectively, as the Group incurred losses from operation during each of the five months ended 31 May 2012 and 2013. The decrease in income tax credit for the five months ended 31 May 2013 was due to the non-deductible listing expenses incurred. The Directors consider that future taxable profit is probable and will be available against which the tax losses can be utilised.

Loss for the period

The Group's loss for the period increased by approximately 45.2% or HK$1.4 million from approximately HK$3.1 million for the five months ended 31 May 2012 to approximately HK$4.5 million for the five months ended 31 May 2013 mainly due to the combined effect of the fluctuation set out above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

During the Track Record Period, the Group's operations were generally financed through a combination of shareholder's equity, internally generated cash flows and bank borrowings. The Directors believe that in long term, the Group's operation will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

Cash flows

The following table sets forth selected cash flows data from the Group's combined statements of cash flows for the Track Record Period.

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Net cash generated from/(used in) operating activities	40,399	29,795	(33,716)	(24,964)
Net cash (used in)/generated from investing activities	(6,080)	2,607	(6,247)	(4,615)
Net cash (used in)/generated from financing activities	(22,696)	(8,916)	29,674	23,967
Net increase/(decrease) in cash and cash equivalents	11,623	23,486	(10,289)	(5,612)
Cash and cash equivalents at the beginning of the year/period	2,279	14,037	14,037	37,550
Effect of foreign exchange rates, net	135	27	(33)	40
Cash and cash equivalents at the end of the year/period	14,037	37,550	3,715	31,978

The Group has historically met its liquidity requirements principally through a combination of cash flows from operations, internal resources and bank borrowings. The Group's principal use of cash has been, and is expected to continue to be, operational costs and capital expenditures.

Cash flows generated from/(used in) operating activities

The Group generates its cash inflow from operating activities principally from the receipt of payments for the sale of its products. The Group's cash outflow from operating activities is principally for the purchase of materials, subcontracting fees, staff and labour costs, rental expenses and all other operating expenses.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash used in operating activities of approximately HK$25.0 million primarily as a result of the combined effect of (i) the operating loss incurred by the Group during the period due to seasonal factor as the period from January to May is within the traditional slack season of the Group; (ii) the use of cash in settling outstanding payables to suppliers incurred during the peak season in 2012; and (iii) the use of cash in purchasing materials for the production of peak season orders for the approaching peak season starting from July 2013.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash used in operating activities of approximately HK$33.7 million primarily as a result of the combined effect of (i) the operating loss incurred by the Group during the period due to seasonal factor as the period from January to May is within the traditional slack season of the Group; (ii) the use of cash for the production of more own brand products during the period which were targeted to be sold in the upcoming peak season as the Group intended to expand its own brand products operation; (iii) the use of cash in settling outstanding payables to suppliers incurred during the peak season in 2011; and (iv) the use of cash in purchasing materials for the production of peak season orders for the approaching peak season starting from July 2012.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash generated from operating activities of approximately HK$29.8 million primarily as a result of the combined effect of (i) the operating profit generated by the Group during the year ended 31 December 2012 as the Group recorded satisfactory financial performance from its operation during the year; (ii) the use of cash for income tax paid; and (iii) cash generated from the realised gain from the foreign exchange structured forward contracts.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group recorded net cash generated from operating activities of approximately HK$40.4 million primarily as a result of the combined effect of (i) the operating profit generated by the Group during the year ended 31 December 2011 as the Group recorded profitable financial performance from its operation during the year; (ii) cash generated from faster settlement of trade receivables from customers while outstanding payables that had not yet been settled to suppliers increased due to the growth in the Group's business; (iii) the use of cash for income tax paid; and (iv) cash generated from the realised gain from the foreign exchange structured forward contracts.

Cash flows (used in)/generated from investing activities

The Group's cash outflow from investing activities primarily consists of the purchases of property, plant and equipment, payment for pledged bank deposits and advances to directors. The Group's cash inflow from investing activities primarily consists of repayment from directors.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash used in investing activities of approximately HK$4.6 million primarily as a result of (i) the use of cash for the advance to Mr. Tien for his personal use; and (ii) the use of cash for normal replacement of machineries and office furniture and purchase of a new motor vehicle for business purposes.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash used in investing activities of approximately HK$6.2 million primarily as a result of the combined effect of (i) the use of cash for the advance to Mr. Tien for his personal use; (ii) cash generated from the decrease in pledged bank deposits required for bills payables in Runway Jiaxing due to decrease in utilisation of bill payables during slack season; and (iii) the use of cash for the normal replacement of machineries and office furniture.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash generated from investing activities of approximately HK$2.6 million primarily as a result of the combined effect of (i) cash generated from the repayment from Mr. Tien for the amount previously advanced to him for his personal use; (ii) the use of cash for the increase in pledged bank deposits required for bill payables in Runway Jiaxing due to the increase in utilisation of bill payables as a result of the growth in the Group's business; and (iii) the use of cash for the normal replacement of machineries and office furniture.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group's recorded net cash used in investing activities of approximately HK$6.1 million primarily as a result of (i) the use of cash for the advance to Mr. Tien for his personal use; (ii) the use of cash for the normal replacement of machineries and office furniture and the purchase of a new motor vehicle for business purposes; and (iii) the use of cash for the increase in pledged bank deposits required for bill payables in Runway Jiaxing due to the increase in utilisation of bill payables as a result of the growth in the Group's business.

Cash flows (used in)/generated from financing activities

The Group derives its cash inflow from financing activities principally from bank borrowings. The Group's cash outflow from financing activities relates primarily to the Group's repayment of principal and interest on its bank borrowings and payment of dividends.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash generated from financing activities of approximately HK$24.0 million primarily as a result of the combined effect of (i) cash obtained from the net increase in interest-bearing borrowings for the purchase of materials and the production of peak season orders in preparation for shipment in peak season from July to November and settlement of trade payables which were brought forward from the peak season in last year; and (ii) cash used for repayment to directors.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash generated from financing activities of approximately HK$29.7 million primarily as a result of (i) cash obtained from the net increase in interest-bearing borrowings for the purchase of materials and the production of peak season orders in preparation for shipment in peak season from July to November and settlement of trade payables which were brought forward from peak season in last year; (ii) the use of cash for the repayment to directors; and (iii) the use of cash for payment of dividend.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash used in financing activities of approximately HK$8.9 million primarily as a result of (i) the use of cash for the repayment to directors; (ii) the use of cash for payment of dividend; (iii) the use of cash for repaying interest-bearing borrowings as a result of improvement of financial position; and (iv) the use of cash for interest paid for interest-bearing borrowings.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group recorded net cash used in financing activities of approximately HK$22.7 million primarily as a result of (i) the use of cash for payment of dividend; (ii) the use of cash for repaying interest-bearing borrowings as a result of improvement of financial position; (iii) the use of cash for interest paid for interest-bearing borrowings; and (iv) the use of cash for the repayment to directors.

NET CURRENT ASSETS

The following table sets out details of the Group's current assets and current liabilities as at the respective financial position dates below:

	As at 31 December		As at 31 May	As at 31 October
	2011	2012	2013	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets				
Inventories	23,790	27,275	42,060	25,793
Trade and bill receivables	40,109	49,575	24,569	88,555
Deposits, prepayments and other receivables	16,215	13,196	15,097	25,416
Amounts due from directors	5,895	—	4,593	—
Derivative financial instruments	1,477	1,486	4,547	3,147
Pledged bank deposits	6,074	8,801	8,544	8,780
Cash and cash equivalents	14,037	37,550	31,978	15,427
	107,597	137,883	131,388	167,118
Current liabilities				
Trade and bill payables	(67,348)	(73,431)	(52,724)	(93,407)
Accruals, other payables and receipts in advance	(15,689)	(20,899)	(15,025)	(22,058)
Amounts due to directors	—	(2,515)	(830)	(1,420)
Interest-bearing borrowings	(3,679)	(2,060)	(28,424)	(12,094)
Provision for taxation	(1,548)	(2,340)	(2,025)	(6,089)
	(88,264)	(101,245)	(99,028)	(135,068)
Net current assets	19,333	36,638	32,360	32,050

The Group's current assets primarily comprise inventories, trade and bill receivables, deposits, prepayment and other receivables, pledged bank deposits, and cash and bank deposits, while the Group's current liabilities primarily comprise trade and bill payables, accruals, other payables and receipts in advance, interest-bearing borrowings, and current tax liabilities. The Group had been in net current asset position during the Track Record Period and up to 31 October 2013, being the latest practicable date for ascertaining the financial information of the Group.

As at 31 October 2013, being the latest practicable date for ascertaining the financial information of the Group, the Group's net current assets slightly decreased by HK$0.3 million from approximately HK$32.4 million as at 31 May 2013 to approximately HK$32.1 million as at 31 October 2013. The net current assets of the Group as at 31 October 2013 mainly comprised cash and bank deposits (excluding pledged bank deposits) of approximately HK$15.4 million, trade and bill receivables of approximately HK$88.6 million, trade and bill payables of approximately HK$93.4 million, and interest-bearing borrowings of approximately HK$12.1 million. The considerable increase in trade and bill receivables and trade and bill payables as compared to those as at 31 May 2013 was mainly due to the seasonal effect as the Group has recorded turnover of approximately HK$236.5 million during the five months from June to October 2013, of which turnover of approximately HK$110.3 million was recorded during the two months from September to October 2013. In addition, cash and cash equivalents decreased by approximately HK$16.6 million from approximately HK$32.0 million as at 31 May 2013 to approximately HK$15.4 million as at 31 October 2013, which was mainly because more settlement was made to decrease the interest-bearing borrowings (including non-current portion) from approximately HK$28.7 million to approximately HK$12.3 million as less interest-bearing borrowings were necessary approaching the end of the peak production period.

The Group's net current assets decreased slightly during the five months ended 31 May 2013. The Group's net current assets position decreased slightly from approximately HK$36.6 million as at 31 December 2012 to approximately HK$32.4 million as at 31 May 2013, which was primarily as a result of (i) a decrease in trade and bill receivables of approximately HK$25.0 million which was in line with decrease in sales due to seasonal factor; and (ii) an increase in interest-bearing borrowings of approximately HK$26.3 million. These amounts were partially offset by (i) an increase in inventories of approximately HK$14.8 million; (ii) a decrease in trade and bill payables of approximately HK$20.7 million; (iii) a decrease in accruals, other payables and receipts in advance of approximately HK$5.9 million; and (iv) decrease in amounts due to directors of approximately HK$1.7 million.

The Group's net current assets improved during the year ended 31 December 2012. The Group's net current assets position increased from approximately HK$19.3 million as at 31 December 2011 to approximately HK$36.6 million as at 31 December 2012, which was primarily as a result of (i) an increase in inventories of approximately HK$3.5 million; (ii) an increase in trade and bill receivables of approximately HK$9.5 million; (iii) increase in pledged bank deposits of approximately HK$2.7 million; and (iv) increase in cash and cash equivalents of approximately HK$23.6 million as more operating cash inflow was recorded. These amounts were partially offset by (i) a decrease in deposits, prepayments and other receivables of approximately HK$3.0 million; (ii) increase in trade and bill payables of approximately HK$6.1 million; (iii) increase in accruals, other payables and receipts in advance of approximately HK$5.2 million; and (iv) increase in amounts due to directors of approximately HK$2.5 million.

AMOUNTS DUE FROM DIRECTORS

The following table sets out the amounts due from Directors during the Track Record Period:

	As at 1 January 2011	Maximum balance outstanding during 2011	As at 31 December 2011	Maximum balance outstanding during 2012	As at 31 December 2012	Maximum balance outstanding during 2013	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors:							
Mr. Tien	—	17,491	3,721	25,006	—	9,587	4,593
Mr. Gozashti	2,174	2,190	2,174	2,291	—	—	—
	2,174		5,895		—		4,593

Such amounts were unsecured, interest-free and repayable on demand. All such amounts due from Directors had been fully settled as at 31 August 2013.

As illustrated in the table above, the maximum balances outstanding in respect of the amounts due from Mr. Tien during each of the two years ended 31 December 2012 and the five months ended 31 May 2013 amounted to approximately HK$17.5 million, HK$25.0 million and HK$9.6 million respectively. The reason for such advances was for Mr. Tien's personal use.

FOREIGN EXCHANGE STRUCTURED FORWARD CONTRACTS

As explained in the paragraph headed "Foreign exchange structured forward contracts" under the "Business" section in this prospectus, during the Track Record Period, the Group entered into 10 non-deliverable foreign exchange structured forward contracts for hedging purpose, among which 7 had already ended during the Track Record Period. The remaining 3 foreign exchange structured forward contracts outstanding as at the Latest Practicable Date will end on 29 July 2014, 7 January 2015 and 25 February 2015 respectively.

There was no formal documentation (as specified under Hong Kong Accounting Standards 39) of the hedging relationships and these foreign exchange structured forward contracts were not designated for a particular transaction. Given the above and since the effectiveness of the hedge cannot be measured reliably for any particular transaction, no hedge accounting policies in accordance to Hong Kong Accounting Standards 39 were adopted by the Group to account for the foreign exchange structured forward contracts.

For accounting purpose, the outstanding foreign exchange structured forward contracts are stated at fair value in the combined statements of financial position of the Group, and fluctuations of the exchange rate of RMB/US$ will result in fair value gain/loss of derivative financial instruments to be recognised in the combined statements of comprehensive income of the Group. The Group has recorded approximately HK$2.1 million, HK$2.3 million, HK$2.8 million and HK$3.7 million of gain from fair value changes from derivative financial instruments for each of the two years ended 31 December 2012, and the five months ended 31 May 2012 and 2013 respectively.

As at 31 May 2013, the fair value recognised in the combined statements of financial position of the 3 remaining foreign exchange structured forward contracts was approximately HK$4.5 million.

INVENTORY ANALYSIS

Overview

The following table sets out a summary of the Group's inventory balance as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Raw materials and consumables	7,728	8,983	16,875
Work in progress	1,731	813	1,522
Finished goods	14,331	17,479	23,663
	23,790	27,275	42,060

The Group's inventories increased by approximately 54.2% or HK$14.8 million, from HK$27.3 million as at 31 December 2012 to approximately HK$42.1 million as at 31 May 2013, primarily because (i) starting from second quarter each year, customers of the Group generally start placing orders with the Group for the peak seasons' winter clothing; (ii) for the production of such peak season orders, the Group generally needs to purchase more new raw materials, resulting in a significant amount of raw material inventory as at 31 May 2013 compared to 31 December 2012; and (iii) it usually takes 60 to 120 days for the Group to complete the production of an entire order and the Group usually delivers products to customers only when the production of an entire order is completed, resulting in a significant amount of finished goods inventory pending for delivery as well as in transit as at 31 May 2013 compared to 31 December 2012 (when peak delivery season was coming to an end).

The Group's inventories increased by approximately 14.7% or HK$3.5 million, from approximately HK$23.8 million as at 31 December 2011 to approximately HK$27.3 million as at 31 December 2012, primarily due to the increase in finished goods inventory as explained in further detail in the paragraph headed "Finished goods inventory" below in this sub-section of "Inventory analysis".

Inventory management

As each customer of the Group may adopt different designs inspired by the Group and may modify the design and/or specify its own preference for raw materials, the Group, in most cases, sources raw materials and other accessories from its suppliers for production only after the customers have confirmed their orders and their specifications. This allows the Group to avoid excessive procurement of raw materials. As such, the Group normally maintains low levels of inventory of raw materials.

The Group maintains a certain level of inventory for various pre-selected styles of own brand products based on projected sales volume and the anticipated fashion trends. Maintaining inventory for the Group's own brand products operation is necessary because some of the customers for the Group's own brand products often require products that are immediately available and require delivery on short notice. Nevertheless, the Group would only maintain a relatively larger quantity of inventory for products that are expected to be popular or commonly accepted.

Inventory provision policies

Inventories are initially recognised at cost and subsequently stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

The Group reviews the inventories at each reporting date and makes allowance for impairment of obsolete, slow-moving and impaired items. The Group estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price. The Group makes allowance for impairment if the net realisable value is below the carrying amount.

Inventory turnover days

The following table sets out the Group's inventory turnover days during the Track Record Period:

	As at 31 December		**As at 31 May**
	2011	**2012**	**2013**
Inventory turnover days	36	40	132

Note: Inventory turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending inventory balances / cost of sales. Inventory turnover days for the five months ended 31 May 2013 = 151 x ending inventory balance / cost of sales.

The Group's inventory turnover days were 36, 40 and 132 for the two years ended 31 December 2012 and for the five months ended 31 May 2013 respectively. The increase in turnover days from 40 to 132 over the period ended 31 May 2013 and year ended 31 December 2012 was primarily attributable to (i) the significant increase in the Group's inventory balance as explained in detail in the paragraph headed "Overview" above under this sub-section of "Inventory analysis"; and (ii) inventory turnover days is calculated as the inventory balance as at the end of the year/period divided by cost of sales recognised during the corresponding year/period and as such, for the inventory turnover days as at 31 May 2013, it was calculated as the inventory in peak production season divided by the costs of sales recognised in slack season, resulting in the significant increase in the inventory turnover days of the Group as at 31 May 2013 compared to 31 December 2012.

The increase in inventory turnover days from 36 to 40 over the years ended 31 December 2011 and 2012 was primarily attributable to the increase in finished goods inventory of the Group as at 31 December 2012 compared to 31 December 2011 for reasons explained in further detail in the paragraph headed "Finished goods inventory" below in this sub-section of "Inventory analysis".

The following table sets out the inventory turnover days for the five months ended 31 May 2010, 2011, 2012 and 2013 respectively:

	Five months ended 31 May			
	2010	**2011**	**2012**	**2013**
	(unaudited)	(unaudited)	(unaudited)	
Inventory turnover days	67	74	87	132

Note: Inventory turnover days for the five months ended 31 May 2010, 2011, 2012 and 2013 = 151 x ending inventory balance / cost of sales.

The inventory turnover days increased from approximately 67 days for the five months ended 31 May 2010 to approximately 74 days for the five months ended 31 May 2011 and further increased to approximately 87 days for the five months ended 31 May 2012 primarily because (i) as the Group experienced a general growth in its business from 2010 to 2012, the amount and sales orders increased from 2010 to 2011 and further increased from 2011 to 2012, resulting in more inventories of raw materials and finished goods as at 31 May 2011 than 31 May 2010, and as at 31 May 2012 than 31 May 2011; and (ii) inventory turnover days in the above table is calculated as the amount of inventory as at 31 May divided by the cost of sales recognised during the five months ended 31 May (i.e. inventory in peak production seasons divided by costs of sales recognised in slack seasons), resulting in the inventory turnover days of the Group for the first five months of the year exhibiting an increasing trend from 2010 to 2012 as the Group's business during peak seasons kept growing.

The inventory turnover days significantly increased from approximately 87 days for the five months ended 31 May 2012 to approximately 132 days for the five months ended 31 May 2013 because there has been an increase in inventory balance as at 31 May 2013 compared to 31 May 2012 coupled with a decrease in cost of sales recognised for the five months ended 31 May 2013 compared to the five months ended 31 May 2012, as explained in more detail in the following table and the accompanying notes:

	Notes	**For the five months ended/ As at 31 May 2012** *HK$'000* (unaudited)	**For the five months ended/ As at 31 May 2013** *HK$'000*
Inventory balance			
— Raw materials and work in progress		18,101	18,397
— Private label finished goods	*1*	1,674	10,007
— Own brand finished goods	*2*	12,316	13,656
Total inventory balance (A)		**32,091**	**42,060**
Costs of sales (B)	*3*	**55,819**	**48,003**
Inventory turnover days (A/B x 151 days)		**87 days**	**132 days**

Notes:

1. Private label finished goods inventories increased significantly by approximately HK$8,333,000 from approximately HK$1,674,000 as at 31 May 2012 to approximately HK$10,007,000 as at 31 May 2013 primarily because of the following reasons:

   (i) Out of the increase of approximately HK$8,333,000, approximately HK$2,532,000 was attributable to a batch of private label finished goods (which amounted to approximately HK$2,532,000 at cost) that had been delivered to customer in the fourth quarter of 2012 but was returned to the Group for certain additional alterations as requested by the relevant customer. Such batch of goods was counted as the Group's inventory as at 31 May 2013 pending for completion of the alterations, thereby contributing to the increase in the inventory turnover days to 132 days for the five months ended 31 May 2013. Excluding the effect of the returned batch of private label finished goods of approximately HK$2,532,000, the inventory turnover days of the Group for the five months ended 31 May 2013 would have been approximately 124 days instead of 132 days.

   (ii) The remaining increase of approximately HK$5,801,000 was mainly attributable to the increased private label finished goods that were produced pursuant to sales orders received (including the delayed orders from customers as explained in detail in the paragraph headed "Revenue" under the sub-section headed "Combined statements of comprehensive income" above in this section of "Financial information") and were pending for delivery to customers.

2. Own brand finished goods increased by approximately HK$1,340,000 from approximately HK$12,316,000 as at 31 May 2012 to approximately HK$13,656,000 as at 31 May 2013 primarily due to the own brand finished goods produced in 2012 that were targeted to be sold in 2 to 3 peak seasons (i.e. 2 to 3 years) but remained unsold in the peak season of 2012 and therefore remained in the Group's inventory balance as at 31 May 2013.

3. Cost of sales decreased by approximately HK$7,816,000 from approximately HK$55,819,000 for the five months ended 31 May 2012 to approximately HK$48,003,000 for the five months ended 31 May 2013 primarily because the Group recorded a lower revenue (and thereby a lower cost of sales, being the denominator for the calculation of the inventory turnover days) for the five months ended 31 May 2013 compared to the five months ended 31 May 2012 due to the effect of the difference between the Chinese New Year period in 2012 and in 2013 as explained in more detail in the paragraph headed "Revenue" under the sub-section headed "Combined statements of comprehensive income" above in this section of "Financial information".

In order to improve the inventory turnover of the Group, the Group has increased its marketing effort in selling its finished goods inventory. For instance, approximately 55.8% of the Group's finished goods inventory aged over 1 year as at 31 May 2013 has been sold up to 31 October 2013, while approximately 67.1% of the Group's finished goods inventory aged between 181 and 365 days as at 31 May 2013 has been sold up to 31 October 2013. Please refer to the paragraph headed "Ageing analysis and subsequent usage/sales" below for further information regarding the subsequent sales progress of the Group's finished goods inventory as at 31 May 2013 of different age groups up to 31 October 2013.

Finished goods inventory

The following table sets out a breakdown of the Group's inventory of finished goods by private labels and own brand products and their subsequent sales:

	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013	Subsequent sales of finished goods balance up to 31 October 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Finished goods inventory				
— Private label products	1,838	5,228	10,007	9,746
— Own brand products	12,493	12,251	13,656	7,314
	14,331	17,479	23,663	17,060

As illustrated in the table above, most of the Group's finished goods inventory was own brand products during the Track Record Period. Subsequent sales of the finished goods inventory up to 31 October 2013 amounted to approximately HK$17,060,000, representing approximately 72.1% of the Group's finished goods inventory as at 31 May 2013.

The inventory level of private label finished goods increased from approximately HK$1,838,000 as at 31 December 2011 to approximately HK$5,228,000 as at 31 December 2012 primarily due to the following reasons: (i) private label products are generally manufactured only after receiving customers' orders and as such, private label finished goods inventory mainly include products that are manufactured pursuant to customers' orders and pending for delivery as well as goods in transit; (ii) as the Group experienced a general growth in business in 2012 as compared to 2011, the amount of goods in transit and pending for delivery as at 31 December 2012 was higher than that as at 31 December 2011; and (iii) one batch of private label finished goods amounting to approximately HK$2,532,000 that had been delivered to the customer in the fourth quarter of 2012 was returned to the Group for certain alterations as requested by the relevant customer, and such batch of goods was counted as the Group's inventory as at 31 December 2012 pending for completion of the alterations.

The inventory level of private label finished goods further increased to approximately HK$10,007,000 as at 31 May 2013 as compared to the approximately HK$5,228,000 as at 31 December 2012 mainly because of the following reasons: (i) the peak season of the Group is generally from July to November during which delivery (and thus revenue recognised) is the highest; (ii) as at 31 December of each year, the peak season has just passed and there are fewer private label products that are still pending for delivery or that are in transit; (iii) as at 31 May of each year, the peak season for delivery is approaching and many private label customers have already started placing orders for winter collections starting from the second quarter of the year and as such, a large quantity of products would have already been produced at the time of the year pursuant to customers' orders and would be pending for delivery to customers or are in transit and are therefore counted as finished goods inventory as at 31 May; and

(iv) the aforementioned returned batch of private label products amounting to approximately HK$2,532,000 still remained as the Group's inventory as at 31 May 2013 pending for completion of the alterations as requested by customers.

The inventory level of own brand products remained at a stable level, changing slightly from approximately HK$12,493,000 as at 31 December 2011 to HK$12,251,000 as at 31 December 2012, which is in line with the general growth of the Group's own brand products operation during the period.

The inventory level of own brand products increased from approximately HK$12,251,000 to approximately HK$13,656,000 as at 31 May 2013 because of the following reasons: (i) it has been one of the Group's strategies to further develop its own brand products operation, which requires more own brand finished goods inventory that are ready for immediate delivery once customers' orders are confirmed; and (ii) as at 31 May 2013, the peak season for sales was approaching and therefore, more own brand products are required (and had been produced) to cope with the anticipated peak seasons from July to November 2013.

Ageing analysis and subsequent usage/sales

The following table sets out the inventory ageing of the major categories of inventories and the amount of subsequent usage or sales:

	1–30 days	**31–90 days**	**91–180 days**	**181–365 days**	**Over 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials						
— as at 31 May 2013 (A)	7,691	4,312	2,222	1,250	1,400	16,875
— subsequent usage up to 31 October 2013 (unaudited) (B)	7,114	3,832	1,980	825	760	14,511
— B/A	92.5%	88.9%	89.1%	66.0%	54.3%	86.0%
Work in progress						
— as at 31 May 2013 (C)	1,522	—	—	—	—	1,522
— subsequent usage up to 31 October 2013 (unaudited) (D)	1,522	—	—	—	—	1,522
— D/C	100%	NA	NA	NA	NA	100%
Finished goods						
— as at 31 May 2013 (E)	8,591	1,214	864	3,884	9,110	23,663
— subsequent sales up to 31 October 2013 (unaudited) (F)	7,839	982	551	2,606	5,082	17,060
— F/E	91.2%	80.9%	63.8%	67.1%	55.8%	72.1%

As illustrated in the above table, the age of the raw materials below 1 year and over 1 year accounted for HK$15.5 million (or 91.7%) and HK$1.4 million (or 8.3%) of the total inventory of raw materials respectively. The inventory of raw materials over 1 year mainly comprised those leftover materials and materials for the production of samples. The subsequent usage of this category of raw materials was 54.3% up to 31 October 2013. The Directors consider that these raw materials will be fully used in production of finished goods and samples, and still have re-sell value although they are slow moving.

The age of the finished goods below 1 year and over 1 year accounted for HK$14.6 million (or 61.6%) and HK$9.1 million (or 38.4%) of the total inventory of finished goods respectively. The inventory of finished goods over 1 year mainly comprised the own brand products pending for sales to customers. The reason for such aged inventory is that a large quantity of own brand winter clothing had been produced previously targeting to be marketed and sold in the peak winter seasons in 2012 and 2013. The aged finished goods inventory mainly comprised those that were unsold in the peak season in 2012 and were brought forward to 2013, pending for sales to customers in the winter season. The subsequent sales of this category of finished goods was 55.8% up to 31 October 2013.

It has been the Group's strategy to develop the sales of own brand products and provide immediate delivery of products to customers. Therefore, the Group would select certain designs of fashion and develop them as own brand products, and produce or outsource the production before customers place orders.

During 2012, the Group developed and manufactured a series of winter clothing with various designs in relatively bulk quantity so as to offer more choices of clothing style for immediate delivery to the customers.

In addition, as the nature of the Group's own brand products are autumn/winter clothing and are only ready for sales in cold season, customers would generally place orders for such own brand products (which are available for immediate delivery) during the peak season from July to November each year. Therefore, customers would place fewer orders for the autumn/winter clothing in the slack season before July each year.

Although inventory was aged over 1 year, the Directors consider that no provision should be made as at 31 May 2013 because (i) the style and design of the relevant series of winter clothing are classic and universal in nature which are not considered to be easily outmoded and could be sold in two or three peak seasons (i.e. in two or three years); (ii) the Group usually aims at selling its finished goods inventory within 2 years (i.e. 2 peak seasons) before making any impairment; (iii) leveraged on the Group's strategy on developing its own brand products operation, the Group's sales of own brand products increased by 21.5% from HK$31.1 million for the year ended 31 December 2011 to HK$37.8 million for the year ended 31 December 2012, while the gross profit margin increased from 28.3% to 32.1% over the same period, and as such, the Directors consider this series of inventory of which was aged even over 1 year can be sold at price above its cost in the peak season in 2013; and (iv) approximately 55.8% of the Group's finished goods inventory that was aged over 1 year as at 31 May 2013 were subsequently sold up to 31 October 2013 as illustrated in the above table. Based on the above, the Directors consider that the write-down of inventories of approximately HK$293,000, nil and nil for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 were adequate.

Among approximately HK$9,110,000 of finished goods inventory aged over 1 year as at 31 May 2013, only approximately HK$746,000 were aged 2 years or above as at 31 May 2013. The Directors consider that no provision is necessary for such inventories aged 2 years or above because (i) out of approximately HK$746,000, a substantial portion amounting to approximately HK$500,000 had already been subsequently sold up to 31 October 2013 above its costs; and (ii) the remaining balance of approximately HK$246,000 is immaterial and the Directors are confident that such remaining inventory can be subsequently sold over its costs.

TRADE AND BILL RECEIVABLES ANALYSIS

Trade and bill receivables are initially recognised at fair value and thereafter stated as amortised cost, using the effective interest method, less any identified impairment losses. During the Track Record Period, the Group did not record any impairment losses on trade and bill receivables.

The Group's trade and bill receivables represented approximately 37.3%, 36.0% and 18.7% of the Group's total current assets as at 31 December 2011 and 2012 and 31 May 2013 respectively. The following table sets out the Group's trade and bill receivables balances as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	36,590	41,583	23,081
Bill receivables	3,519	7,992	1,488
	40,109	49,575	24,569

The Group's trade and bill receivables decreased by approximately 50.4% or HK$25.0 million from approximately HK$49.6 million as at 31 December 2012 to approximately HK$24.6 million as at 31 May 2013 which was in line with the decrease in sales due to the seasonal factor. The Group's trade and bill receivables increased by approximately 23.7% or HK$9.5 million from approximately HK$40.1 million as at 31 December 2011 to approximately HK$49.6 million as at 31 December 2012, primarily attributable to increase in turnover as a result of more sales order placed by the Group's customers during the year ended 31 December 2012.

The following table sets out the Group's trade receivables turnover days during the Track Record Period:

	As at 31 December		As at 31 May
	2011	2012	2013
Trade receivables turnover days	44	46	57

Notes:

1. Trade receivable turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending trade receivables balances/revenue.

2. In view of the distorting effect of the relatively higher-ending balance of the trade receivables as at 31 December 2012, trade receivables turnover days for the five months ended 31 May 2013 was calculated by dividing the trade receivables as at 31 May 2013 by revenue for the five months ended 31 May 2013 times 151 days.

The Group's trade receivables turnover days were approximately 44, 46 and 57 for the two years ended 31 December 2012 and for the five months ended 31 May 2013, respectively. The trade receivables turnover days increased by approximately 11 days from approximately 46 days for the year ended 31 December 2012 to approximately 57 days for the five months ended 31 May 2013, primarily attributable to relatively lower turnover during the first quarter of 2013 resulting from seasonal factor. Trade receivables turnover days for the years ended 31 December 2011 and 31 December 2012 remained relatively stable at approximately 44 days and approximately 46 days respectively.

The Group generally grants an average credit period of 10 to 60 days to its customers. The following table sets out the ageing analysis of the Group's trade receivables balances based on the invoice dates as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	13,927	8,334	9,457
31–60 days	15,370	20,065	6,234
61–90 days	4,655	9,208	4,935
91–180 days	2,578	3,881	2,374
Over 180 days	60	95	81
	36,590	41,583	23,081

Up to 31 October 2013, approximately 99.5% of the Group's trade receivables as at 31 May 2013 had been settled. The reason for the subsequent settlement of only 99.5% (rather than 100%) was due to late settlement by certain customers of the Group.

TRADE AND BILL PAYABLES ANALYSIS

Trade and bill payables are initially recognised at fair value and thereafter stated at amortised costs, using the effective interest method.

The Group's trade and bill payables primarily represent payables to its third-party raw material suppliers, third-party product suppliers and subcontractors. The following table sets out the breakdown of the Group's trade and bill payables as at the dates indicated:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	64,263	63,120	41,465
Bill payables	3,085	10,311	11,259
	67,348	73,431	52,724

The Group's trade and bill payables decreased by approximately 28.2% or HK$20.7 million from approximately HK$73.4 million as at 31 December 2012 to approximately HK$52.7 million as at 31 May 2013. The decrease in trade and bill payables was primarily due to the decrease in purchase of materials during the slack season in the first five months of the year 2013. The Group's trade and bill payables increased by approximately 9.1% or HK$6.1 million from approximately HK$67.3 million as at 31 December 2011 to approximately HK$73.4 million as at 31 December 2012, primarily attributable to increase in purchase of materials during the year ended 31 December 2012, where higher sales volume were recorded.

The following table sets out the Group's trade payables balances based on the invoice dates as at the respective financial position dates below grouped by their ages.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	20,611	18,803	18,207
31–60 days	10,225	11,678	8,358
61–90 days	9,076	4,585	3,492
91–180 days	12,782	13,251	5,451
Over 180 days	11,569	14,803	5,957
	64,263	63,120	41,465

During the Track Record Period, credit periods granted by the Group's suppliers are in general in the range of 15 to 120 days.

Up to 31 October 2013, approximately 94.8% of the Group's trade payables as at 31 May 2013 had been settled.

The following table sets out the Group's trade payables turnover days during the Track Record Period:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
Trade payables turnover days	98	92	130

Notes:

1. Trade payables turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending trade payables balances / cost of sales.

2. In view of the distorting effect of the relatively higher ending balance of the trade payables as at 31 December 2012, trade payables turnover days for the five months ended 31 May 2013 was calculated by dividing the trade payables as at 31 May 2013 by cost of sales for the five months ended 31 May 2013 times 151 days.

The Group's trade payables turnover days were approximately 98, 92 and 130 for the two years ended 31 December 2012 and for the five months ended 31 May 2013 respectively. The trade payables turnover days increased from approximately 92 days for the year ended 31 December 2012 to approximately 130 days for the five months ended 31 May 2013, which was primarily attributable to (i) lower cost of sales recorded during the five months ended May 2013 due to the seasonal fluctuation; and (ii) a relatively higher balance of trade payables as at 31 May 2013 as the Group purchases more raw materials in April to May for the coming peak production season from July to November. Trade payables turnover days decreased slightly by approximately 6 days, from 98 days for the year ended 31 December 2011 to 92 days for the year ended 31 December 2012, which was primarily due to increase in settlement to suppliers.

Deposits, prepayments and other receivables

The following table sets out the Group's deposits, prepayments and other receivables as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables, net	7,986	9,833	7,874
Deposits	5,186	1,917	2,009
Prepayments	2,991	1,392	5,160
Payments for leasehold land held for own use under operating leases	52	54	54
	16,215	13,196	15,097

Deposits, prepayments and other receivables include prepayments for purchases of raw materials, utilities deposits, deposits paid for purchases of raw materials, other receivables which mainly comprise the advance to certain subcontractors and suppliers.

The balance of deposits, prepayments and other receivables increased by approximately HK$1.9 million from approximately HK$13.2 million as at 31 December 2012 to approximately HK$15.1 million as at 31 May 2013, which was mainly due to increase in prepayments for purchases of raw materials of approximately HK$3.8 million and partly offset by decrease in advances to subcontractors and suppliers by approximately HK$1.9 million. The balance of deposits, prepayments and other receivables decreased by approximately HK$3.0 million from approximately HK$16.2 million as at 31 December 2011 to approximately HK$13.2 million as at 31 December 2012, which was primarily due to decrease in deposits paid for purchases of raw materials by approximately HK$3.3 million and prepayments for purchases of raw materials by approximately HK$1.6 million, and partly offset by increase in advances to subcontractors and suppliers by approximately HK$1.8 million.

Accruals, other payables and receipts in advance

The following table sets out the Group's accruals, other payables and receipts in advance as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	4,362	5,461	4,026
Other payables	10,603	11,384	7,819
Receipts in advance	724	4,054	3,180
	15,689	20,899	15,025

Accruals included accrued salaries and utility expenses. Other payables mainly comprised transportation fee payable. Receipts in advance mainly comprised deposits from customers as at each of the reporting dates of the Track Record Period.

The balance of accruals, other payables and receipts in advance increased by approximately HK$5.2 million from approximately HK$15.7 million as at 31 December 2011 to approximately HK$20.9 million as at 31 December 2012, mainly due to increase in accruals by HK$1.1 million as a result of increase in accrued staff's salaries and bonuses and other operating expenses due to increase in turnover; and increase in receipts in advance of approximately HK$3.4 million as a result of more deposits received from customers during the year ended 31 December 2012.

The balance of accruals, other payables and receipts in advance decreased by approximately HK$5.9 million from approximately HK$20.9 million as at 31 December 2012 to approximately HK$15.0 million as at 31 May 2013, mainly due to decrease in accruals for staff salaries by approximately HK$1.4 million, other payables by approximately HK$3.6 million as a result of decrease in transportation fee and warehousing fee and receipts in advance by approximately HK$0.9 million as a result of decrease in deposits receipt from customers. All the aforesaid decreases were mainly due to the slack season effects during the period.

ANALYSIS OF FINANCIAL POSITION

The following table sets out the key financial ratios of the Group during the Track Record Period.

	As at 31 December		As at 31 May
	2011	2012	2013
Return on total assets	7.2%	14.6%	(3.0%)
Return on equity	22.6%	40.8%	(8.6%)
Current ratio	1.22	1.36	1.33
Quick ratio	0.95	1.09	0.90
Gearing ratio	10.4%	4.4%	54.9%

Key financial ratios

Return on assets

There was negative return on total assets for the five months ended 31 May 2013 due to the loss of approximately HK$4.5 million incurred by the Group for the period, which has been explained aforesaid in this section.

The Group's return on total assets increased from approximately 7.2% for the year ended 31 December 2011 to approximately 14.6% for the year ended 31 December 2012. This was mainly due to the increase in net profit for the year by approximately 145.9% over the two years ended 31 December 2012 due to the aforementioned reasons.

Return on equity

There was negative return on equity for the five months ended 31 May 2013 due to the loss of approximately HK$4.5 million incurred by the Group for the period, which has been explained aforesaid in this section.

The Group's return on equity increased from approximately 22.6% for the year ended 31 December 2011 to approximately 40.8% for the year ended 31 December 2012, primarily due to the increase in net profit for the year by approximately 145.9% over the two years ended 31 December 2012 due to the aforementioned reasons.

Current ratio

The Group's current ratio remained relatively stable during the Track Record Period at approximately 1.22, 1.36 and 1.33 as at 31 December 2011 and 2012 and 31 May 2013 respectively.

Quick ratio

The Group's quick ratio declined from approximately 1.09 as at 31 December 2012 to approximately 0.90 as at 31 May 2013 primarily due to a decrease in trade and bill receivables of approximately of HK$25.0 million from 31 December 2012 to 31 May 2013, which was mainly due to relatively lower sales volume recorded during the five months ended 31 May 2013 because of the seasonal factor.

The Group's quick ratio improved from approximately 0.95 as at 31 December 2011 to approximately 1.09 as at 31 December 2012. The improvement in quick ratio was primarily due to increase in balance of cash and cash equivalents as a result of improvement in profit margin and business growth.

Gearing ratio

The Group's gearing ratio was approximately 10.4%, 4.4% and 54.9% as at 31 December 2011, 2012 and 31 May 2013 respectively. The increase in gearing ratio from approximately 4.4% as at 31 December 2012 to approximately 54.9% as at 31 May 2013 was mainly due to increase in interest-bearing borrowings of approximately of HK$26.3 million as a result of more finance obtained from banks for purchases of inventory in preparation of production for peak season from July to November. The decline in gearing ratio from approximately 10.4% as at 31 December 2011 to approximately 4.4% as at 31 December 2012 was mainly due to decrease in interest-bearing borrowings by approximately HK$1.9 million as at 31 December 2012 as a result of improvement in cash and bank balances and improvement in business performance in the year ended 31 December 2012.

INDEBTEDNESS

The following table sets out the Group's interest-bearing borrowings and amounts due to Directors as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Current portion:			
Interest-bearing borrowings			
— Bank borrowings	3,461	1,828	28,187
— Obligations under finance leases	218	232	237
Amounts due to Directors	—	2,515	830
	3,679	4,575	29,254
Non-current portion:			
Interest-bearing borrowings			
— Obligations under finance leases	649	418	317
	4,328	4,993	29,571

Interest-bearing borrowings

The Group's bank borrowings during the Track Record Period were secured by pledged bank deposits, personal guarantees by the Directors, the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region, SME Financing Guarantee Scheme executed by the Hong Kong Mortgage Corporation Limited and/or the Group's buildings and payments for leasehold land held for own use under operating leases. Such personal guarantees will be released upon Listing and replaced by corporate guarantees of the Group.

The Group leased its office equipment under finance leases with an average lease term of 5 years. The Group's obligation under finance leases are secured by the lessors' title to the leased assets. Details of obligation under finance leases are disclosed in the paragraphs headed "Commitments" below.

As at 31 December 2011 and 2012 and 31 May 2013, interest-bearing borrowings of HK$1,828,000, HK$752,000 and HK$2,641,000 that are not scheduled to repay within one year were classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as current liabilities is expected to be settled within one year.

As at the respective financial position dates, total current and non-current interest-bearing borrowings were scheduled to repay as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,851	1,308	25,783
More than one year, but not exceeding two years	1,307	998	1,115
More than two years, but not exceeding five years	1,170	172	1,843
	4,328	2,478	28,741

Note: The amounts due are based on the scheduled repayment dates in the banking facilities and ignore the effect of any repayment on demand clause.

The interest-bearing borrowings carry interest at rates per annum ranging as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
Fixed-rate borrowings	6.0% to 6.7%	6.0%	2.8% to 6.2%
Variable-rate borrowings:			
— Prime/standard rate of the banks	5.8%	5.8%	3.5% to 6.6%
— PRC National benchmark interest rate	6.9%	—	—

Amounts due to Directors

The amounts due to Directors are unsecured, non-interest bearing and repayable on demand. The amounts due to Directors as at 31 December 2012 and 31 May 2013 represented advances from Mr. Tien and/or Mr. Gozashti for financing the daily operation of the Group which will be repaid by the Group prior to the Listing.

Financial guarantee

The maximum amounts of financial guarantees provided by the Directors as well as the amount of interest-bearing borrowings and unutilised banking facilities during the Track Record Period are as follows:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Financial guarantees provided by:			
Mr. Tien	117,100	131,000	143,042
Mr. Gozashti	83,900	97,800	101,300
Interest-bearing borrowings outstanding	4,328	2,478	28,741
Unutilised banking facilities	112,100	126,000	110,466

As illustrated in the above table, the maximum amounts of financial guarantees provided by the Directors during the Track Record Period were significantly higher than the actual outstanding balances of interest-bearing borrowings as at the end of each years/period of the Track Record Period. Such significantly higher amounts of financial guarantees provided were necessary in view of the total amount of banking facilities granted by the relevant banks to the Group. The amounts of banking facilities allow flexibilities to the Group during peak seasons for production and working capital needs.

The Group had unutilised banking facilities of approximately HK$112.1 million, HK$126.0 million and HK$110.5 million as at 31 December 2011 and 2012 and 31 May 2013 respectively.

As at 31 October 2013, being the most recent practicable date for the purpose of this indebtedness statement in this prospectus, the Group had the following outstanding borrowings:

	As at 31 October 2013 *HK$'000* (unaudited)
Current portion:	
Interest-bearing borrowings	
— Bank borrowings	11,851
— Obligations under finance leases	243
Amounts due to Directors	1,420
	13,514
Non-current portion:	
Interest-bearing borrowings	
— Obligations under finance leases	214
	13,728

As at 31 October 2013, interest-bearing borrowings of HK$2,119,000 that are not scheduled to repay within one year were classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as current liabilities is expected to be settled within one year.

Total current and non-current interest-bearing borrowings were scheduled to repay as follows:

	As at 31 October 2013 *HK$'000* (unaudited)
Within one year	9,975
More than one year, but not exceeding two years	803
More than two years, but not exceeding five years	1,530
	12,308

Note: The amounts due are based on the scheduled repayment dates in the banking facilities and ignore the effect of any repayment on demand clause.

As at 31 October 2013, the total amount of unutilised banking facilities available to the Group amounted to approximately HK$136.7 million. On the same date, the Group's outstanding borrowings mainly comprised bank borrowings of approximately HK$11.9 million, which was secured by pledged bank deposits, personal guarantees by the Directors, the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region, SME Financing Guarantee Scheme executed by the Hong Kong Mortgage Corporation Limited and/or the Group's buildings and payments for leasehold land held for own use under operating leases. The interest rates of such bank borrowings ranged from 2.7% to 6.2%. The personal guarantees will be released upon Listing and replaced by corporate guarantees of the Group.

Save as disclosed in this sub-section headed "Indebtedness" and in the paragraphs headed "Contingent liabilities" below, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 October 2013. The Directors further confirm that there has not been any material change in the Group's indebtedness position subsequent to 31 October 2013 up to the date of this prospectus.

DISTRIBUTABLE RESERVES

The Company was incorporated on 19 June 2013. As at 31 May 2013, the Company had no distributable reserves available for distribution to the Shareholders.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's internal resources, available banking facilities and the estimated net proceeds from the Placing, the Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this prospectus.

CAPITAL EXPENDITURES

The Group expects that the future capital expenditures are mainly for the purchase, upgrade and replacement of the Group's manufacturing facilities to increase production capacity and operational efficiency and to reduce operating costs. The Group estimates that the capital expenditure will amount to approximately HK$6.5 million and HK$10.0 million for the years ending 31 December 2014 and 2015. The source of funding for these capital expenditures will be mainly the net proceeds from the Placing. The total capital expenditure of the Group were HK$1.6 million, HK$0.6 million and HK$0.4 million for the years ended 31 December 2011 and 2012, and the five months ended 31 May 2013 respectively.

CONTINGENT LIABILITIES

As at the Latest Practicable Date, Runway HK was involved in an outstanding arbitration case in Hong Kong where Runway HK was the claimant while an independent third party product supplier was the respondent (the "Respondent"), details of which are disclosed in the paragraph headed "Litigation" under the section headed "Business" in this prospectus.

The arbitration involved a contract dispute between Runway HK and the Respondent, where Runway HK is claiming against the Respondent for certain undelivered apparel products (which Runway HK had paid for) and an amount in the sum of US$153,055.92 (or approximately HK$1.19 million). While Runway HK was the claimant, the Respondent has filed a counterclaim against Runway HK, according to which if Runway HK ultimately loses in the proceedings, it may be required to pay to the Respondent a certain amount (which had been calculated by the Respondent to be US$189,813.88, or approximately HK$1.48 million) plus other possible damages and costs. The outcome of the arbitration is uncertain as at the Latest Practicable Date. The Directors consider that no provision is required at this stage of the proceedings in accordance with the Group's relevant accounting policy.

COMMITMENTS

The Group's commitments relate to future aggregate minimum lease payments under its finance lease commitments and operating lease commitments.

(a) Finance lease commitments

The Group leased its office equipment under finance leases with an average lease term of 5 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rate underlying all obligations under finance leases is fixed at the respective contract date at 6% per annum.

Future minimum rental payable at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	264	264	264
In the second to fifth years	704	440	330
	968	704	594
Less: Future finance charges	(101)	(54)	(40)
Present value of minimum lease payments	867	650	554

Present value of minimum lease payments at the end of each reporting period included in the combined statements of financial position are as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Interest-bearing borrowings — Current portion	218	232	237
Interest-bearing borrowings — Non-current portion	649	418	317
	867	650	554

(b) Operating lease commitments

Future minimum rental payable under non-cancellable operating leases of the Group in respect of land and buildings at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,547	2,876	2,641
In the second to fifth years	3,453	3,445	1,992
	6,000	6,321	4,633

The Group leases certain properties under operating leases. The leases run for an initial period of 3 months to 5 years. None of these leases include any contingent rentals.

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Group regularly reviews and manages the capital structure in order to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Further details on the Group's capital risk management are set out in note 38 to the Accountants' Report in Appendix I to this prospectus.

Financial risk management

The Group is exposed to market, credit and liquidity risks in the normal course of business. Further details on the Group's financial risk management objectives and policies are set out in note 37 to the Accountants' Report in Appendix I to this prospectus.

DIVIDEND POLICY

During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, Runway HK distributed interim dividends of approximately HK$3.9 million, HK$8.3 million and HK$0.4 million respectively to Mr. Tien and Mr. Gozashti. In addition, Runway HK declared a special dividend of HK$20.0 million in June 2013 to Mr. Tien and Mr. Gozashti, which was fully paid in June 2013.

The Company currently does not have a fixed dividend policy and may distribute dividends by way of cash or by other means that the Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of the Board and depend upon the following factors:

- the Group's financial results;
- the Company's shareholders' interests;
- general business conditions, strategies and future expansion needs;
- the Group's capital requirements;
- the payment by its subsidiaries of cash dividends to the Company;
- possible effects on liquidity and financial position of the Group; and
- other factors as the Board may consider relevant.

LISTING EXPENSE

The Group expects that its total listing expense, which is non-recurring in nature, will amount to approximately HK$18.0 million. Out of the total HK$18.0 million in listing expense, the Group has incurred approximately HK$3.5 million (including approximately HK$2.6 million recognised as expense in the combined statements of comprehensive income) during the five months ended 31 May 2013. For the remaining amount of approximately HK$14.5 million, the Group expects to further recognise approximately HK$8.7 million in the combined statements of comprehensive income for the year ending 31 December 2013.

Accordingly, the financial results of the Group for the year ending 31 December 2013 are expected to be affected by the estimated expenses in relation to the Listing. Such listing expense is a current estimate for reference only and the final amount to be charged to the profit and loss account of the Group for the year ending 31 December 2013 and the amount to be deducted from the Group's capital is subject to change.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that up to the date of this prospectus, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 May 2013 (being the date to which the latest audited combined financial statements of the Group were prepared), and that there is no event since 31 May 2013 which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

RELATED PARTY TRANSACTIONS

Please refer to the paragraph headed "Related parties transaction" in note 34 to the Accountants' Report in Appendix I to this prospectus.

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which could give rise to a disclosure obligation pursuant to Rules 17.15 to 17.21 of the GEM Listing Rules.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Placing might have affected the combined net tangible assets attributable to the owners of the Company after the completion of the Placing as if the Placing had taken place on 31 May 2013. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Group had the Placing been completed on 31 May 2013 or at any future dates.

The unaudited pro forma adjusted combined net tangible assets of the Group as at 31 May 2013 is based on the audited combined net tangible assets attributable to the owners of the Company as at 31 May 2013 as shown in the Accountants' Report set out in Appendix I to this prospectus and the adjustments described below.

	Audited combined net tangible assets attributable to owners of the Company as at 31 May 2013	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company**	**Unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the Placing Price	52,329	37,555	89,884	0.15

The unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company and the unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company have not taken into account the dividend declared in June 2013 for payment to Mr. Tien and Mr. Gozashti amounting to HK$20,000,000, which was fully paid in June 2013. The unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK$0.12 per Share, after taking into account the payment of the dividend in the sum of HK$20,000,000 and based on 600,000,000 Shares in issue immediately following the completion of the Placing and Capitalisation Issue.

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 31 May 2013 are based on audited combined net assets attributable to owners of the Company as at 31 May 2013 as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Placing are based on 150,000,000 Placing Shares and the Placing Price, after deduction of the underwriting fees and related expenses payable by the Company. No account has been taken of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 600,000,000 Shares in issue immediately following the completion of the Placing and the Capitalisation Issue but takes no account of any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

(4) The Group's property interests were valued by Castores Magi (Hong Kong) Limited, an independent property valuer, and the valuation in respect of which was set out in Appendix III to this prospectus. The revaluation surplus of HK$63.5 million will not be reflected in the financial statements of the Group in future. If the revaluation surplus were to be included in the financial statements of the Group, an additional depreciation charge of approximately HK$4.0 million per annum would be incurred.

BUSINESS OBJECTIVES AND STRATEGIES

Please refer to the paragraph headed "Business strategies" under the section headed "Business" in this prospectus for the Group's business objectives and strategies.

IMPLEMENTATION PLAN

The Group's implementation plans are set forth below for each of the six-month periods until 31 December 2015. Investors should note that the implementation plans and their scheduled times for attainment are formulated on the bases and assumptions referred to in the sub-section headed "Bases and assumptions" below. These bases and assumptions are inherently subject to many uncertainties, variables and unpredictable factors, in particular the risk factors set out in the section headed "Risk factors" in this prospectus. The Group's actual course of business may vary from the business objective set out in this prospectus. There can be no assurance that the plans of the Group will materialise in accordance with the expected time frame or that the objective of the Group will be accomplished at all. Based on the Group's business objective, the Directors intend to carry out the following implementation plans:

From the Latest Practicable Date to 31 December 2013

Business strategy	Use of proceed	Implementation plan
Further developing the own brand products operation	HK$0.5 million	Set up a new marketing team with about 1 to 2 staff to visit, make presentations to, and develop relationship with existing and potential customers of the Group's own brand products
		Participate in more trade fairs and fashion shows to increase the exposure of the brands owned by the Group
		Develop marketing plan for further expansion of North America market
Enhancing the Group's manufacturing facilities	Nil	Obtain and review quotations and detailed functional specifications of the new production facilities and equipment to enhance the production efficiency and capacity
		Examine the state and condition of the existing production facilities to ascertain and develop time schedule for replacement
Further strengthening the Group's design capability	HK$0.5 million	Recruit about 1 to 2 staff to strengthen the design team
		Commence the revamp of the proprietary online product development platform

For the six months ending 30 June 2014

Business strategy	**Use of proceed**	**Implementation plan**
Further developing the own brand products operation	HK$1.5 million	Expand the marketing team with about 1 to 2 staff to visit, make presentations to, and develop relationship with existing and potential customers of the Group's own brand products
		Continue to participate in more trade fairs and fashion shows to increase the exposure of the brands owned by the Group
		Recruit about 1 to 2 staff to continue the development of sales at smaller boutique stores in the North America market
Enhancing the Group's manufacturing facilities	HK$1.0 million	Purchase new production equipment and machinery to enhance the production efficiency and capacity (mainly including approximately 40 sets of additional computerised sewing stations at a total investment cost of approximately HK$1.0 million, with a target to reduce production time by 5% and to increase production capacity by 5%)
		Obtain quotation for more new production facilities to replace certain existing facilities
Further strengthening the Group's design capability	HK$1.0 million	Recruit addition 2 to 3 staff to strengthen the design team
		Develop and create more fashion apparel samples for presentation to existing and potential customers
		Continue the revamp of the proprietary online product development platform

For the six months ending 31 December 2014

Business strategy	Use of proceed	Implementation plan
Further developing the own brand products operation	HK$3.0 million	Set up new showroom or expand existing showroom(s) in the USA to display and promote more own brand products to customers Continue to participate in more trade fairs and fashion shows to increase the exposure of the brands owned by the Group Increase inventory of own brand products in preparation for increase in demand from customers
Enhancing the Group's manufacturing facilities	HK$5.5 million	Purchase new production equipment and machinery to replace existing manufacturing facilities that are currently aged more than 8 years (mainly including approximately 50 sets of new computerised sewing stations to replace old sewing machines as well as approximately 10 sets of other machineries including button-attaching machine, bonding machine, fabric cutting machine and buttonhole machine to replace old ones, with a total investment cost of approximately HK$2.0 million) and to enhance the production efficiency and capacity (mainly including approximately 35 sets of additional new double-needle automated sewing stations as well as approximately 10 sets of other additional new machineries including automated fabric spreading machines, high ply cutting machines and automated pocket hole machines, at a total investment cost of approximately HK$3.0 million to HK$3.5 million and with a target to reduce production time by a further 5% and to increase production capacity by a further 15%) Renovate and refurbish the existing factory building and reset the factory layout for more new production facilities

Business strategy	Use of proceed	Implementation plan
Further strengthening the Group's design capability	HK$2.0 million	Recruit addition 3 to 5 staff to strengthen the design team Continue to develop and create more fashion apparel samples for presentation to existing and potential customers Purchase various design and sketching software to strengthen the design efficiency and capability Continue the revamp of the proprietary online product development platform Plan for developing a database with comprehensive and updated data and information of fabric, accessories, fashion samples, fashion design photos and other historical information related to fashion apparel

For the six months ending 30 June 2015

Business strategy	Use of proceed	Implementation plan
Further developing the own brand products operation	HK$1.5 million	Continue to expand the marketing team with about 2 to 3 staff to visit, make presentations to, and develop relationship with existing and potential customers of the Group's own brand products in the North America market Continue to participate in more trade fairs and fashion shows to increase the exposure of the brands owned by the Group Commence the development of online products demonstration and ordering platform to facilitate customers to get access to the updated Group's products and placing orders Recruit about 1 to 2 staff to continue the development of sales at smaller boutique stores in North America and in particular explore Canada market Increase own brand products inventories in preparation for increase in demand from new and existing customers

Business strategy	Use of proceed	Implementation plan
Enhancing the Group's manufacturing facilities	HK$5.5 million	Purchase new production equipment and machinery to replace existing manufacturing facilities that are currently aged more than 8 years (mainly including approximately 40 sets of new computerised sewing stations to replace old sewing machines as well as approximately 10 sets of other machineries including pressing and ironing equipment, over-lock machine, tacking machine and packing machine to replace old ones, with a total investment cost of approximately HK$2.0 million) and to enhance the production efficiency and capacity (mainly including approximately 10 sets of additional new machineries including computerised automated cutting machines, automated pocket hole machines, paper pattern printing and cutting equipment and buttonhole machines, as well as the installation of steam pipe system, at a total investment cost of approximately HK$3.0 million to HK$3.5 million and with a target to reduce production time by a further 5% and to increase production capacity by a further 15%) Continue the renovation and refurbishment of the existing factory building and reset the factory layout for more new production facilities to operate effectively and efficiently
Further strengthening the Group's design capability	HK$2.0 million	Continue to expand and strengthen the design team by recruit additional 3 to 5 staff Continue to develop and create more fashion apparel samples for presentation to existing and potential customers Launch the revamped proprietary online product development platform Commence the development of a database with comprehensive and updated data and information of fabric, accessories, fashion samples, fashion design photos and other historical information related to fashion apparel

For the six months ending 31 December 2015

Business strategy	**Use of proceed**	**Implementation plan**
Further developing the own brand products operation	HK$1.5 million	Continue to expand the marketing team with about 2 to 3 staff to visit, make presentations to, and develop relationship with existing and potential customers of the Group's own brand products
		Continue to participate in more trade fairs and fashion shows to increase the exposure of the brands owned by the Group
		Hold fashion show(s) in Canada and the United States to further increase exposure of the Group's products to customers
		Launch the online products demonstration and ordering platform to facilitate customers to get access to the updated Group's products and placing orders
		Increase own brand products inventories in preparation for increase in demand from new and existing customers
Enhancing the Group's manufacturing facilities	HK$4.5 million	Purchase new production equipment and machinery to enhance the production efficiency and capacity (mainly including the installation of 2 sets of new intelligent automated apparel products hanging systems, as well as approximately 20 sets of additional new machineries including computerised over-lock machines, automated computerised cutting machines, automated tacking machines, automated button-attaching machines, paper pattern printing and cutting equipment, and computerised sketching and plotting equipment, at a total investment cost of approximately HK$4.5 million and with a target to reduce production time by a further 10% and to increase production capacity by a further 20%)
		Evaluate the effectiveness and efficiency of the new facilities

Business strategy	Use of proceed	Implementation plan
Further strengthening the Group's design capability	HK$2.0 million	Continue to expand and strengthen the design team by recruit additional 2 to 3 staff Continue to develop and create more fashion apparel samples for presentation to existing and potential customers Launch the database platform with comprehensive and updated data and information of fabric, accessories, fashion samples, fashion design photos and other historical information related to fashion apparel

BASES AND ASSUMPTIONS

The business objectives set out by the Directors are based on the following bases and assumptions:

- the Group will have sufficient financial resources to meet the planned capital expenditure and business development requirements during the period to which the Group's future plans relate;
- there will be no change in the funding requirement for each of the Group's future plans described in this prospectus from the amount as estimated by the Directors;
- there will be no material changes in existing laws and regulations, or other governmental policies relating to the Group, or in the political, economic or market conditions in which the Group operates;
- there will be no material changes in the bases or rates of taxation applicable to the activities of the Group;
- the Placing will be completed in accordance with and as described in the section headed "Structure and conditions of the Placing" in this prospectus;
- the Group is able to maintain its customers;
- the Group will be able to retain key staff in the management and the main operational departments;
- the Group will be able to continue its operation in substantially the same manner as the Group has been operating during the Track Record Period and the Group will also be able to carry out its development plans without disruptions adversely affecting its operations or business objectives in any way;
- there will be no disasters, natural, political or otherwise, which would materially disrupt the businesses or operations of the Group; and
- the Group will not be materially affected by the risk factors as set out under the section headed "Risk factors" in this prospectus.

REASONS FOR THE PLACING

The Placing will enhance the Group's reputation and capital base and provide the Group with additional working capital to implement the future plans set out in the paragraph headed "Implementation plan" above.

USE OF PROCEEDS

The net proceeds from the Placing, after deducting related expenses, are estimated to be approximately HK$34.5 million (assuming the Offer Size Adjustment Option is not exercised). The Directors presently intend that the net proceeds will be applied as follows:

	From the Latest Practicable Date to 31 December 2013	For the period from 1 January 2014 to 30 June 2014	For the period from 1 July 2014 to 31 December 2014	For the period from 1 January 2015 to 30 June 2015	For the period from 1 July 2015 to 31 December 2015	Total
	HK$ million	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*	*HK$ million*
Further developing the Group's own brand products operation	0.5	1.5	3.0	1.5	1.5	8.0
Enhancing the Group's manufacturing facilities	—	1.0	5.5	5.5	4.5	16.5
Further strengthening the Group's design capability	0.5	1.0	2.0	2.0	2.0	7.5

Approximately HK$2.5 million (approximately 7.2% of the net proceeds) will be used as general working capital of the Group. The Directors and the Sponsor consider that the net proceeds from the issue of the Placing Shares of about HK$34.5 million and the Group's internal resources will be sufficient to finance the business plans of the Group as scheduled up to 31 December 2015.

If the Offer Size Adjustment Option is exercised in full, the net proceeds from the Placing will increase to approximately HK$42.1 million. The Group intends to apply the additional net proceeds from the exercise of the Offer Size Adjustment Option in further developing the own brand products operation.

To the extent that the net proceeds from the issue of the Placing Shares are not immediately required for the above purpose, it is the present intention of the Directors that such proceeds will be placed on short-term interest bearing deposits or treasury products with authorised financial institutions.

UNDERWRITER, BOOKRUNNER AND LEAD MANAGER

Kingston Securities Limited

CO-MANAGER

RaffAello Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing, on and subject to the terms and conditions in the Underwriting Agreement and this prospectus at the Placing Price.

Subject to, among other conditions, the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and to certain other conditions set out in the Underwriting Agreement being satisfied or waived on or before the 30th day after the date of this prospectus (or such later date as the Company and the Lead Manager (on behalf of the Underwriter) may agree), the Underwriter has agreed to subscribe for or procure subscribers for the Placing Shares on the terms and conditions of the Placing.

Grounds for termination

The Lead Manager (for itself and on behalf of the Underwriter) may by notice in writing given to the Company at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date to terminate the Underwriting Agreement if at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (which is expected to be 3 December 2013):

(a) there comes to the notice of the Lead Manager:

(i) any matter or event showing any of the warranties to be untrue, inaccurate or misleading in any material aspect when given or repeated or there has been a breach of any of the obligations and provisions, representations and warranties or any other provision of the Underwriting Agreement by any party to the Underwriting Agreement other than the Lead Manager and/or the Underwriter which, in any such case, is considered, in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter), to be material in the context of the Placing; or

(ii) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted a material omission in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter) in the context of the Placing; or

(iii) any statement contained in this prospectus reasonably considered to be material by the Lead Manager which is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter) to be material; or

(iv) any event, act or omission which gives rise or is likely to give rise to any material liability of any of the Company, the executive Directors and the Controlling Shareholders pursuant to the indemnities contained in the Underwriting Agreement; or

(v) any breach by any party to this Agreement other than the Underwriter of any provision of this Agreement which is considered in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter) to be material; or

(vi) any material adverse change or a prospective material adverse change in the business, results of operation, financial or trading position, or prospects of the Group as a whole the effect of which is, in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter), so material and adverse as to make it impracticable or inadvisable to proceed with the Placing; or

(b) if there shall have developed, occurred, existed or come into effect any event or series of events, matters or circumstances whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:

(i) any new law or regulation or any material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any of the jurisdictions in which the Group operates or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the Group, including but not limited to Hong Kong, the Cayman Islands, the BVI and the PRC; or

(ii) any material adverse change (whether or not permanent) in the conditions of the Hong Kong or international securities markets (or in conditions affecting a sector only of such markets) including, for the avoidance of doubt, any significant adverse change in the index level or value of turnover of any such markets; or

(iii) the imposition of any moratorium, suspension or material restriction on trading in securities generally on GEM due to exceptional financial circumstances or otherwise; or

(iv) any material adverse change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the United States, Canada, Hong Kong, the Cayman Islands, the BVI, the PRC or elsewhere; or

(v) any material adverse change in the business or in the financial or trading position of the Group or otherwise; or

(vi) any material adverse change or development (whether or not permanent), or any event or series of events resulting in any material adverse change in the financial, legal, political, economic, military, industrial, fiscal, regulatory, market (including stock market) or currency matters or condition in Hong Kong, the Cayman Islands, the BVI, the PRC or elsewhere; or

(vii) a general moratorium on commercial banking business activities is declared by the United States, Canada, Hong Kong or the PRC authorities; or

(viii) any event of force majeure including but without limiting the generality thereof, any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out,

which in the reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriter):

(a) is or will be or is likely to be materially adverse to the business, financial condition or prospects of the Group taken as a whole or, in the case of sub-paragraph (iv) above, to any present or prospective shareholder in his/its capacity as shareholder of the Company; or

(b) as or will have or is likely to have a material adverse effect on the success of the Placing as a whole or the level of the Placing Shares being demanded, applied for or accepted or the distribution of the Placing Shares; or

(c) for any reason makes it impracticable, inadvisable or inexpedient for the Underwriter to proceed with the Placing as a whole.

For the above purposes:

(i) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US or any change of the value of Hong Kong currency under such system shall be taken as an event resulting in a change in currency conditions; and

(ii) any market fluctuations, whether or not within the normal range therefor, may be considered as a change of market conditions referred to above.

Undertakings

Each of the Controlling Shareholders undertakes to and covenants with the Company, the Sponsor, the Lead Manager and the Underwriter that it/he shall not and shall procure that the relevant registered holders shall not:

(a) at any time during the period commencing on the date by reference to which disclosure of its/his shareholding in the Company is made in this prospectus and ending on the date which is six months from the Listing Date (the "First Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner (the "Relevant Shares");

(b) at any time during the period of six months commencing on the date immediately following the date on which the First Six-month Period expires (the "Second Six-Month Period"), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Relevant Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

Each of the Controlling Shareholders undertakes to and covenants with the Company, the Sponsor, the Lead Manager and the Underwriter that:

(a) in the event that it/he pledges or charges any of its/his direct or indirect interest in the Relevant Shares under Rule 13.18(1) of the GEM Listing Rules or pursuant to any approval given by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods specified in sub-paragraphs (a) and (b) above, it/he must inform the Company and the Lead Manager (for itself and on behalf of the Underwriter) immediately thereafter, disclosing the details as specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and

(b) having pledged or charged any of its/his interests in the Relevant Shares under sub-paragraph (a) above, it/he must inform the Company and the Lead Manager (for itself and on behalf of the Underwriter) immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Relevant Shares so affected.

The Company undertakes to and covenants with the Sponsor, the Lead Manager and the Underwriter that, and each of the Controlling Shareholders and the executive Directors undertakes and covenants with the Sponsor, the Lead Manager and the Underwriter to procure that, save with the prior written consent of the Sponsor and the Lead Manager (for itself and on behalf of the Underwriter) (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange or save pursuant to the Placing, the Capitalisation Issue, the exercise of the Offer Size Adjustment Option or the grant of option under the Share Option Scheme, the Company will not:

(a) within the period of six months from the Listing Date, save as permitted under the GEM Listing Rules and the applicable laws, offer, allot or issue or agree to allot or issue any Shares or any other securities of the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any Shares or any other securities of the Company;

(b) at any time during the Second Six-Month Period, unless permitted by the GEM Listing Rules, issue any Share or securities in the Company or grant or agree to grant any option, warrant or other right carrying the right to subscribe for or otherwise convert into or exchange for shares or securities in the Company or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares or securities so as to result in the Controlling Shareholders either individually or taken together with the other of them ceasing to be a controlling shareholder (as defined under the GEM Listing Rules) of the Company or the Company ceasing to hold a controlling interest of 30% or more in any major subsidiary (which shall have the same meaning as in Rule 17.27(2) of the GEM Listing Rules) of the Group;

(c) during the First Six-Month Period purchase any Shares or any other securities of the Company; and

(d) offer to or agree to do any of the foregoing or announce any intention to do so.

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, the Controlling Shareholders have undertaken to the Stock Exchange that they shall not and shall procure that the relevant registered holders shall not:

(a) during the First Six-Month Period dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he is shown by this prospectus to be the beneficial owner; or

(b) during the Second Six-Month Period dispose of, nor enter into any agreement to dispose of or or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to sub-paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances it/he would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of the Company.

The Controlling Shareholders have also undertaken to the Stock Exchange and the Company to comply with the following requirements:

(a) in the event that it/he pledges or charges any direct or indirect interest in the relevant Shares in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), as security for a bona fide commercial loan under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the period commencing on the date of this prospectus and ending on the date which is twelve months from the Listing Date, it/he must inform the Company immediately thereafter, disclosing the details specified in Rules 17.43(1) to (4) of the GEM Listing Rules; and

(b) having pledged or charged any interest in Shares under sub-paragraph (a) above, it/he must inform the Company immediately in the event that it/he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

The Company will inform the Stock Exchange as soon as it has been informed of such matters and must forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

Commission and expenses

The Underwriter will receive a commission of 3% on the aggregate Placing Price of all the Placing Shares now being offered, out of which it will, as the case may be, pay any sub-underwriting commissions and selling concession. The Sponsor will, in addition, receive a documentation fee. The Underwriting commission, documentation fee, Stock Exchange listing fees, brokerage, Stock Exchange trading fee, SFC transaction levy, legal and other professional fees together with applicable printing and other expense relating to the Placing are estimated to be approximately HK$18 million in aggregate (assuming the Offer Size Adjustment Option is not exercised), which will be payable by the Company.

Underwriter's interests in the Company

Save for its interests and obligation under the Underwriting Agreement and save as disclosed in this prospectus, none of the Underwriter or any of its associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares of any member of the Group.

Compliance adviser's agreement

Under a compliance adviser's agreement dated 26 November 2013 and made between Messis Capital and the Company (the "Compliance Adviser's Agreement"), the Company appoints Messis Capital and Messis Capital agrees to act as the compliance adviser to the Company for the purpose of the GEM Listing Rules for a fee from the Listing Date and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year commencing after the Listing Date, i.e. 31 December 2015, or until the Compliance Adviser's Agreement is terminated, whichever is earlier.

Sponsor's interest in the Company

Messis Capital, being the Sponsor, has declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules. Save for the advisory and documentation fees to be paid to Messis Capital as the Sponsor to the Placing, its obligations under the Underwriting Agreement and the Compliance Adviser's Agreement and any interests in securities that may be subscribed by it and/or its associates pursuant to the Placing, neither Messis Capital nor any of its associates has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of Messis Capital who is involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

No director or employee of Messis Capital has a directorship in the Company or any other company in the Group.

PLACING PRICE

The Placing Price plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy make up total price payable on subscription. The Shares will be traded in board lots of 6,000 Shares each.

THE PLACING

Placing

The Placing comprises 150,000,000 Placing Shares conditionally offered by the Company for subscription by way of private placements to professional, institutional or other investors. The Placing Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Placing and the Capitalisation Issue. The Placing is fully underwritten by the Underwriter.

Pursuant to the Placing, it is expected that the Underwriter or selling agents nominated by them, on behalf of the Company will conditionally place the Placing Shares at the Placing Price (plus a 1% brokerage fee, a 0.005% Stock Exchange trading fee and a 0.003% SFC transaction levy) with selected professional, institutional and other investors in Hong Kong. Professional, institutional and other investors generally include brokers, dealers, high net worth individuals and companies (including fund managers) whose ordinary business involves dealing and investing in shares and other securities.

Basis of Allocation

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to purchase further Shares or hold or sell the Shares after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and the Shareholders as a whole. In particular, the Placing Shares will be allocated pursuant to Rule 11.23(8) of the GEM Listing Rules, that no more than 50% of the Shares in public hands at the time of the Listing will be owned by the three largest public shareholder. No allocations of the Placing Shares will be permitted to nominee companies unless the name of the ultimate beneficiary is disclosed. There will not be any preferential treatment in the allocation of the Placing Shares to any persons.

The Placing is subject to the conditions as stated in the paragraph headed "Conditions of the Placing" below in this section.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, the Company will grant to the Lead Manager the Offer Size Adjustment Option, which is exercisable by the Lead Manager (for itself and on behalf of the Underwriter) prior to 6:00 p.m. on the Business Day immediately before the date of allotment results announcement with respect to the level of indication of interest in the Placing, in writing, to require the Company to allot and issue up to 22,500,000 additional Shares at the Placing Price, representing 15% of the total number of Shares initially available for subscription under the Placing. Any such additional Shares may be issued to cover any excess demand in the Placing at the absolute discretion of the Lead Manager.

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Lead Manager to meet any excess demand in the Placing. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the listing of the Shares on GEM and will not be subject to the Securities and Futures (Price Stabilizing) Rules of the SFO (Chapter 571W of the Laws of Hong Kong). No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

The Company will disclose in its allotment result announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Price Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. The allotment results announcement will be published on the GEM website at www.hkexnews.hk and the Company's website at www.runwayglobal.com.

CONDITIONS OF THE PLACING

Acceptance of your applications is conditional upon, among other things:

(a) Listing

the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein including any Shares which may fall to be issued pursuant to the Capitalisation Issue and upon exercise of the Offer Size Adjustment Option and exercise of the options that may be granted under the Share Option Scheme; and

(b) Underwriting Agreement

the obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sponsor and the Lead Manager (for itself and on behalf of the Underwriter) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise prior to 8:00 a.m. (Hong Kong time) on the Listing Date). Details of the Underwriting Agreement, the conditions and grounds for termination, are set out in the section headed "Underwriting" in this prospectus,

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the 30th day after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company at the GEM Website at www.hkexnews.hk and the Company's website at www.runwayglobal.com on the next Business Day following such lapse.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on Tuesday, 3 December 2013. Shares will be traded in board lots of 6,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Application has been made to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus. If the Stock Exchange grants the listing of and permission to deal in the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or, under contingent situation, any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

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

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbrokers or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interest.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from the Company's independent reporting accountants, BDO Limited, Certified Public Accountants, Hong Kong.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港
干諾道中111號
永安中心25樓

27 November 2013

The Directors
Runway Global Holdings Company Limited

Messis Capital Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") of Runway Global Holdings Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), including the combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for each of the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 (the "Relevant Periods"), and the combined statements of financial position of the Group as at 31 December 2011 and 2012 and 31 May 2013, together with explanatory notes thereon, for inclusion in the prospectus of the Company dated 27 November 2013 (the "Prospectus") in connection with the initial listing of the shares of the Company (the "Listing") on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands on 19 June 2013 as an exempted company with limited liability under the Laws of Cayman Islands.

Pursuant to a corporate reorganisation (the "Reorganisation") as described in note 2.1 of section II of this report, the Company became the holding company of the subsidiaries now comprising the Group. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

The Group is principally engaged in manufacturing and trading of apparels. The Company and its subsidiaries have adopted 31 December as their financial year end date. Particulars of the subsidiaries comprising the Group are set out in note 1 of section II of this report.

No audited financial statements have been prepared for the Company, Great Entrepreneur Investments Limited ("Great Entrepreneur") and Transformed Holdings Limited ("Transformed Holdings") as they are newly incorporated and have not been involved in any significant business transactions except for the Reorganisation. No audited financial statements have been prepared for

Runway Fashions, Inc. ("Runway US") since the date of its incorporation as it is not involved in any significant business transaction which is not subject to statutory audit requirements under its place of incorporation.

The statutory financial statements of Runway Global Limited ("Runway HK") for the years ended 31 December 2011 and 2012 were audited by Ka Lun Lam & Co., certified public accountants and BDO Limited, certified public accountants respectively. These statutory financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The statutory financial statements of Jiaxing Runway Global Garment Limited (時尚環球服飾(嘉興)有限公司) ("Runway Jiaxing") for the years ended 31 December 2011 and 2012 were audited by Zhejiang Zhongming Certified Public Accountants Company Limited (浙江中銘會計師事務所有限公司), a firm of certified public accountants registered in the People's Republic of China ("PRC"). All these statutory financial statements were prepared in accordance with the relevant accounting principles and accounting rules applicable to enterprises established in the PRC.

For the purpose of the Financial Information of this report, the directors of the Company have prepared the combined financial statements (the "Underlying Financial Statements") of the Group for the Relevant Periods in accordance with the basis set out in note 2.2 of section II and accounting policies set out in note 5 of section II which conform with HKFRSs issued by the HKICPA. The Financial Information set out in this report has been prepared by the directors based on the Underlying Financial Statements with no adjustments made thereon.

Respective responsibility of directors and reporting accountants

The directors of the Company are responsible for the contents of the Prospectus, including the preparation and the true and fair presentation of the Financial Information prepared in accordance with the basis of presentation set out in note 2.2 of section II and accounting policies set out in note 5 of section II, the disclosure requirements of the Hong Kong Companies Ordinance and applicable Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "Listing Rules"), and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on the Financial Information and to report our opinion to you.

Basis of opinion

For the purpose of this report, we have carried out audit procedures on the Underlying Financial Statements for the Relevant Periods in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA. We have examined the Financial Information in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA and have carried out such additional procedures on the Financial Information as we considered necessary.

Opinion

In our opinion, the Financial Information set out below, for the purpose of this report, prepared on the basis of presentation set out in note 2.2 of section II and in accordance with accounting policies set out in note 5 of section II below, give a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the state of affairs of the Group as at 31 December 2011 and 2012 and 31 May 2013.

Comparative financial information

For the purpose of this report, we have also reviewed the unaudited financial information of the Group including the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows of the Group for the five months ended 31 May 2012, together with explanatory notes thereto (the "Comparative Financial Information"), for which the directors of the Company are responsible, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. The directors of the Company are responsible for the preparation of the Comparative Financial Information in accordance with the basis of presentation set out in note 2.2 of section II and the accounting policies set out in note 5 of section II below, the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. Our responsibility is to express a conclusion on the Comparative Financial Information based on our review. A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures to the Comparative Financial Information. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information.

On the basis of our review, which does not constitute an audit, for the purpose of this report, nothing has come to our attention that causes us to believe that the Comparative Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

I. FINANCIAL INFORMATION

Combined Statements of Comprehensive Income

	Notes	Year ended 31 December 2011 HK$'000	2012 HK$'000	Five months ended 31 May 2012 HK$'000 (unaudited)	2013 HK$'000
Revenue	*8*	306,314	331,088	67,526	60,859
Cost of sales		(239,751)	(249,866)	(55,819)	(48,003)
Gross profit		66,563	81,222	11,707	12,856
Other income and gains	*9*	186	303	96	106
Changes in fair value of derivative financial instruments	*23*	2,071	2,332	2,837	3,721
Selling and distribution expenses		(26,834)	(23,786)	(6,907)	(7,055)
Administrative expenses		(27,309)	(30,482)	(11,156)	(14,278)
Other operating expenses		(1,918)	—	—	—
Finance costs	*10*	(1,011)	(1,288)	(342)	(212)
Profit/(Loss) before income tax	*11*	11,748	28,301	(3,765)	(4,862)
Income tax (expense)/credit	*14*	(2,331)	(5,149)	665	338
Profit/(Loss) for the year/period attributable to the owners of the Company		9,417	23,152	(3,100)	(4,524)
Other comprehensive income, net of tax, attributable to the owners of the Company					
Item that may be reclassified subsequently to profit or loss:					
Exchange gain/(loss) on translation of financial statements of foreign operations		1,144	141	(301)	510
Total comprehensive income for the year/period attributable to the owners of the Company		10,561	23,293	(3,401)	(4,014)
Earnings/(Loss) per share attributable to the owners of the Company	*16*				
Basic and diluted earnings/(loss) per share *(HK cents)*		2.09	5.14	(0.69)	(1.01)

Combined Statements of Financial Position

		As at 31 December		As at 31 May
		2011	**2012**	**2013**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	*17*	20,850	18,373	17,776
Payments for leasehold land held for own use under operating leases	*18*	2,178	2,140	2,154
Deferred tax assets	*29*	14	—	356
		23,042	20,513	20,286
Current assets				
Inventories	*19*	23,790	27,275	42,060
Trade and bill receivables	*20*	40,109	49,575	24,569
Deposits, prepayments and other receivables	*21*	16,215	13,196	15,097
Amounts due from directors	*22*	5,895	—	4,593
Derivative financial instruments	*23*	1,477	1,486	4,547
Pledged bank deposits	*24*	6,074	8,801	8,544
Cash and cash equivalents	*25*	14,037	37,550	31,978
		107,597	137,883	131,388
Current liabilities				
Trade and bill payables	*26*	67,348	73,431	52,724
Accruals, other payables and receipts in advance	*27*	15,689	20,899	15,025
Amounts due to directors	*22*	—	2,515	830
Interest-bearing borrowings	*28*	3,679	2,060	28,424
Provision for taxation		1,548	2,340	2,025
		88,264	101,245	99,028
Net current assets		19,333	36,638	32,360
Total assets less current liabilities		42,375	57,151	52,646
Non-current liabilities				
Interest-bearing borrowings	*28*	649	418	317
Net assets		41,726	56,733	52,329
EQUITY				
Equity attributable to the owners of the Company				
Share capital	*30*	3,008	3,008	3,008
Reserves	*31*	38,718	53,725	49,321
Total equity		41,726	56,733	52,329

Combined Statements of Changes in Equity

	Share capital	Statutory reserve	Translation reserve	Retained earnings	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 31(a))	*(note 31(b))*		
At 1 January 2011	3,008	801	4,180	27,027	35,016
Interim dividend paid *(note 15)*	—	—	—	(3,851)	(3,851)
Transaction with the owners during the year	—	—	—	(3,851)	(3,851)
Profit for the year	—	—	—	9,417	9,417
Other comprehensive income					
— Exchange gain on translation of financial statements of foreign operations	—	—	1,144	—	1,144
Total comprehensive income for the year	—	—	1,144	9,417	10,561
Profit appropriation to reserve	—	83	—	(83)	—
At 31 December 2011 and 1 January 2012	3,008	884	5,324	32,510	41,726
Interim dividend paid *(note 15)*	—	—	—	(8,286)	(8,286)
Transaction with the owners during the year	—	—	—	(8,286)	(8,286)
Profit for the year	—	—	—	23,152	23,152
Other comprehensive income					
— Exchange gain on translation of financial statements of foreign operations	—	—	141	—	141
Total comprehensive income for the year	—	—	141	23,152	23,293
Profit appropriation to reserve	—	351	—	(351)	—
At 31 December 2012	3,008	1,235	5,465	47,025	56,733

Combined Statements of Changes in Equity *(Continued)*

	Share capital *HK$'000*	Statutory reserve *HK$'000* *(note 31(a))*	Translation reserve *HK$'000* *(note 31(b))*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2013	3,008	1,235	5,465	47,025	56,733
Interim dividend paid *(note 15)*	—	—	—	(390)	(390)
Transaction with the owners during the period	—	—	—	(390)	(390)
Loss for the period	—	—	—	(4,524)	(4,524)
Other comprehensive income					
— Exchange gain on translation of financial statements of foreign operations	—	—	510	—	510
Total comprehensive income for the period	—	—	510	(4,524)	(4,014)
At 31 May 2013	3,008	1,235	5,975	42,111	52,329
For the five months ended 31 May 2012 (unaudited):					
At 1 January 2012	3,008	884	5,324	32,510	41,726
Interim dividend paid *(note 15)*	—	—	—	(6,286)	(6,286)
Transaction with the owners during the period (unaudited)	—	—	—	(6,286)	(6,286)
Loss for the period	—	—	—	(3,100)	(3,100)
Other comprehensive income					
— Exchange loss on translation of financial statements of foreign operations	—	—	(301)	—	(301)
Total comprehensive income for the period (unaudited)	—	—	(301)	(3,100)	(3,401)
At 31 May 2012 (unaudited)	3,008	884	5,023	23,124	32,039

Combined Statements of Cash Flows

		Year ended 31 December		Five months ended 31 May	
		2011	2012	2012	2013
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Cash flows from operating activities					
Profit/(Loss) before income tax		11,748	28,301	(3,765)	(4,862)
Adjustments for:					
Bank interest income	*9*	(23)	(27)	(10)	(11)
Interest expenses	*10*	1,011	1,288	342	212
Amortisation of payments for leasehold land held for own use under operating leases	*11*	52	54	22	23
Depreciation of property, plant and equipment	*11*	3,215	3,227	1,330	1,250
Impairment loss on other receivables	*11*	1,918	—	—	—
Loss/(Gain) on disposals of property, plant and equipment	*11*	7	(2)	—	(17)
Write-down of inventories to net realisable value	*11*	293	—	—	—
Changes in fair value of derivative financial instruments		(2,071)	(2,332)	(2,837)	(3,721)
Operating profit/(loss) before working capital changes		16,150	30,509	(4,918)	(7,126)
Increase in inventories		(10,803)	(3,370)	(8,555)	(14,443)
Decrease/(Increase) in trade and bill receivables		15,518	(9,460)	3,985	25,013
(Increase)/Decrease in deposits, prepayments and other receivables		(3,535)	3,177	(150)	(1,489)
Increase/(Decrease) in trade and bill payables		22,614	5,873	(20,636)	(21,276)
Increase/(Decrease) in accruals, other payables and receipts in advance		347	5,087	(3,580)	(5,970)
Settlement of derivative financial instruments		1,073	2,323	587	660
Cash generated from/(used in) operations		41,364	34,139	(33,267)	(24,631)
Income tax paid		(965)	(4,344)	(449)	(333)
Net cash generated from/(used in) operating activities		40,399	29,795	(33,716)	(24,964)

Combined Statements of Cash Flows *(Continued)*

		Year ended 31 December		Five months ended 31 May	
		2011	2012	2012	2013
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Cash flows from investing activities					
Purchases of property, plant and equipment		(1,568)	(613)	(188)	(392)
Proceeds from disposals of property, plant and equipment		95	7	1	43
(Increase)/Decrease in amounts due from directors		(3,721)	5,895	(6,371)	(4,593)
(Increase)/Decrease in pledged bank deposits		(909)	(2,709)	301	316
Interest received		23	27	10	11
Net cash (used in)/generated from investing activities		(6,080)	2,607	(6,247)	(4,615)
Cash flows from financing activities					
Dividend paid		(3,851)	(2,286)	(286)	(390)
Interest paid		(1,011)	(1,288)	(342)	(212)
Decrease in amounts due to directors		(981)	(3,489)	(5,148)	(1,694)
Proceeds of interest-bearing borrowings		91,434	172,649	72,012	54,676
Repayments of interest-bearing borrowings		(108,287)	(174,502)	(36,562)	(28,413)
Net cash (used in)/generated from financing activities		(22,696)	(8,916)	29,674	23,967
Net increase/(decrease) in cash and cash equivalents		11,623	23,486	(10,289)	(5,612)
Cash and cash equivalents at beginning of the year/period		2,279	14,037	14,037	37,550
Effect of foreign exchange rates, net		135	27	(33)	40
Cash and cash equivalents at end of the year/period		14,037	37,550	3,715	31,978

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 June 2013. The registered office of the Company is at the offices of Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-111, Cayman Islands.

The Group is principally engaged in manufacturing and trading of apparels.

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Name	Place/country and date of incorporation/ establishment and kind of legal entity	Particulars of issued paid-in capital	Effective interest held by the Company direct	Effective interest held by the Company indirect	Principal activities
Great Entrepreneur	British Virgin Islands ("BVI"), 21 May 2013, limited liabilities company	4 ordinary shares of United States dollar ("US$") 1 each	100%	—	Investment holding
Transformed Holdings	BVI, 21 May 2013, limited liabilities company	4 ordinary shares of US$1 each	100%	—	Investment holding
Runway HK	Hong Kong, 12 October 2001, limited liability company	3,000,000 ordinary shares of HK$1 each	—	100%	Investment holding and trading of apparels
Runway Jiaxing	PRC, 9 October 2003, limited liability company	US$2,000,000	—	100%	Manufacturing and trading of apparels
Runway US	United States of America ("USA"), 4 April 2003, limited liability company	1,000 ordinary shares of US$1 each	—	100%	Provision of designing, marketing and advertising services

2. GROUP REORGANISATION AND BASIS OF PRESENTATION

2.1 Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Stock Exchange. The reorganisation involved the following:

Incorporation and reorganisation of the Company

(a) The Company was incorporated on 19 June 2013 in the Cayman Islands as an exempted company with limited liability;

(b) On 19 June 2013, one subscriber share with a par value of HK$0.01 which was allotted and issued nil paid was transferred to All Divine Limited ("All Divine") at nil consideration;

(c) On 19 June 2013, one share with a par value of HK$0.01 was allotted and issued nil paid to Fortune Zone Global Limited ("Fortune Zone").

Incorporation of Great Entrepreneur

(a) On 21 May 2013, Great Entrepreneur was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(b) On 10 June 2013, 1 share of Great Entrepreneur was allotted and issued to each of Mr. Hubert Tien ("Mr. Tien") and Mr. Farzad Gozashti ("Gozashti") at its par value of US$1.00.

Incorporation of Transformed Holdings

(a) On 21 May 2013, Transformed Holdings was incorporated in the BVI with limited liability with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(b) On 10 June 2013, 1 share of Transformed Holdings was allotted and issued to each of Mr. Tien and Mr. Gozashti at its par value of US$1.00.

Reorganisation of Runway HK

On 22 October 2013, Great Entrepreneur acquired the entire issued share capital of Runway HK from Mr. Tien and Mr. Gozashti. In exchange, Great Entrepreneur allotted and issued 1 share to each of Mr. Tien and Mr. Gozashti credited as fully paid.

Reorganisation of Runway US

On 7 November 2013, Transformed Holdings acquired the entire issued share capital of Runway US from Mr. Tien and Mr. Gozashti. In exchange, Transformed Holdings allotted and issued 1 share to each of Mr. Tien and Mr. Gozashti credited as fully paid.

Reorganisation of Great Entrepreneur

On 22 November 2013, the Company acquired the entire issued share capital of Great Entrepreneur from Mr. Tien and Mr. Gozashti. In exchange, the Company allotted and issued 500,000 shares to each of All Divine and Fortune Zone credited as fully paid under the instructions of Mr. Tien and Mr. Gozashti respectively.

Reorganisation of Transformed Holdings

On 22 November 2013, the Company acquired the entire issued share capital of Transformed Holdings from Mr. Tien and Mr. Gozashti. In exchange, the Company allotted and issued 499,999 shares, credited as fully paid, to each of All Divine and Fortune Zone and credited as fully paid at par the 1 nil paid share held by each of All Divine and Fortune Zone under the instructions of Mr. Tien and Mr. Gozashti respectively.

2.2 Basis of presentation

Pursuant to the Reorganisation, the Company became the holding company of the subsidiaries now comprising the Group.

All the companies comprising the Group were controlled directly or indirectly by Mr. Tien and Mr. Gozashti (the "Controlling Shareholders") during the Relevant Periods and there were no changes in Controlling Shareholders' control in these subsidiaries immediately after the Reorganisation. For the purpose of management and development of the Group, an agreement was reached among the Controlling Shareholders when they first found the Group to act together as a single group of shareholders to manage and control the business and operations of the Group on collective basis and the Controlling Shareholders make collective decisions in respect of the financial and operating policies of the Group so as to obtain economic benefits from the Group.

Accordingly, the Financial Information and Comparative Financial Information have been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation or establishment, where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2011 and 2012 and 31 May 2013 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies comprising the Group are combined using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. BASIS OF PREPARATION

The Financial Information and the Comparative Financial Information have been prepared in accordance with the basis of presentation set out in note 2.2 and in accordance with the accounting policies in note 5 which comply with HKFRSs, which collective terms include all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. The Financial Information and the Comparative Financial Information also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. All HKFRSs effective for the accounting periods commencing from 1 January 2013 and relevant to the Group, have been adopted by the Group in the preparation of the Financial Information and the Comparative Financial Information consistently throughout the Relevant Periods to the extent required or allowed by the transitional provisions in the HKFRSs. The Financial Information and the Comparative Financial Information have been prepared under historical cost convention, except for derivative financial instruments which are stated at fair values.

It should be noted that accounting estimates and assumptions are used in the preparation of the Financial Information and the Comparative Financial Information. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information and the Comparative Financial Information are disclosed in note 6.

The Financial Information and the Comparative Financial Information are presented in Hong Kong dollar ("HK$") which is also the functional currency of the Company. All values are rounded to the nearest thousand except when otherwise indicated.

4. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs

The following new/revised standards, potentially relevant to the Group's Financial Information, have been issued but are not yet effective and have not been early adopted by the Group.

HKFRS 9	Financial Instruments[2]
Amendments to HKAS 32	Presentation — Offsetting Financial Assets and Financial Liabilities[1]
HKAS36	Recoverable Amount Disclosures for Non-Financial Assets[1]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 January 2015

HKFRS 9 — Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The directors of the Company are currently assessing the impact of other new and amended HKFRSs upon initial application. So far, the directors of the Company have preliminarily concluded that the initial application of these new and amended HKFRSs is not expected to have a material impact on the Group's Financial Information and the Comparative Financial Information.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the Financial Information and the Comparative Financial Information are summarised below. These policies have been consistently applied to all the years/periods presented unless otherwise stated.

5.1 Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries comprising the Group for the Relevant Periods. As explained in note 2.2 above, the acquisition of the subsidiaries under common control has been accounted for using merger accounting.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the Combined Financial Information and the Comparative Financial Information. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

5.2 Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases.

5.3 Foreign currencies

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year/period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. HK$) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as translation reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

5.4 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost less their estimated residual value over their estimated useful life, using straight-line method as follows:

Buildings	20 years
Leasehold improvements	4 to 5 years, or over the lease terms, whichever is shorter
Machinery	10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 to 5 years

The assets' estimated residual values, estimated useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting date.

Gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the period in which they are incurred.

5.5 Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on straight-line method as an expense.

5.6 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on straight-line method over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

5.7 Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Cash and cash equivalents

Cash and cash equivalents, including cash and bank balances, comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty; and

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

The Group classifies its financial liabilities as financial liabilities at amortised cost, including trade and bill payables, accruals and other payables, amounts due to directors and interest-bearing borrowings.

(a) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

(b) Other financial liabilities

All other financial liabilities are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires 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 original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

5.8 Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year/period.

5.9 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

5.10 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

5.11 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of return, discounts, rebate and sales related taxes. Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate; and

Sample income is recognised at the time when the transfer of significant risks and rewards of ownership to the customer, this is usually taken as the time when the samples are delivered and the customer has accepted the samples.

5.12 Income taxes

Income taxes for the year/period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

5.13 Employee benefit

(i) Defined contribution retirement plan

The Group entities incorporated in Hong Kong manages a defined contribution Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee for those employees who are eligible to participate in the MPF scheme. The Group makes contributions based on a percentage of the eligible employees' salaries funded by the Group and are charged to profit or loss as they become payable in accordance with the rules of the MPF scheme.

The Group entities established in the PRC make monthly contributions to a state-sponsored defined contribution scheme for the local staff. The contributions are made at a specific percentage on the standard salary pursuant to laws of the PRC and relevant regulation issued by local social security authorities.

In addition, the Group entities incorporated in the USA make monthly contributions to a defined contribution scheme under federal program for the local staff. The Group makes contributions based on a percentage of the local staff's salaries funded by the Group and are charged to profit or loss as they become payable in accordance with the rules of the scheme.

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

(ii) Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service.

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the reporting date are discounted to their present value.

5.14 Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and payments for leasehold land held for own use under operating leases to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent 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 in prior years. A reversal of an impairment loss is recognised as income immediately.

5.15 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

5.16 Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

5.17 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the chief operating decision maker i.e. the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's line of business.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in the Financial Information and the Comparative Financial Information prepared under HKFRSs.

5.18 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

6. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Income taxes

Determining income tax provisions requires the Group to make judgement on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

(b) Impairment of receivables

Provision policy for doubtful debts of the Group is based on the ongoing evaluation of the collectability and ageing analysis of the outstanding receivables and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer and the related parties. If the financial conditions of the customers and other debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

(c) Impairment of inventories

Management of the Group reviews the inventories at each reporting date, and makes allowance for impairment of obsolete, slow-moving and impaired items. Management estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price. The Group makes allowance for impairment if the net realisable value is below the carrying amount.

(d) Fair value of derivatives financial instruments

The directors use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. The estimated fair value of unlisted shares includes some assumptions not supported by observable market prices and rates.

7. SEGMENT INFORMATION

An operating segment is a component of the Group that is engaged in business activities from which the Group may earn revenue and incur expenses, and is identified on the basis of the internal management reporting information that is provided to and regularly reviewed by the Group's chief operating decision maker in order to allocate resources and assess performance of the segment. For the Relevant Periods, the information reported to the executive directors, who are the chief operating decision makers for the purpose of resource allocation and assessment of performance, do not contain profit or loss information of each product line or geographical area and the executive directors reviewed the financial result of the Group as a whole reported under HKFRSs. Therefore, the executive directors have determined that the Group has only one single business component/reportable segment as the Group is only engaged in manufacturing and trading of apparels. The executive directors allocate resources and assess performance on an aggregated basis. Accordingly, no operating segment is presented.

The Company is an investment holding company and the principal places of the Group's operations are in the PRC and Hong Kong. Management determines the Group is domiciled in Hong Kong, which is the Group's principal operating location.

The Group's revenue from external customers is divided into the following geographical areas:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
The USA	216,102	217,669	25,840	29,050
Canada	80,942	109,495	40,487	30,600
Others	9,270	3,924	1,199	1,209
	306,314	331,088	67,526	60,859

Geographical location of external customers is based on the location at which the customers are domiciled. No revenue which grouped in "Others" at the above table attributed to Hong Kong, the place that the Group domiciled, or other geographical areas amounted to 10% or more of the Group's total revenue during the Relevant Periods.

The principal non-current assets held by the Group are located in the PRC. Insignificant non-currents assets from Hong Kong, the place that the Group domiciled, or other geographical areas amounted to 10% or more of the Group's non-currents assets at the end of each of the reporting period.

The Group's customer base is diversified and includes only the following customers with whom transactions have exceeded 10% of the Group's revenue. During each of the Relevant Periods, revenue derived from these customers are as follows:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Customer A	80,942	109,495	40,487	30,600
Customer B *(note)*	53,973	48,142	8,159	N/A
Customer C *(note)*	49,903	54,301	N/A	N/A
Customer D *(note)*	47,006	38,092	N/A	12,706

Note: Revenue from Customer B for the five months ended 31 May 2013, revenue from Customer C for the five months ended 31 May 2012 and 2013, and revenue from Customer D for the five months ended 31 May 2012 contributed less than 10% of the Group's total revenue for the year/period respectively.

As at 31 December 2011 and 2012 and 31 May 2013, 46%, 66% and 78% respectively of the Group's trade receivables was due from these customers.

8. REVENUE

Revenue, which is also the Group's turnover, represents the sales of apparels, net of return, discounts, rebate and sales related taxes, during the Relevant Periods.

9. OTHER INCOME AND GAINS

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Gain on disposals of property, plant and equipment	—	2	—	17
Interest income	23	27	10	11
Sample income	157	5	—	—
Sundry income	6	269	86	78
	186	303	96	106

10. FINANCE COSTS

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Interest expenses on interest-bearing borrowings wholly repayable within five years *(note)*	952	1,241	321	198
Interest expenses on obligations under finance leases	59	47	21	14
	1,011	1,288	342	212

Note: The analysis shows the finance costs of interest-bearing borrowings, including term loans which contain a repayment on demand clause, in accordance with the agreed scheduled repayments dates set out in the banking facilities. For the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, interest expenses on interest-bearing borrowings which contain a repayment on demand clause amounted approximately to HK$713,000, HK$977,000 and HK$197,000 (five months ended 31 May 2012 (unaudited): HK$315,000) respectively.

11. PROFIT/(LOSS) BEFORE INCOME TAX

Profit/(Loss) before income tax is arrived at after charging/(crediting):

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Amortisation of payments for leasehold land held for own use under operating leases	52	54	22	23
Auditor's remuneration	52	200	100	100
Cost of inventories recognised as expense	239,751	249,866	55,819	48,003
Write-down of inventories to net realisable value *(note a)*	293	—	—	—
Depreciation of property, plant and equipment	3,215	3,227	1,330	1,250
Losses on exchange differences, net	1,344	1,362	400	370
Impairment loss on other receivables *(note b)*	1,918	—	—	—
Loss/(Gain) on disposals of property, plant and equipment	7	(2)	—	(17)
Operating lease charges in respect of land and buildings	3,157	3,197	1,337	1,367
Employee benefit expenses (including directors' emoluments) *(note 12)*	37,817	44,517	15,398	15,993

Notes:

(a) Write-down of inventories was included in "cost of sales" in the combined statements of comprehensive income.

(b) Impairment loss on other receivables was included in "other operating expenses" in the combined statements of comprehensive income.

12. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Wages and salaries	33,714	40,167	13,740	14,172
Pension scheme contribution — defined contribution plans	1,702	2,082	808	832
Other benefits	2,401	2,268	850	989
	37,817	44,517	15,398	15,993

13. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The emoluments of each of the directors for the Relevant Periods are set out below:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Year ended 31 December 2011				
Executive directors:				
Mr. Tien	—	576	12	588
Mr. Gozashti	—	588	—	588
	—	1,164	12	1,176
Independent non-executive directors:				
Mr. Lai Man Sing	—	—	—	—
Mr. Tang Shu Pui, Simon	—	—	—	—
Mr. Tang Tsz Kai, Kevin	—	—	—	—
	—	—	—	—
Total emoluments	—	1,164	12	1,176
Year ended 31 December 2012				
Executive directors:				
Mr. Tien	—	1,376	14	1,390
Mr. Gozashti	—	1,391	—	1,391
	—	2,767	14	2,781
Independent non-executive directors:				
Mr. Lai Man Sing	—	—	—	—
Mr. Tang Shu Pui, Simon	—	—	—	—
Mr. Tang Tsz Kai, Kevin	—	—	—	—
	—	—	—	—
Total emoluments	—	2,767	14	2,781

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total *HK$'000*
Five months ended 31 May 2012 (unaudited)				
Executive directors:				
Mr. Tien	—	445	5	450
Mr. Gozashti	—	450	—	450
	—	895	5	900
Independent non-executive directors:				
Mr. Lai Man Sing	—	—	—	—
Mr. Tang Shu Pui, Simon	—	—	—	—
Mr. Tang Tsz Kai, Kevin	—	—	—	—
	—	—	—	—
Total emoluments (unaudited)	—	895	5	900
Five months ended 31 May 2013				
Executive directors:				
Mr. Tien	—	588	6	594
Mr. Gozashti	—	593	—	593
	—	1,181	6	1,187
Independent non-executive directors:				
Mr. Lai Man Sing	—	—	—	—
Mr. Tang Shu Pui, Simon	—	—	—	—
Mr. Tang Tsz Kai, Kevin	—	—	—	—
	—	—	—	—
Total emoluments	—	1,181	6	1,187

(b) Five highest paid individuals

The five highest paid individuals of the Group included 2 directors for the Relevant Periods whose emoluments are reflected in note 13(a).

The analysis of the emoluments of the remaining 3 highest paid individuals for the Relevant Periods, whose emolument fell within the band of nil to HK$1,000,000, are set out below:

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Salaries, allowances and benefits in kind	1,570	1,771	450	491
Pension scheme contributions	24	28	15	19
	1,594	1,799	465	510

(c) During the Relevant Periods, no director or any of the highest paid individuals waived or agreed to waive any emoluments. No emoluments were paid by the Group to the directors or any of the highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

14. INCOME TAX EXPENSE/(CREDIT)

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Current income tax				
Hong Kong profits tax:				
— Tax for the year/period	1,762	3,975	—	—
PRC enterprise income tax ("EIT"):				
— Tax for the year/period	527	1,141	—	—
United States Federal corporate income tax:				
— Tax for the year/period	13	19	19	15
	2,302	5,135	19	15
Deferred tax *(note 29)*				
— Tax for the year/period	29	14	(684)	(353)
	2,331	5,149	(665)	(338)

(i) BVI and Cayman Islands income tax

Pursuant to the rules and regulations of the BVI and the Cayman Islands, the Group is not subject to any taxation under these jurisdictions during the Relevant Periods.

(ii) Hong Kong profits tax

Hong Kong profits tax is calculated at 16.5% for each of the Relevant Periods on the estimated assessable profits for subsidiary incorporated in Hong Kong.

(iii) PRC EIT

PRC EIT is provided at the rates applicable to the subsidiary in the PRC on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose based on existing PRC income tax regulations, practice and interpretation thereof.

Runway Jiaxing is subject to a preferential tax rate of 12.5% under the transitional preferential policies of the EIT law for the year ended 31 December 2011 and at the standard tax rate of 25% for the year ended 31 December 2012 and the five months ended 31 May 2013.

(iv) PRC withholding income tax

Pursuant to the Detailed Implementation Regulations for implementation of the new Corporate Income Tax Law issued on 6 December 2007, a 10% withholding income tax shall be levied on the dividends remitted by the companies established in the PRC to their foreign investors starting from 1 January 2008. Dividends coming from the profits generated by the PRC companies after 1 January 2008 shall be subject to this withholding income tax. The withholding income tax rate applicable to the Group is 5%.

(v) United States Federal corporate income tax

United States Federal corporate income tax is calculated at 15% for each of the Relevant Periods on the estimated assessable profits for the subsidiary incorporated in the USA.

A reconciliation of the income tax expense/(credit) applicable to profit/(loss) before income tax at the statutory tax rate to the income tax expense at the effective tax rate for each of the Relevant Periods is as follows:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Profit/(Loss) before income tax	11,748	28,301	(3,765)	(4,862)
Tax calculated at the rates applicable to profits in the tax jurisdiction concerned	2,036	4,824	(855)	(927)
Tax effect of non-deductible expenses	512	337	190	589
Tax effect on tax exemption/relief	(217)	(12)	—	—
Income tax expense/(credit)	2,331	5,149	(665)	(338)

15. DIVIDENDS

During the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, Runway HK had distributed interim dividends of approximately HK$3,851,000, HK$8,286,000 and HK$390,000 (five months ended 31 May 2012 (unaudited): HK$6,286,000) to the owners of the Company respectively.

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Interim dividends	3,851	8,286	6,286	390

The rates of dividend and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of the report.

16. EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) per share for the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013 are based on the profit/(loss) attributable to owners of the Company of approximately HK$9,417,000, HK$23,152,000 and HK$(4,524,000) (five months ended 31 May 2012 (unaudited): HK$(3,100,000)) respectively and on the basis of 450,000,000 shares of the Company in issue, being the number of shares in issue immediately after the completion of capitalisation issue as described in the section headed "Change in Share Capital of the Company" in Appendix V to the Prospectus, as if these shares had been issued throughout the Relevant Periods.

Diluted earnings/(loss) per share were same as the basic earnings/(loss) per share as there were no dilutive potential ordinary shares in existence during the Relevant Periods.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvement	Machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011						
Cost	16,354	5,595	2,943	7,096	1,000	32,988
Accumulated depreciation	(2,291)	(2,892)	(1,010)	(4,435)	(645)	(11,273)
Net carrying amount	14,063	2,703	1,933	2,661	355	21,715
Year ended 31 December 2011						
Opening net carrying amount	14,063	2,703	1,933	2,661	355	21,715
Additions	—	17	494	583	474	1,568
Disposals	—	—	(87)	—	(15)	(102)
Depreciation	(754)	(1,042)	(286)	(996)	(137)	(3,215)
Exchange differences	634	92	93	41	24	884
Closing carrying amount	13,943	1,770	2,147	2,289	701	20,850
At 31 December 2011 and 1 January 2012						
Cost	17,113	5,828	3,309	7,808	1,364	35,422
Accumulated depreciation	(3,170)	(4,058)	(1,162)	(5,519)	(663)	(14,572)
Net carrying amount	13,943	1,770	2,147	2,289	701	20,850
Year ended 31 December 2012						
Opening net carrying amount	13,943	1,770	2,147	2,289	701	20,850
Additions	—	—	274	339	—	613
Disposals	—	—	(5)	—	—	(5)
Depreciation	(780)	(1,024)	(313)	(927)	(183)	(3,227)
Exchange differences	106	9	17	5	5	142
Closing carrying amount	13,269	755	2,120	1,706	523	18,373
At 31 December 2012 and 1 January 2013						
Cost	17,247	5,867	3,586	8,172	1,072	35,944
Accumulated depreciation	(3,978)	(5,112)	(1,466)	(6,466)	(549)	(17,571)
Net carrying amount	13,269	755	2,120	1,706	523	18,373

	Buildings	Leasehold improvement	Machinery	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Five months ended 31 May 2013						
Opening net carrying amount	13,269	755	2,120	1,706	523	18,373
Additions	—	—	5	175	212	392
Disposals	—	—	—	(10)	(16)	(26)
Depreciation	(326)	(432)	(135)	(286)	(71)	(1,250)
Exchange differences	224	8	35	10	10	287
Closing carrying amount	13,167	331	2,025	1,595	658	17,776
At 31 May 2013						
Cost	17,542	5,951	3,653	8,309	1,153	36,608
Accumulated depreciation	(4,375)	(5,620)	(1,628)	(6,714)	(495)	(18,832)
Net carrying amount	13,167	331	2,025	1,595	658	17,776

At 31 December 2011 and 2012 and 31 May 2013, the Group's buildings were situated in the PRC and were held under medium-term leases.

At 31 December 2011 and 31 May 2013, the Group's buildings with carrying amounts of approximately HK$13,943,000 and HK$7,030,000 were pledged for interest-bearing borrowings of approximately HK$617,000 and HK$63,000 respectively (note 28).

At 31 December 2011 and 2012 and 31 May 2013 the Group's obligations under finance leases (note 32(a)) were secured by the lessors' title to the leased assets, which have carrying amounts of HK$835,000, HK$607,000 and HK$512,000 respectively.

18. PAYMENTS FOR LEASEHOLD LAND HELD FOR OWN USE UNDER OPERATING LEASES

	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Carrying amount at 1 January	2,182	2,230	2,194
Amortisation	(52)	(54)	(23)
Exchange differences	100	18	37
Carrying amount at 31 December/31 May	2,230	2,194	2,208
Current portion *(note 21)*	(52)	(54)	(54)
Non-current portion	2,178	2,140	2,154

At 31 December 2011 and 2012 and 31 May 2013, the Group's payments for leasehold land held for own use under operating leases in the PRC were under medium-term leases.

At 31 December 2011 and 31 May 2013, the Group's payments for leasehold land held for own use under operating leases amount of approximately HK$2,230,000 and HK$2,208,000 was pledged for interest-bearing borrowings of approximately HK$617,000 and HK$63,000 respectively (note 28).

19. INVENTORIES

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Raw materials and consumables	7,728	8,983	16,875
Work in progress	1,731	813	1,522
Finished goods	14,331	17,479	23,663
	23,790	27,275	42,060

20. TRADE AND BILL RECEIVABLES

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	36,590	41,583	23,081
Bill receivables	3,519	7,992	1,488
	40,109	49,575	24,569

Trade receivables are recognised at their original invoice amounts which represented their fair values at initial recognition. The Group's trade receivables are attributable to a number of independent customers with credit terms. Bill receivables are received from independent customers under the ordinary course of business. The Group normally allows a credit period of 10 days to 60 days to its customers.

Trade and bill receivables are non-interest bearing. The directors of the Company consider that the fair values of trade and bill receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods at their inception.

Ageing analysis of trade receivables based on invoice date as at the end of each reporting period is as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	13,927	8,334	9,457
31 to 60 days	15,370	20,065	6,234
61 to 90 days	4,655	9,208	4,935
91 to 180 days	2,578	3,881	2,374
Over 180 days	60	95	81
	36,590	41,583	23,081

At the end of each reporting period, the Group reviewed trade receivables for evidence of impairment on both individual and collective basis. The Group recognised impairment loss on individual assessment based on the accounting policy stated in note 5.7(ii). The Group did not hold any collateral as security over the trade receivables. For some of the Group's major customers, the Group has entered into arrangements with a financial institution in the USA and a bank in Hong Kong (which in turn entered into certain arrangement with an insurance company in this connection) which offered trade receivable credit protection arrangement against the Group's trade receivables. As at 31 December 2011 and 2012 and 31 May 2013, trade receivables of approximately HK$21,073,000, HK$14,536,000 and HK$3,744,000 were under such arrangements of which if the Group ultimately becomes unable to collect the trade receivables, the Group will be entitled to receive compensation for the trade receivables from the financial institution or the bank.

Ageing analysis of trade receivables based on due dates as at the end of each reporting period is as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Neither past due nor impaired	26,177	23,835	14,625
Not more than 90 days past due	10,210	17,652	8,345
91 days to not more than 180 days past due	143	1	30
181 days to not more than 1 year past due	43	—	2
More than 1 year past due	17	95	79
	36,590	41,583	23,081

Trade receivables which were neither past due nor impaired related to customers for whom there were no recent history of default.

Trade receivables that were past due but not impaired related to a number of customers that had a good track record of credit with the Group. Based on past credit history, the directors of the Company believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

21. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Other receivables, gross	9,904	11,751	9,792
Less: Provision for impairment losses	(1,918)	(1,918)	(1,918)
Other receivables, net	7,986	9,833	7,874
Deposits	5,186	1,917	2,009
Prepayments	2,991	1,392	5,160
Payments for leasehold land held for own use under operating leases	52	54	54
	16,215	13,196	15,097

Other receivables that were neither past due nor impaired related to counterparties for whom there were no recent history of default. The directors of the Company consider that other receivables that were neither past due nor impaired at the end of each of the reporting period under review are of good credit quality.

The movement in the provision for impairment of other receivables is as follows:

	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
At 1 January	—	1,918	1,918
Provision for impairment	1,918	—	—
At 31 December/31 May	1,918	1,918	1,918

The directors of the Company consider that the fair values of other receivables which are expected to be recovered within one year are not materially different from their carrying amounts because these balances have short maturity periods at their inception.

22. AMOUNTS DUE FROM/(TO) DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand. The balance as at 31 May 2013 were subsequently settled or paid before the date of this report.

Amounts due from directors disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance is as follows:

	As at 1 January 2011	Maximum balance outstanding during 2011	As at 31 December 2011	Maximum balance outstanding during 2012	As at 31 December 2012	Maximum balance outstanding during 2013	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors:							
Mr. Tien	—	17,491	3,721	25,006	—	9,587	4,593
Mr. Gozashti	2,174	2,190	2,174	2,291	—	—	—
	2,174		5,895		—		4,593

23. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses foreign exchange structured forward contracts to mitigate exchange rate exposure of US$ and Renminbi ("RMB") against HK$. The foreign exchange structured forward contracts are stated at fair value, which have been measured as described in note 5.8. During the years ended 31 December 2011 and 2012 and the five months ended 31 May 2013, net fair value gain of approximately HK$2,071,000, HK$2,332,000 and HK$3,721,000 (five months ended 31 May 2012 (unaudited): HK$2,837,000) were recognised and included in "changes in fair value of derivative financial instruments" in the combined statements of comprehensive income respectively.

Normally, the derivative financial instruments contracts entered into by the Group are not traded on active markets. The fair values of such contracts are determined by a firm of independent professional valuers. The valuation is based on the underlying conditions in the contracts and the market information at the valuation dates. The independent professional valuers compared the spot rate with the rate specified in the forward contracts and determined the calculation as specified in the forward contracts. The independent professional valuers calculated the net cashflow of the forward contracts for each trade date interval, assessed the present value of net cashflow for each trade date interval and derived the market value of the forward contracts as at the valuation dates. The valuation of the structured forward contracts required consideration of all pertinent factors affecting the underlying value of the Group, which are the operations of its business and ability to generate future investment returns. The factors considered in the valuation including but not limited to the history of the Group, the nature and the performance of the Group's business, the economic and industry outlooks affecting the Group's business, the historical data of the foreign exchange market, the risks facing by the Group and the historical exchange rates. The independent professional valuers assumed that there will be no material changes from political, legal, economic or financial aspects in the jurisdiction and no substantial market fluctuation in the industry, current interest rates and foreign currency rates in the jurisdictions which the Group currently runs or intends to run its business which will materially affect the revenue attributable to the Group. It maximises the use of observable market inputs, including foreign currency rates and interest rates.

24. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks as securities for bill payables (note 26) at each of the reporting date and interest-bearing borrowings of the Group (note 28) at 31 May 2013.

Pledged bank deposits carried interest at average market rates from 0.1% to 3.3% per annum and will be released upon the completion of bill payables transactions and settlement of interest-bearing borrowings. The carrying amount of the Group's pledged bank deposits are denominated in HK$, RMB and US$.

25. CASH AND CASH EQUIVALENTS

Cash and cash equivalents represent cash at banks and in hand. Cash at banks carried interest at average market rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2011 and 2012 and 31 May 2013, the Group has cash and cash equivalents, including pledged bank deposits denominated in RMB amounting to approximately HK$5,552,000, HK$5,755,000 and HK$5,930,000 placed with the banks in the PRC respectively. RMB is not freely convertible into other currencies and the remittance of funds out of the PRC is subject to exchange restrictions imposed by the PRC government. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through the banks that are authorised to conduct foreign exchange business.

26. TRADE AND BILL PAYABLES

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	64,263	63,120	41,465
Bill payables	3,085	10,311	11,259
	67,348	73,431	52,724

Credit periods of trade payables normally granted by its suppliers were ranging from 15 to 120 days.

Ageing analysis of trade payables based on invoice date as at the end of each reporting period is as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
0 to 30 days	20,611	18,803	18,207
31 to 60 days	10,225	11,678	8,358
61 to 90 days	9,076	4,585	3,492
91 to 180 days	12,782	13,251	5,451
Over 180 days	11,569	14,803	5,957
	64,263	63,120	41,465

Bill payables are normally settled on 180 days' credit terms. As at 31 December 2011 and 2012 and 31 May 2013, bill payables were secured by the Group's pledged bank deposits (note 24).

All amounts are short-term and hence the carrying amounts of trade and bill payables are considered to be a reasonable approximation of their fair values.

27. ACCRUALS, OTHER PAYABLES AND RECEIPTS IN ADVANCE

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Accruals	4,362	5,461	4,026
Other payables	10,603	11,384	7,819
Receipts in advance	724	4,054	3,180
	15,689	20,899	15,025

The carrying amounts of accruals and other payables are short-term and hence their carrying values are considered to be a reasonable approximation of their fair values.

28. INTEREST-BEARING BORROWINGS

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Current portion:			
Bank loans, secured and guaranteed *(note a)*	—	—	21,009
Bank loans, secured *(note b)*	617	—	63
Bank loans, guaranteed *(note c)*	2,844	1,828	7,115
	3,461	1,828	28,187
Obligations under finance leases, secured *(note 32(a))*	218	232	237
	3,679	2,060	28,424
Non-current portion:			
Obligations under finance leases, secured *(note 32(a))*	649	418	317
	4,328	2,478	28,741

Notes:

(a) These were secured by pledged bank deposits with carrying values of approximately HK$4,151,000 (note 24) and personal guarantees by the directors of the Company. The personal guarantees will be subsequently replaced by corporate guarantee of the Company upon the Listing.

(b) These were secured by the Group's buildings (note 17) and payments for leasehold land held for own use under operating leases (note 18).

(c) As at 31 December 2011 and 2012, the bank loans were secured by personal guarantees by the directors of the Company and the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region. As at 31 May 2013, the bank loans were secured by personal guarantees by the directors of the Company, the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region and/or SME Financing Guarantee Scheme executed by the Hong Kong Mortgage Corporation Limited. The personal guarantees will be subsequently replaced by corporate guarantee of the Company upon the Listing.

As at 31 December 2011 and 2012 and 31 May 2013, the current liabilities include interest-bearing borrowings of approximately HK$1,828,000, HK$752,000 and HK$2,641,000 that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as a current liabilities is expected to be settled within one year.

At the end of each reporting period, total current and non-current interest-bearing borrowings were scheduled to repay as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,851	1,308	25,783
More than one year, but not exceeding two years	1,307	998	1,115
More than two years, but not exceeding five years	1,170	172	1,843
	4,328	2,478	28,741

Note: The amounts due are based on the scheduled repayment dates in the banking facilities and ignore the effect of any repayment on demand clause.

The interest-bearing borrowings carry interest at rates per annum ranging as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
Fixed-rate borrowings	6.0% to 6.7%	6.0%	2.8% to 6.2%
Variable-rate borrowings:			
— Prime/standard rate of the banks	5.8%	5.8%	3.5% to 6.6%
— PRC National benchmark interest rate	6.9%	—	—%

29. DEFERRED TAX

Details of the deferred tax liabilities of the Group recognised and movements during the Relevant Periods are as follows:

	Accelerated depreciation	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2011	43	—	43
Deferred taxation charged to profit or loss *(note 14)*	(29)	—	(29)
At 31 December 2011 and 1 January 2012	14	—	14
Deferred taxation charged to profit or loss *(note 14)*	(14)	—	(14)
At 31 December 2012 and 1 January 2013	—	—	—
Deferred taxation credited to profit or loss *(note 14)*	—	353	353
Exchange differences	—	3	3
At 31 May 2013	—	356	356

As at 31 December 2011 and 2012 and 31 May 2013, the aggregate amount of temporary differences associated with the PRC subsidiary's undistributed retained earnings for which deferred tax liabilities have not been recognised are approximately HK$2,416,000, HK$6,015,000 and HK$4,856,000 respectively. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of this subsidiary and it is probable that such differences will not be reversed in the foreseeable future.

30. SHARE CAPITAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 June 2013. As at the date of incorporation, the Company had an authorised share capital of HK$380,000 divided into 38,000,000 ordinary shares of par value of HK$0.01 each. Pursuant to a written resolution passed on 22 November 2013, the authorised capital will increase from HK$380,000 to HK$100,000,000 by creation of an additional 9,962,000,000 ordinary shares.

The share capital balances in the combined statements of financial position as at 31 December 2011 and 2012 represented the issued share capital of Runway HK and Runway US. The share capital balance in the combined statement of financial position as at 31 May 2013 represented the issued share capital of Great Entrepreneur, Transformed Holdings, Runway HK and Runway US.

31. RESERVES

Details of the movements on the Group's reserves during the Relevant Periods are set out in the combined statements of changes in equity.

(a) Statutory reserve

According to the relevant PRC laws, the subsidiary is required to transfer at least 10% of its net profit after tax, as determined under the PRC accounting regulation, to a statutory reserve until the reserve balance reaches 50% of the subsidiary's registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiary's equity owners. The statutory reserve is non-distributable other than upon the liquidation of the subsidiary.

(b) Translation reserve

Translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. Movements in this account are set out in the combined statements of changes in equity.

32. LEASE COMMITMENTS

(a) Finance lease commitments

The Group leased its office equipment under finance leases with an average lease term of 5 years. The Group's obligation under finance leases are secured by the lessors' title to the leased assets.

Interest rate underlying all obligations under finance leases is fixed at respective contract date at 6% per annum.

Future minimum rental payables at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	264	264	264
In the second to fifth years	704	440	330
	968	704	594
Less: Future finance charges	(101)	(54)	(40)
Present value of minimum lease payments	867	650	554

Present value of minimum lease payments at the end of each reporting period included in the combined statements of financial position are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Interest-bearing borrowings — Current portion	218	232	237
Interest-bearing borrowings — Non-current portion	649	418	317
	867	650	554

(b) Operating lease commitments

Future minimum rental payables under non-cancellable operating leases of the Group in respect of land and buildings at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,547	2,876	2,641
In the second to fifth years	3,453	3,445	1,992
	6,000	6,321	4,633

The Group leases certain properties under operating leases. The leases run for an initial period of 3 months to 5 years. None of these leases include any contingent rentals.

33. CONTINGENT LIABILITIES

The Group's subsidiary, Runway HK involved a contract dispute with an independent third-party product supplier of the Group, which was the respondent ("Respondent"). The Respondent was established in the PRC where is the Respondent's main operation.

In January 2011, Runway HK outsourced the manufacturing process of certain ladies apparel to the Respondent and placed certain purchase orders (the "Purchase Orders") to purchase the finished apparel (the "Goods") from the Respondent. Total purchase price for the Goods pursuant to the Purchase Orders was approximately US$342,000 (the "Contract Price") and the Goods were scheduled to be shipped to a number of the Group's customers in the United States.

In August 2011, at the time when the Goods were being shipped, there were mistakes in the shipping documents, prepared by the Respondent. Runway HK considered that such mistakes would lead to USA customs to seize the Goods for a long period of time for their inspection and investigation, and therefore requested the Goods to be sent back to the PRC for re-shipping. The Respondent did not comply with Runway HK's instruction and did not deliver the Goods to the Group's customers or to the Group. Instead, the Respondent kept the Goods in its own possession.

It is specified in the Purchase Orders, that in case of non-delivery within the contracted time for shipment, the Respondent shall be responsible for any consequences arising therefrom. Further, it is also provided that in the event of interruption of transportation or other causes or circumstances beyond the control of Runway HK, Runway HK shall be entitled to cancel the Purchase Orders without payment to the Respondent.

While Runway HK did not pay the Contract Price of approximately US$342,000 to the Respondent, Runway HK had, upon the Respondent's request, paid the Respondent a total of approximately US$130,000 (the "Paid Amount") for shipment expenses. This amount has been agreed by the Respondent to be used for offsetting part of the Contract Price.

In October 2011, upon the Respondent's offer, Runway HK agreed to purchase part of the Goods (the "Varied Goods") from the Respondent and paid a sum of approximately US$153,000 (the "Varied Goods Price") for the Varied Goods. However, the Respondent only delivered a small portion of the Varied Goods to Runway HK and failed to deliver the rest of the Varied Goods that Runway HK had paid for. Further negotiations between Runway HK and the Respondent were not successful.

On 3 May 2012, Runway HK issued a notice of arbitration against the Respondent claiming for, inter alia, the portion of the Varied Goods (which Runway HK had paid for) not yet delivered and the Paid Amount.

On 2 November 2012, the Respondent filed its defense and counterclaim, such that, among other things, Runway HK should fulfill its obligation under the Purchase Orders, namely, to accept the remaining portion of the Goods in addition to the Varied Goods, and to make payment of the outstanding amount of the Contract Price (which the Respondent had calculated to be approximately US$190,000).

On 23 and 24 September 2013, the arbitration hearing took place but the Respondent was absent for both days. The legal counsel acting for Runway HK in the arbitration proceedings ("Runway HK Legal Counsel") made the closing submissions to the arbitration tribunal on 4 October 2013. Runway HK is awaiting the arbitration tribunal to hand down its judgement.

The Respondent is a company established in the PRC with its main operation located in the PRC. The PRC legal advisers consider that according to the 最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排 (Supreme People's Court's Arrangement Concerning the Mutual Enforcement of Arbitral Awards Between the Mainland and the Hong Kong Special Administration Region) issued on 24 January 2000, there are no material legal obstacles to the enforcement in the PRC of the judgement to be handed down by the tribunal of the arbitration proceedings in Hong Kong in relation to the aforementioned arbitration.

The Runway HK Legal Counsel has advised that the tribunal of the arbitration proceedings is more likely to find in favour of Runway HK's version of events mainly because of many difficulties in the Respondent's case and is of the view that subject to the quality of the evidence of Runway HK's witnesses, Runway HK has slightly better than even chance in succeeding its claim in the arbitration proceedings. Based on the advice of the Runway HK Legal Counsel, the directors are of the view that Runway HK has slightly better than even chance of success in the arbitration proceedings and the directors have not made any provision accordingly.

According to the counterclaim filed by the Respondent, in case where Runway HK ultimately loses in the proceedings, it may have to pay to the Respondent the outstanding amount of the Contract Price (which the Respondent has calculated to be approximately US$190,000, or approximately HK$1,480,000) plus other possible damages and costs. The proceedings are ongoing and the outcome is subject to uncertainties. The directors of the Company consider that no provision is required at this stage of the proceedings in accordance with the Group's relevant accounting policy.

34. RELATED PARTY TRANSACTION

Save as disclosed in note 22 of the Financial Information and the Comparative Financial Information, the Group entered into the following significant related party transactions during the Relevant Periods.

(a) Transactions with related parties

The maximum amount of financial guarantees provided by the directors of the Company (notes 28(a) and (c)) at the end of each reporting period are as follows:

Name of related parties	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Mr. Tien	117,100	131,000	143,042
Mr. Gozashti	83,900	97,800	101,300

(b) Key management personnel remuneration

Key management of the Group are members of the board of directors. Key management personnel remuneration is set out in note 13(a).

35. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2012 and the five months ended 31 May 2012, Runway HK had distributed interim dividends to the owners of the Company, part of which with an amount of approximately HK$6,000,000 and HK$6,000,000 (unaudited) were credited directly to the amounts due to directors.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial instruments	1,477	1,486	4,547
Loans and receivables			
Trade and bill receivables	40,109	49,575	24,569
Deposits and other receivables	13,172	11,750	9,883
Amounts due from directors	5,895	—	4,593
Pledged bank deposits	6,074	8,801	8,544
Cash and cash equivalents	14,037	37,550	31,978
	80,764	109,162	84,114
Financial liabilities			
Financial liabilities measured at amortised cost			
Trade and bill payables	67,348	73,431	52,724
Accruals and other payables	14,965	16,845	11,845
Amounts due to directors	—	2,515	830
Interest-bearing borrowings	4,328	2,478	28,741
	86,641	95,269	94,140

37. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Group is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including foreign currency risk and interest rate risk), credit risk and liquidity risk.

Financial risk management is coordinated at the Group's headquarters, in close co-operation with the board of directors. The overall objectives in managing financial risks focus on securing the Group's short to medium term cash flows by minimising its exposure to financial markets.

(a) Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposures to currency risk arise mainly from its overseas purchases and sales, which are primarily denominated in RMB and US$. These are not the functional currencies of the Group entities to which these transactions relate. The Group also has interest-bearing borrowings denominated in foreign currencies, primarily RMB and US$. All the Group's foreign exchange structured forward contracts were approved by the directors. After the Listing, the Group will implement the foreign exchange structured forward contracts policy in relation to the foreign exchange structured forward contracts. The Group will perform analysis for entering into and monitoring of the foreign exchange structured forward contracts.

Summary of exposure

At the end of each reporting period, foreign currency denominated financial assets and liabilities, translated into HK$ at the respective rates at that date, are as follows:

	Financial assets	Financial liabilities	Notional amounts of derivative financial instruments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011				
RMB	11,996	(30,808)	298,271	279,459
US$	57,771	(45,889)	77,220	89,102
As at 31 December 2012				
RMB	14,113	(40,154)	111,556	85,515
US$	63,605	(46,362)	—	17,243
As at 31 May 2013				
RMB	13,773	(42,895)	488,559	459,437
US$	28,719	(39,625)	—	(10,906)

Foreign exchange rate sensitivity analysis

As US$ is pegged to HK$, the Group does not expect any significant movement in the HK$/US$ exchange rate. No sensitivity analysis in respect of the Group's financial assets and liabilities denominated in US$ is disclosed as in the opinion of directors of the Company, such sensitivity analysis does not give additional value in view of insignificant movement in the US$/HK$ exchange rates as at the reporting dates.

The following table indicates the approximate change in the Group's profit after income tax in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of each reporting period.

	As at 31 December		As at 31 May
HK$ to RMB	**2011**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Appreciated by 3%	1,159	1,209	1,862
Depreciated by 3%	1,178	1,277	1,247

The sensitivity analysis of the Group's exposure to foreign currency risk at the end of each reporting period has been determined based on the assumed percentage changes in foreign currency exchange rates taking place at the beginning of the financial year/period and held constant throughout the year/period.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the end of next reporting period. The analysis is performed on the same basis for the Relevant Periods.

(b) Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Group's interest rate risk arises primarily from interest-bearing borrowings which are at variable rates (note 28). The Group's bank balances and pledged bank deposits were bearing floating interest rate. The Group has not used any derivative to hedge its exposure to interest rate risk. The policies to manage interest rate risk which have been followed by the Group since prior years are considered to be effective.

Interest rate sensitivity analysis

The following table indicates the approximate change in the profit after income tax in response to reasonably possible changes in interest rates to which the Group has exposure at the end of each reporting period.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Increase by 100 basis points	25	155	76
Decrease by 100 basis points	(25)	(155)	(76)

The sensitivity analysis was determined assuming that the change in interest rates had occurred at the end of each reporting period and had been applied to variable-rate financial instruments at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the end of next reporting period. The analysis is performed on the same basis for the Relevant Periods.

(c) Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Group. The Group's exposure to credit risk mainly arises from granting credit to its customers in the ordinary course of its operation.

In order to minimise the credit risk of not receiving payments from its customers, the Group has entered into arrangements with a financial institution in the USA and a bank in Hong Kong (which in turn entered into certain arrangement with an insurance company in this connection) which offered trade receivable credit protection arrangement against the Group's trade receivables for some of the Group's major customers. Under such arrangements, if the Group ultimately becomes unable to collect the trade receivables, the Group will be entitled to receive compensation for the trade receivables from the financial institution or the bank. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is reduced. There is no requirement for collaterals by the Group.

The Group has deposited its cash with various banks. The credit risk on bank balances is limited because most of the Group's cash are deposited with major banks located in Hong Kong and the PRC.

The credit policies have been followed by the Group since prior years and are considered to have been effective in limiting the Group's exposure to credit risk to a desirable level.

(d) 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 facilities.

The following tables show the remaining contractual maturities at the end of each reporting period of the Company's interest-bearing borrowings, based on undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Company can be required to pay.

Specifically, for bank loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. The maturity analysis for other interest-bearing borrowings is prepared based on the scheduled repayment dates.

	Carrying amount	Total contractual undiscounted cash flow	Less than one year or repayable on demand	One year or above
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2011				
Non-derivative financial instruments:				
Trade and bill payables	67,348	67,348	67,348	—
Accruals and other payables	14,965	14,965	14,965	—
Interest-bearing borrowings	4,328	4,441	3,737	704
	86,641	86,754	86,050	704
At 31 December 2012				
Non-derivative financial instruments:				
Trade and bill payables	73,431	73,431	73,431	—
Accruals and other payables	16,845	16,845	16,845	—
Amounts due to directors	2,515	2,515	2,515	—
Interest-bearing borrowings	2,478	2,532	2,092	440
	95,269	95,323	94,883	440
At 31 May 2013				
Non-derivative financial instruments:				
Trade and bill payables	52,724	52,724	52,724	—
Accruals and other payables	11,845	11,845	11,845	—
Amounts due to directors	830	830	830	—
Interest-bearing borrowings	28,741	28,782	28,452	330
	94,140	94,181	93,851	330

The following table that summarises the maturity analysis of interest-bearing borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payments computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the "on demand" time band in the maturity analysis. Taking into account the Group's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such interest-bearing borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	Carrying amount	**Total contractual undiscounted cash flow**	**Less than one year or repayable on demand**	**One year or above**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2011	2,844	3,075	1,153	1,922
At 31 December 2012	1,828	1,922	1,153	769
At 31 May 2013	28,124	29,077	25,751	3,326

(e) Fair value measurements recognised in the statements of financial position

The following tables present financial assets and liabilities measured at fair value in the combined statements of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial assets and liabilities measured at fair value in the combined statements of financial position at the end of each reporting period are grouped into the fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2011				
Financial assets at fair value through profit of loss				
Derivative financial instruments	—	1,477	—	1,477
At 31 December 2012				
Financial assets at fair value through profit of loss				
Derivative financial instruments	—	1,486	—	1,486
At 31 May 2013				
Financial assets at fair value through profit of loss				
Derivative financial instruments	—	4,547	—	4,547

There have been no significant transfers between levels 1 and 2 and no transfers into or out of level 3 during the Relevant Period.

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. Normally, the derivative financial instruments contracts entered into by the Group are not traded on active markets. The fair values of such contracts are determined by a firm of independent professional valuers. The valuation is based on the underlying conditions in the contracts and the market information at the valuation dates. The independent professional valuers compared the spot rate with the rate specified in the forward contracts and determined the calculation as specified in the forward contracts. The independent professional valuers calculated the net cashflow of the forward contracts for each trade date interval, assessed the present value of net cashflow for each trade date interval and derived the market value of the forward contracts as at the valuation dates. The valuation of the structured forward contracts required consideration of all pertinent factors affecting the underlying value of the Group, which are the operations of its business and ability to generate future investment returns. The factors considered in the valuation including but not limited to the history of the Group, the nature and the performance of the Group's business, the economic and industry outlooks affecting the Group's business, the historical data of the foreign exchange market, the risks facing by the Group and the historical exchange rates. The independent professional valuers assumed that there will be no material changes from political, legal, economic or financial aspects in the jurisdiction and no substantial market fluctuation in the industry, current interest rates and foreign currency rates in the jurisdictions which the Group currently runs or intends to run its business which will materially affect the revenue attributable to the Group. It maximises the use of observable market inputs, including foreign currency rates and interest rates (Level 2). The derivatives entered into by the Group are included in Level 2 and consist of foreign exchange structured forward contracts. The most significant input into this valuation approach is market foreign currency rates.

38. CAPITAL MANAGEMENT

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing goods and services commensurately with the level of risk.

The Group actively and regularly reviews its capital structure and makes adjustments in light of changes in economic conditions. The Group monitors its capital structure on the basis of the net debt to equity ratio. For this purpose net debt is defined as borrowings less cash and cash equivalents. The Group's goal in capital management is to maintain a net debt to equity ratio of less than 50%. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

The Group's net debt to equity ratio at the reporting date was:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Amounts due to directors	—	2,515	830
Interest-bearing borrowings	4,328	2,478	28,741
Less: Pledged bank deposits	(6,074)	(8,801)	(8,544)
Less: Cash and cash equivalents	(14,037)	(37,550)	(31,978)
Net debts	(15,783)	(41,358)	(10,951)
Total equity	41,726	56,733	52,329
Net debt to equity ratio	N/A	N/A	N/A

39. SUBSEQUENT EVENTS

Except as disclosed in note 2.1 in this report, the following significant events have taken place subsequent to 31 May 2013:

(a) In June 2013, Runway HK declared a dividend of HK$20,000,000 in respect of the year ending 31 December 2013, which was fully paid in June 2013 to Mr. Tien and Mr. Gozashti.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 May 2013.

Yours faithfully,

BDO Limited
Certified Public Accountants

Joanne Y.M. Hung
Practising Certificate no. P05419
Hong Kong

The information set forth in this appendix does not form part of the Accountants' Report prepared by BDO Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth 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 unaudited pro forma financial information prepared in accordance with paragraph 7.31 of the GEM Listing Rules and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants is for illustrative purpose only, and is set out herein to provide the prospective investors with further illustrative financial information about how the Placing might have affected the combined net tangible assets attributable to the owners of the Company after the completion of the Placing as if the Placing had taken place on 31 May 2013. Because of its hypothetical nature, the unaudited pro forma financial information may not give a true picture of the financial position of the Group had the Placing been completed on 31 May 2013 or at any future dates.

The unaudited pro forma adjusted combined net tangible assets of the Group as at 31 May 2013 is based on the audited combined net tangible assets attributable to the owners of the Company as at 31 May 2013 as shown in the Accountants' Report set out in Appendix I to this prospectus and the adjustments described below.

	Audited combined net tangible assets attributable to owners of the Company as at 31 May 2013	**Estimated net proceeds from the Placing**	**Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company**	**Unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company**
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*
Based on the Placing Price of HK$0.35 per Placing Share	52,329	37,555	89,884	0.15

The Unaudited pro forma adjusted combined net tangible assets attributable to owners of the Company and the unaudited pro forma adjusted combined net tangible assets per Share attributable to owners of the Company have not taken into account the dividend declared in June 2013 for payment to Mr. Tien and Mr. Gozashti amounting to HK$20,000,000, which was fully paid in June 2013. The unaudited pro forma adjusted net tangible assets per Share would have been reduced to HK$0.12 per Share, based on the Placing Price of HK$0.35 per Placing Share, after taking into account the payment of the dividend in the sum of HK$20,000,000 and based on 600,000,000 Shares in issue immediately following the completion of the Placing and Capitalisation Issue.

Notes:

(1) The audited combined net tangible assets attributable to owners of the Company as at 31 May 2013 are based on audited combined net assets attributable to owners of the Company as at 31 May 2013 as set out in Appendix I to this prospectus.

(2) The estimated net proceeds from the Placing are based on 150,000,000 New Shares and the Placing Price of HK$0.35 per Placing Share, after deduction of the underwriting fees and related expenses payable by the Company. No account has been taken of any Shares which may be issued upon the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme.

(3) The unaudited pro forma adjusted combined net tangible assets per Share is calculated based on 600,000,000 Shares in issue immediately following the completion of the Placing and the Capitalisation Issue but takes no account of any Shares falling to be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix V to this prospectus.

(4) The property interests were valued by Castores Magi (Hong Kong) Limited, an independent property valuer, and the valuation in respect of which was set out in Appendix III to this prospectus. The revaluation surplus of HK$63.5 million will not be reflected in the financial statements of the Group in future. If the revaluation surplus were to be included in the financial statements of the Group, an additional depreciation charge of approximately HK$4.0 million per annum would be incurred.

(B) LETTER FROM THE INDEPENDENT REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA STATEMENT OF ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP

The following is the text of a report, prepared for inclusion in this prospectus, received from the independent reporting accountants of the Company, BDO Limited, Certified Public Accountants, Hong Kong, in relation to the Group's unaudited pro forma financial information.

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港
干諾道中111號
永安中心25樓

27 November 2013

The Board of Directors
Runway Global Holdings Company Limited

Dear Sirs,

We have completed our assurance engagement to report on the compilation of pro forma financial information of Runway Global Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") by the directors for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma statement of adjusted combined net tangible assets of the Group as at 31 May 2013 and related notes. The pro forma financial information and the applicable criteria on the basis of which the directors have compiled the pro forma financial information are set out in Section A of Appendix II to the prospectus dated 27 November 2013 issued by the Company in connection with the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The pro forma financial information has been compiled by the directors to illustrate the impact of the proposed placing of 150,000,000 ordinary shares of the Company of HK$0.35 (the "Placing") on the Group's combined net tangible assets attributable to the owners of the Company as at 31 May 2013 as if the Placing had taken place on the same date. As part of this process, information about the Group's combined net tangible assets attributable to the owners of the Company as at 31 May 2013 has been extracted by the directors from the Group's financial statements, on which an accountants' report has been published.

Directors' Responsibility for the Pro Forma Financial Information

The directors are responsible for compiling the pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and with reference to Accounting Guideline ("AG") 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the pro forma financial information in accordance with paragraph 7.31 of the GEM Listing Rules and with reference to AG 7.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in a prospectus is solely to illustrate the impact of the Placing on unadjusted financial information of the Group as if the Placing 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 Placing at 31 May 2013 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the Placing, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,

BDO Limited
Certified Public Accountants

Joanne Y.M. Hung
Practising Certificate no. P05419
Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation of this prospectus received from Castores Magi (Hong Kong) Limited, an independent valuer, in connection with their valuations of the property interests of the Group as at 30 September 2013.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS (GENERAL PRACTICE)
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Suite 211
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

27 November 2013

The Directors
Runway Global Holdings Company Limited
14th Floor, Park Building
No. 476 Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which Runway Global Holdings Company Limited (the "Company") and its subsidiaries (together the "Group") have interests, we confirm that we have carried out inspections, made relevant enquiries, searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant properties as at 30 September 2013 (the "valuation date").

Our valuations of the property interests are our opinion of the Market Value which we would define as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion." Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Our valuations of the property interests have been made on the assumption that the owner sells the properties on the market in their existing state without the benefit of a deferred term contracts, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

The land use rights of Property 1 in Group I has been valued on a market basis by reference to Land Price Index of Jiaxing City published by State Land Resources Bureau of Jiaxing Shi, (嘉興市國土資源局), which is deemed as the benchmark of the market price. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

Our valuation of buildings and structures of Property 1 in Group I is based on the method of Depreciated Replacement Cost which is used for the valuation of specialized properties. It is an application (method) of the cost approach that may be used in arriving at the value of specialized properties for financial reporting purposes. Depreciated Replacement Cost may be the more applicable approach when comparable sale data is insufficient but sufficient market data exists concerning costs and accrued depreciation. As an application of the cost approach, it is based on the principle of substitution. Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current costs of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

The application of Depreciation Replacement Cost is subject to adequate potential profitability of the business paying due regards to the total assets employed. Besides, the market value of the buildings and structures derived by Depreciated Replacement Cost only applies to the buildings and structures as a unique interest, and no piecemeal transaction of the buildings and structures of the property is assumed.

We have not attributed any commercial value to the rented and licensed properties in Groups II to V mainly due to the prohibition against assignment or sub-letting/sub-licensing or lack of substantial profit rent.

In valuing the property interests, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards (2012 Edition) published by the Hong Kong Institute of Surveyors.

In valuing the properties in the People's Republic of China ("the PRC"), we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The current status of the property interest in Group I regarding major approvals, consents or licences required in the PRC is set out as follows:

Document/Approval	**Property 1 in Group I**
State-owned Land Use Rights Grant Contract	Yes
State-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, letting, rentals, licences, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

The undersigned inspected the exterior and, where possible, the interior of the properties (except the rented and licensed properties located in the United States of America ("the USA"), which do not possess any commercial value) in the PRC on 28 May 2013 and in Hong Kong on 11 June 2013, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, such as mortgage and debenture charge, restrictions and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. We have not searched the original documents to verify the existing title of the properties in the PRC or any material encumbrances that might be attached to the properties. However, we have made reference to the opinion given by the Company's PRC Legal Advisers on PRC laws — Tian Yuan Law Firm (天元律師事務所) in respect of the Group's title to the properties in the PRC.

The scope of valuations has been determined with reference to the property list provided by the Group. All properties on the list have been included in this valuation certificate. The Group has confirmed to us that it has no property interests other than those specified on the list supplied to us.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollar. The adopted exchange rate for the valuation of property interest in Group I is the prevailing rate as at the valuation date, being HK$1 to RMB0.7913 and no significant fluctuation in exchange rate has been found between that date and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Group or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
CASTORES MAGI (HONG KONG) LIMITED
Deret Au Chi Chung
Member of China Institute of Real Estate Appraisers and Agents
Registered Business Valuer of the Hong Kong Business Valuation Forum
BSc., MRICS, MHKIS, RPS(GP), MCIArb, AHKIArb MCIM
Director

Note: Deret Au Chi Chung is a Registered Professional Surveyor (General Practice) and has over 21 years of experience in valuing properties in Hong Kong and the properties of private and state-owned enterprises in over 100 towns and cities in the PRC. He also possesses over 16 years of valuation experience in the Asia-Pacific Region including the United States of America. His name is included on the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Property	Capital value in existing state as at 30 September 2013 *(HK$)*
Group I — Property interest held and occupied by Group in the PRC	
1. A parcel of land and various buildings erected thereon, No. 493 Dade Road, Xiuzhou District, Jiaxing City, Zhejiang Province, The PRC.	78,569,000
Total:	**78,569,000**
Group II — Properties rented by the Group in Hong Kong	
1. Unit 1303A on 13th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
2. The whole of 14th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
3. Unit C6 on 2nd Floor, Por Mee Factory Building, No. 500 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
Total:	**Nil**

Property	Capital value in existing state as at 30 September 2013 *(HK$)*

Group III — Properties rented by the Group in the United States of America

1.	Western Portion of 16th Floor, 260 West 39th Street, Manhattan, New York, The USA.	No commercial value
2.	Suite B0692 on 6th Floor in Building B, No. 110 East Ninth Street, California Market Center, Los Angeles, California, The USA.	No commercial value
3.	Suites B0801/803 on 8th Floor in Building B, No. 110 East Ninth Street, California Market Center, Los Angeles, California, The USA.	No commercial value
	Total:	**Nil**

Property	Capital value in existing state as at 30 September 2013 *(HK$)*
Group IV — Properties licensed by the Group in Hong Kong	
1. Passenger Lift Lobby at 14th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
2. Car Parking Space No. L3 on Ground Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
3. Car Parking Space No. L4 on Ground Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	No commercial value
Total:	**Nil**
Group V — Property licensed by the Group in the United States of America	
1. Office Nos. 259 and 260 on Second Floor, Regus-Petaluma Marina, 755 Baywood Drive, Petaluma, Sonoma County, California, The USA.	No commercial value
Total:	**Nil**
Grand Total:	**78,569,000**

VALUATION CERTIFICATE

Group I — Property interest held and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
1.	A parcel of land and various buildings erected thereon, No. 493 Dade Road, Xiuzhou District, Jiaxing City, Zhejiang Province, The PRC.	The property comprises a parcel of land and 3 various buildings erected thereon. The buildings are 2–5 storeys in height and were completed in 2007. The land on which the buildings situated has a site area of 13,068.3 sq.m. The property has a total gross floor area of approximately 19,262 sq.m. The property is held under the land use rights for a term up to 8 October 2053.	The property is currently occupied by the Group for production, storage and ancillary office purposes.	78,569,000

Notes:

1. Pursuant to a State-owned Land Use Rights Grant Contract — Jia Tu Xiu Zhou Rang He [2007] No. 1045 (國有土地使用權出讓合同—嘉土秀洲讓合[2007]1045號) dated 20 March 2007 entered into between the Land and Resources Bureau of Jiaxing, Zhejiang Province, the PRC (中華人民共和國浙江省嘉興市國土資源局) ("Party A") and Jiaxing Xin Nuo Garment Limited (嘉興信諾服飾有限公司) (now known as Jiaxing Runway Global Garment Limited ("Runway Jiaxing") and is an indirect wholly-owned subsidiary of the Company) ("Party B"), Party A agreed to grant a parcel of land having a site area of 13,131 sq.m. to Party B for a term up to 8 October 2053 at a land premium of RMB2,626,200 for industrial use;

2. Pursuant to a State-owned Land Use Right Certificate — Jia Xing Guo Yong (2008) No. 1474 (國有土地使用証 — 嘉興國用(2008) 第1474號) dated 14 May 2008 issued by the People's Government of Jiaxing City (嘉興市人民政府), Runway Jiaxing was granted the land use rights, having a site area of 13,068.3 sq.m., for a term up to 8 October 2053 for industrial use;

3. The property is subject to 3 Building Ownership Certificates — Jia Fang Quan Zheng Xiu Zhou Zi Nos.00278550, 00274451 and 00274452 (房屋所有權証 — 嘉房權證秀洲字第 00278550, 00274451及 00274452號) all dated 17 April 2008 issued by the Planning and Construction Bureau of Jiaxing City (嘉興市規劃與建設局) to Runway Jiaxing in respect of 3 buildings having a total gross floor area of approximately 19,262 sq.m.;

4. The capital value of the property as at the valuation date was in the amount of HK$78,569,000 of which HK$65,989,000 is attributable to buildings and structures and HK$12,580,000 is attributable to the land use rights;

5. Pursuant to a Maximum Amount Mortgage Contract — JX2X2010 Ren Di 339 (最高額抵押合同 — JX2X2010 人抵339) dated 3 November 2010 made between Runway Jiaxing and the Bank of China, Jiaxing Branch (中國銀行股份有限公司嘉興市分行), the former party mortgaged a building having a gross floor area of 14,276.42 sq.m. (held under Building Ownership Certificate — Jia Fang Quan Zheng Xiu Zhou Zi No. 00274452 (房屋所有權証 — 嘉房權證秀洲字第 00274452號)) and the part of land occupied by it in a maximum mortgage amount of RMB21,721,608 for a term commencing from 3 November 2010 to 31 December 2013; and

6. Pursuant to Land Price Index of Jiaxing City published by State Land Resources Bureau of Jiaxing Shi (嘉興市國土資源局), the property falls within the zone of Grade II under industrial land use classification. Under the price index of Grade II, the indexed price is RMB600 per sq.m. subject to the plot ratio of 1. In valuing the land use rights, adjustments have been made to the plot ratio of 1.46 and the residual land use term and thus the market value of the land use rights becomes RMB761.74 per sq.m.

7. It is stated in the legal opinion given by the Company's PRC Legal Advisers — Tian Yuan Law Firm (天元律師事務所), *inter alia*, that:

   (a) Runway Jiaxing is an unique land use rights holder and is entitled to occupy and use the land, which is protected by the PRC laws;

   (b) Runway Jiaxing is an unique owner of the buildings from legal point of view;

   (c) In respect of the mortgage as stated in *Note 5*, Runway Jiaxing is entitled to occupy and use the pledged building and land (hereinafter known as "pledged assets"). However, consent must be obtained from the mortgagor if the mortgagee wants to convey or dispose part or whole of the pledged assets; and

   (d) Jiaxing Xin Nuo Garment Limited (嘉興信諾服飾有限公司) (now known as Runway Jiaxing) has fully paid the land premium.

Group II — Properties rented by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
1.	Unit 1303A on 13th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises an office unit on 13th Floor of a 22-storey office building. The building was completed in 1984. The property has a lettable area of about 1,505 sq.ft. (139.8 sq.m.). The property is currently occupied by the Group for office purposes.	The property was rented by the Group for a term of 2 years commencing from 1 September 2012 to 31 August 2014 at a monthly rent of HK$24,832.5 exclusive of management fee, air-conditioning maintenance fee and government rates.	No commercial value

Note: The tenant is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
2.	The whole of 14th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises whole of the office space on 14th Floor of a 22-storey office building. The building was completed in 1984. The property has a lettable area of about 6,301 sq. ft. (585.4 sq.m.). The property is currently occupied by the Group for office purpose.	The property was rented by the Group for a term of 2 years commencing from 1 September 2012 to 31 August 2014 at a monthly rent of HK$112,157 exclusive of management fee, air-conditioning maintenance fee and government rates.	No commercial value

Note: The tenant is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
3.	Unit C6 on 2nd Floor, Por Mee Factory Building, No. 500 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises a factory unit on 2nd Floor of a 15-storey industrial building. The building was completed in 1971. The property has a lettable area of about 565 sq.ft. (52.5 sq.m.). The property is currently occupied by the Group for storage purpose.	The property was rented by the Group for a term commencing from 6 October 2012 to 31 August 2014 at a monthly rent of HK$5,300 inclusive of management fee, ground rent and government rates but exclusive of water, electricity, gas, telephone and other charges.	No commercial value

Notes:

1. The tenant is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

2. The property is subject to an Order No. UB2/U13-17/0049107 dated 31 August 2009 issued by the Building Authority regarding unauthorised removal of fire resisting door and installation of roller shutter, metal gate and a door of inadequate fire rating; and

3. The building in which the property forms part is subject to an Order No. UB2/U13-17/0057/07 dated 31 August 2009 issued by the Building Authority regarding some unauthorised building works of the building.

Group III — Properties rented by the Group in the United States of America

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
1.	Western Portion of 16th Floor, 260 West 39th Street, Manhattan, New York, The USA.	The property comprises an office unit on 16th Floor of a 19-storey office building. The building was completed in 1928. The property has a lettable area of about 2,162 sq.ft. (200.9 sq.m.). The property is currently occupied by the Group for office and showroom purposes.	The property was rented by the Group for a term of 5 years commencing from 1 August 2011 to 31 July 2016 at a monthly base rent ranging from US$8,365 to US$9,750 exclusive of real estate tax. *(see Note 2)*	No commercial value

Notes:

1. The tenant is Runway Fashions, Inc., which is an indirect wholly-owned subsidiary of the Company; and

2. The base rent of the property is tabulated as follows:

Lease Period	Monthly Payment *(US$)*	Annual Payment *(US$)*
1 August 2011–31 December 2011	8,365	41,825
1 January 2012–31 July 2012	8,550	59,850
1 August 2012–31 July 2013	8,750	105,000
1 August 2013–31 July 2014	9,250	111,000
1 August 2014–31 July 2015	9,550	114,600
1 August 2015–31 July 2016	9,750	117,000

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
2.	Suites B0692 on 6th Floor in Building B, No. 110 East Ninth Street, California Market Center, Los Angeles, California, The USA.	The property comprises an office unit on 6th Floor of a 13-storey office building. The building was completed in 1963. The property has a lettable area of about 440 sq.ft. (40.9 sq.m.). The property is currently occupied by the Group for office and showroom purposes.	The property was rented by the Group for a term of 2 years commencing from 1 July 2013 to 30 June 2015 at a monthly base rent of US$440 exclusive of direct expenses.	No commercial value

Note: The tenant is Runway Fashions, Inc., which is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
3.	Suites B0801/803 on 8th Floor in Building B, No. 110 East Ninth Street, California Market Center, Los Angeles, California, The USA.	The property comprises an office unit on 8th Floor of a 13-storey office building. The building was completed in 1963. The property has a lettable area of about 2,423 sq.ft. (225.1 sq.m.) The property is currently occupied by the Group for office and showroom purposes.	The property was rented by the Group for a term of 5 years commencing from 1 July 2013 to 30 June 2018 at a monthly base rent ranging from US$4,846 to US$5,141.12 exclusive of direct expenses. *(see Notes 2 and 3)*	No commercial value

Notes:

1. The tenant is Runway Fashions, Inc., which is an indirect wholly-owned subsidiary of the Company;

2. The base rent of the property is tabulated as follows:

Lease Period	Monthly Base Rent *(US$)*
1 July 2013–30 June 2015	4,846.00
1 July 2015–30 June 2017	4,991.38
1 July 2017–30 June 2018	5,141.12

3. Provided that the tenant is not in default of any of its obligations to the landlord, the landlord shall allow the tenant rent credits in the following amounts:

Lease Period	Monthly Rent Credits *(US$)*
1 December 2013–31 December 2013	2,423.00
1 December 2014–31 December 2014	2,423.00
1 June 2018–30 June 2018	5,141.12

Group IV — Properties licensed by the Group in Hong Kong

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
1.	Passenger Lift Lobby at 14th Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises a lift lobby space on 14th Floor of a 22-storey office building. The building was completed in 1984. The property has a licensed area of about 420 sq.ft. (39 sq.m.). The property is currently occupied by the Group for office reception purpose.	The property was licensed by the Group for a term of 2 years commencing from 1 September 2012 to 31 August 2014 at a monthly licence fee of HK$10 exclusive of management fee and government rates.	No commercial value

Note: The licensee is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
2.	Car Parking Space No. L3 on Ground Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises a car parking space on Ground Floor of a 22-storey office building. The building was completed in 1984. The property is currently occupied by the Group for car parking purpose.	The property was licensed by the Group for a term of 2 years commencing from 1 September 2012 to 31 August 2014 at a monthly licence fee of HK$2,800 exclusive of management fee and government rates.	No commercial value

Note: The licensee is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 *(HK$)*
3.	Car Parking Space No. L4 on Ground Floor of Park Building, No. 476 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong.	The property comprises a car parking space on Ground Floor of a 22-storey office building. The building was completed in 1984. The property is currently occupied by the Group for car parking purpose.	The property was licensed by the Group for a term of 2 years commencing from 1 September 2012 to 31 August 2014 at a monthly licence fee of HK$3,300 exclusive of management fee and government rates.	No commercial value

Note: The licensee is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

Group V — Property licensed by the Group in the United States of America

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2013 (HK$)
1.	Office Nos.259 and 260 on Second Floor, Regus-Petaluma Marina, 755 Baywood Drive, Petaluma, Sonoma County, California, The USA.	The property comprises two office rooms on 2nd Floor of a 2-storey office building. The building was completed in 2002. The property has a total licensed area of about 266 sq.ft. (24.7 sq.m.). The property is currently occupied by the Group for office purpose.	The property was licensed by the Group for a term of 2 years commencing from 1 September 2013 to 31 August 2015 at a total monthly licence fee of US$1,628 exclusive of VAT/tax and service charges.	No commercial value

Note: The licensee is Runway Global Limited, which is an indirect wholly-owned subsidiary of the Company.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 June 2013 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the "Companies Law"). The Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles") comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter the Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 22 November 2013. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, 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; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution — majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company shall make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may 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, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspapers or by any other means in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles 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 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.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) 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 of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any 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).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the 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 and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. 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 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 23 July 2013.

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.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company 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.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(n) Winding up

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them *(pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one

(21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation of the Company

The Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 19 June 2013. The Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance on 23 July 2013 and the principal place of business in Hong Kong is at 14th Floor, Park Building, 476 Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. Mr. Tien who resides at Flat D, 10th Floor, Tower 1, Sorrento, 1 Austin Road West, Tsim Sha Tsui, Kowloon, Hong Kong and Mr. Chan Ka Yu who resides at Unit B, 25th Floor, Block 13, Laguna City, Kowloon, Hong Kong, have been appointed as the authorised representatives of the Company for the acceptance of service of processes and notices in Hong Kong.

As the Company is incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and its constitution which comprises the Memorandum of Association and the Articles. A summary of the relevant aspects of the Cayman Companies Law and certain provisions of the Articles is set out in Appendix IV to this Prospectus.

2. Changes in share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 38,000,000 Shares of HK$0.01 each. On 19 June 2013, 1 Share was issued and allotted nil paid to the subscriber, an independent third party. On the same date, such nil paid Share was transferred from the subscriber to All Divine at nil consideration and 1 Share was issued and allotted nil paid to Fortune Zone.

Pursuant to the written resolutions of the Shareholders passed on 22 November 2013, the authorised share capital of the Company was increased from HK$380,000 to HK$100,000,000 by the creation of an additional 9,962,000,000 Shares.

On 22 November 2013, in consideration of the transfer of the entire issued share capital of Great Entrepreneur from Mr. Tien and Mr. Gozashti to the Company, the Company have allotted and issued 500,000 Shares to each of All Divine and Fortune Zone under the instructions of Mr. Tien and Mr. Gozashti respectively.

On 22 November 2013, in consideration of the transfer of the entire issued share capital of Transformed Holdings from Mr. Tien and Mr. Gozashti to the Company, the Company has (i) allotted and issued 499,999 Shares, credited as fully paid, to each of All Divine and Fortune Zone under the instructions of Mr. Tien and Mr. Gozashti respectively; and (ii) credited as fully paid at par the 1 nil paid Share held by each of All Divine and Fortune Zone under the instructions of Mr. Tien and Mr. Gozashti respectively.

The Company will offer 150,000,000 Placing Shares under the Placing (assuming the Offer Size Adjustment Option is not exercised). Conditional upon the share premium account of the Company being credited with the proceeds from the allotment and issue of the Placing Shares, 448,000,000 Shares will be allotted and issued to All Divine and Fortune Zone under the Capitalisation Issue.

Immediately following the Placing and the Capitalisation Issue, the authorised share capital of the Company will be HK$100,000,000 divided into 10,000,000,000 Shares and the issued share capital of the Company (taking into no account of any Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme) will be HK$6,000,000 divided into 600,000,000 Shares fully paid or credited as fully paid. Assuming the Offer Size Adjustment Option is fully exercised and no Shares are issued pursuant to the exercise of options that may be granted under the Share Option Scheme, the issued share capital of the Company will be HK$6,225,000 divided into 622,500,000 Shares fully paid or credited as fully paid. Save as disclosed in this prospectus, the Directors do not have any present intention to issue any part of the authorised but unissued share capital of the Company and, without prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions of the Shareholders

On 22 November 2013, written resolutions were passed by the Shareholders pursuant to which, among other matters:

(a) the Articles of Association were approved and adopted, the terms of which are summarized in Appendix IV to this prospectus;

(b) conditional on (i) the Listing Division of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus, and (ii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:

(i) the Placing and the granting of the Offer Size Adjustment Option were approved and the Directors were authorised to allot and issue the Placing Shares pursuant to the Placing and such number of Shares as may be required to be allotted and issued upon the exercise of the Offer Size Adjustment Option;

(ii) the rules of the Share Option Scheme, the principal terms of which are set out in the section headed "Share Option Scheme" of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme;

(iii) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to capitalise an amount of HK$4,480,000 standing to the credit of the share premium account of the Company and to appropriate such amount as capital to pay up in full at par 448,000,000 Shares for allotment and issue to the Shareholders whose names appear on the register of members of the Company as at close of business on 22 November 2013, and the Directors were authorised to give effect to such capitalisation and distribution;

(iv) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, Shares with an aggregate nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme); and (bb) the nominal amount of the share capital of the Company repurchased by the Company pursuant to the authority granted to the Directors as referred in paragraph (v) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first; and

(v) a general unconditional mandate (the "Repurchase Mandate") was given to the Directors to exercise all powers of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue (excluding Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the Articles of Association or any applicable Cayman Islands laws to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors, whichever occurs first.

4. Corporate Reorganisation

The Group underwent the Reorganisation in preparation for the listing of the Shares on the GEM. For further information relating to the Reorganisation, please refer to the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group structure" in this prospectus.

5. Changes in share capital of subsidiaries of the Company

The subsidiaries of the Company are listed in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the paragraph headed "Corporate Reorganisation" above and the paragraph headed "Reorganisation" in the section headed "History, Reorganisation and Group structure" in this prospectus, there has been no other change to the share capital of any of the subsidiaries of the Company within the two years immediately prior to the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit a company listed on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) Shareholders' approval

The GEM Listing Rules provide that all proposed repurchases of shares (which must be fully paid in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchases by us may be made out of profits or share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if authorised by the Articles and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits of the Company or out of the Company's share premium account or, if authorised by the Articles and subject to the Companies Law, out of capital.

(iii) Connected persons

The GEM Listing Rules prohibit the Company from knowingly repurchasing the Shares on the Stock Exchange from a "connected person", which includes a Director, chief executive or Substantial Shareholder of the Company or any of the subsidiaries or an associate of any of them and a connected person shall not knowingly sell their Shares to the Company.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(c) Funding of repurchase

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared to the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing level of the Group which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 600,000,000 Shares in issue immediately after the listing of the Shares (assuming no Shares have been issued under the Offer Size Adjustment Option or pursuant to the exercise of options granted under the Share Option Scheme), would result in up to 60,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) General

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules), has any present intention if the Repurchase Mandate is exercised to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, the Directors are not aware of any consequence that would arise under the Takeovers Code as a result of a repurchase pursuant to the Repurchase Mandate.

The Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No connected person of the Company has notified the Group that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE COMPANY

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material in relation to the business of the Company taken as a whole:

(a) the Underwriting Agreement, the principal terms and conditions of which are summarised in the paragraph headed "Underwriting arrangements and expenses" under the section headed "Underwriting" in this prospectus;

(b) the deed of indemnity dated 26 November 2013 executed by the Controlling Shareholders in favour of the Group whereby the Controlling Shareholders agreed to give certain indemnities in relation to tax and other matters including indemnities set out in the paragraph headed "Tax and other indemnities" in the section headed "Other information" in this Appendix;

(c) the share purchase agreement dated 22 October 2013 entered into between Mr. Tien and Mr. Gozashti as vendors and Great Entrepreneur as purchaser pursuant to which Great Entrepreneur agreed to acquire 3,000,000 shares of HK$1.00 each in the share capital of Runway HK from Mr. Tien and Mr. Gozashti in consideration of the allotment and issue by Great Entrepreneur of 1 share of US$1.00 in the share capital of Great Entrepreneur to each of Mr. Tien and Mr. Gozashti;

(d) the share purchase agreement dated 7 November 2013 entered into between Mr. Tien and Mr. Gozashti as vendors and Transformed Holdings as purchaser pursuant to which Transformed Holdings agreed to acquire 1,000 shares of US$1.00 each in the share capital of Runway US from Mr. Tien and Mr. Gozashti in consideration of the allotment and issue by Transformed Holdings of 1 share of US$1.00 in the share capital of Transformed Holdings to each of Mr. Tien and Mr. Gozashti;

(e) the share purchase agreement dated 22 November 2013 entered into between Mr. Tien and Mr. Gozashti as vendors and the Company as purchaser pursuant to which the Company agreed to acquire a total of 4 shares, being 2 shares of US$1.00 each in the share capital of Great Entrepreneur from each of Mr. Tien and Mr. Gozashti, in consideration of the allotment and issue by the Company of 500,000 Shares to each of All Divine and Fortune Zone respectively;

(f) the share purchase agreement dated 22 November 2013 entered into between Mr. Tien and Mr. Gozashti as vendors and the Company as purchaser pursuant to which the Company agreed to acquire a total of 4 shares, being 2 shares of US$1.00 each in the share capital of Transformed Holdings from each of Mr. Tien and Mr. Gozashti, in consideration of (i) the allotment and issue by the Company of 499,999 Shares, credited as fully paid, to each of All Divine and Fortune Zone respectively; and (ii) the crediting as fully paid at par the 1 nil paid Share held by each of All Divine and Fortune Zone respectively; and

(g) the Deed of Non-Competition, the principal terms and conditions of which are summarised in the paragraph headed "Deed of Non-competition" in the section headed "Relationship with the Controlling Shareholders" in this prospectus.

2. Intellectual property rights

Trademark

As at the Latest Practicable Date, the Group was the registered proprietor and beneficial owner of the following trademarks:

Trademarks	Name of registered owner	Place of registration	Class	Registration number	Next renewal date (dd/mm/yyyy)
BLANC NOIR	Runway HK	Hong Kong	25	301196848	07/09/2018
Runway	Runway HK	Hong Kong	25	301196857	07/09/2018
Sugarfly	Runway HK	Hong Kong	25	301381329	09/07/2019
runway	Runway HK	PRC	25	6948041	20/02/2022
Sugarfly	Runway HK	PRC	25	7544389	27/11/2020
runway NEW YORK	Runway HK	United States	25	4175374	17/07/2022
Sugarfly	Runway HK	United States	25	3503552	23/09/2018
STUDIO COUTURE	Runway HK	United States	25	3566198	20/01/2019
BLANC NOIR	Runway HK	United States	25	2344253	22/01/2020
bn	Runway HK	United States	25	1967051	09/04/2016

As at the Latest Practicable Date, application had been made by the Group for registration of the following trademark:

Trademark	Applicant	Class	Serial number	Date of application	Place of application
BE BY BLANC NOIR	Runway HK	25	85958813	13/06/2013	United States

Domain names

As at the Latest Practicable date, the following domain names are owned and used by the Group:

Domain Name	Name of registrant	Next renewal Date (dd/mm/yyyy)
runwayglobal.com	Runway HK	10/08/2017
runwayusa.com	Runway HK	09/09/2015
Runwayglobaljx.com	Runway HK	17/07/2015

C. DISCLOSURE OF INTERESTS

1. Interests and short positions of the Directors and the chief executives of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations following the Placing

Immediately following completion of the Placing and the Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued or repurchased by the Company pursuant to the mandates as referred to in the paragraph headed "Written resolutions of the Shareholders" in the section headed "Further information about the Company" in this Appendix, the interests or short positions of the Directors or chief executives of the Company in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register as referred to therein, or will be required, or pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange will be as follows:

Name of Director	Capacity/nature of interest	Position	Number of Shares	Percentage of shareholding interests
Mr. Tien	Interest in controlled corporation *(Note 1)*	Long position	225,000,000 Shares	37.50%
Mr. Gozashti	Interest in controlled corporation *(Note 2)*	Long position	225,000,000 Shares	37.50%

Notes:

1. These Shares are held by All Divine, which is wholly and beneficially owned by Mr. Tien. By virtue of the SFO, Mr. Tien is deemed to be interested in the 225,000,000 Shares under the SFO.

2. These Shares are held by Fortune Zone, which is wholly and beneficially owned by Mr. Gozashti. By virtue of the SFO, Mr. Gozashti is deemed to be interested in the 225,000,000 Shares under the SFO.

2. Interests and short positions of Substantial Shareholders in the Shares, underlying Shares and debentures of the Company and its associated corporations

So far as it is known to the Directors and save as disclosed in this prospectus, immediately following completion of the Placing and the Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme, the following persons (not being a Director or chief executive of the Company) will have interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Capacity	Position	Number of Shares	Percentage of shareholding interests
All Divine	Beneficial owner *(Note 1)*	Long position	225,000,000 Shares	37.50%
Fortune Zone	Beneficial owner *(Note 2)*	Long position	225,000,000 Shares	37.50%
Ms. Sallie Gozashti	Interest of spouse *(Note 3)*	Long position	225,000,000 Shares	37.50%

Notes:

1. All Divine is wholly and beneficially owned by Mr. Tien.
2. Fortune Zone is wholly and beneficially owned by Mr. Gozashti.
3. As Fortune Zone is wholly and beneficially owned by Mr. Gozashti, Ms. Sallie Gozashti, being Mr. Gozashti's spouse, is deemed to be interested in the Shares held by Fortune Zone under the SFO.

3. Particulars of service agreements

Each of the executive Directors has entered into a service agreement with the Company for an initial term of three years commencing from 22 November 2013, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after initial fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 22 November 2014 at the discretion of the Directors of not more than 10% of the annual salary at the time of the relevant review), an additional one-month salary of HK$110,000 at the end of each year of service and a discretionary bonus not exceeding 5% of the audited combined/consolidated profit after tax and minority interest (if any). An executive Director is required to abstain from voting and is not counted in the quorum in respect of any resolution of the Directors regarding the amount of the monthly salary and the discretionary bonus payable to him. The current aggregate basic annual salaries including the additional one-month salary payment at the end of each year of service of the executive Directors, are as follows:

Name	Amount
Mr. Tien	HK$1,430,000
Mr. Gozashti	HK$1,430,000

Each of the independent non-executive Directors has entered into a letter of appointment with the Company. The terms and conditions of each of such letters of appointment are similar in all material respects. Each of the independent non-executive Directors are appointed with an initial term of three years commencing from 22 November 2013 subject to termination in certain circumstances as stipulated in the relevant letters of appointment. The annual remuneration payable to the independent non-executive Directors under each of the letters of appointment are as follows:

Name	Amount
Mr. LAI Man Sing	HK$120,000
Mr. TANG Shu Pui, Simon	HK$120,000
Mr. TANG Tsz Kin, Kevin	HK$120,000

Save as the aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

4. Directors' remuneration

(a) During the two years ended 31 December 2012 and the five months ended 31 May 2013, the aggregate emoluments paid and benefits in kind granted by the Group to the Directors were approximately HK$1,176,000, HK$2,781,000 and HK$1,187,000 respectively;

(b) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus, if any) payable by the Group to and benefits in kind receivable by the Directors for the year ending 31 December 2013 are expected to be approximately HK$2,860,000;

(c) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group;

(d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31 December 2012 and the five months ended 31 May 2013;

(e) Each of the executive Directors and independent non-executive Directors is entitled to reimbursement of all necessary and reasonable out-of-pocket expenses properly incurred in relation to all business and affairs carried out by the Group from time to time or in discharge of his duties to the Group under the service contract; and

(f) The Company's policy concerning the remuneration of the Directors is that the amount of remuneration is determined by reference to the relevant Director's experience, responsibilities, workload, the time devoted to the Group and the performance of the Group.

5. Agency fees or commissions

Save as disclosed in this prospectus, within the two years immediately 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 the Company or any of its subsidiaries.

6. Connected transactions and related party transactions

Save as disclosed in note 34 to the Accountants' Report as set out in Appendix I to this prospectus, during the two years immediately preceding the date of this prospectus, the Group has not engaged in any other material connected transactions or related party transactions.

7. Disclaimers

Save as disclosed in this prospectus:

(a) taking no account of any Shares which may be taken up or acquired under the Placing or pursuant to the exercise of the Offer Size Adjustment Option or options that may be granted under the Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following the completion of the Placing and the Capitalisation Issue, have an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who is, either directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;

(b) none of the Directors or chief executive of the Company has any interest or short position in any of the Shares, underlying Shares or debentures of the Company or any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to the

Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, in each case once the Shares are listed;

(c) none of the Directors or the experts named in paragraph headed "Qualifications of experts" in this Appendix has been directly or indirectly interested in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any other member of the Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;

(d) none of the Directors or the experts named in the paragraph headed "Qualifications of experts" in the section headed "Other information" of 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 the Group taken as a whole;

(e) none of the Directors or experts named in the paragraph headed "Qualifications of experts" in the section headed "Other information" of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group;

(f) none of the Directors has any existing or proposed service agreements with the Company (excluding agreements expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)); and

(g) no remuneration or other benefits in kind have been paid by the Company to any Director since the date of incorporation of the Company, nor are any remuneration or benefits in kind payable by the Company to any Director in respect of the current financial year under any arrangement in force as at the Latest Practicable Date.

D. SHARE OPTION SCHEME

Summary of terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme but does not form part of, nor was it intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme:

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable the Company to grant options to the employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner of the Company or any subsidiary (including any director of the Company or any subsidiary) who is in full-time or part-time employment with or otherwise engaged by the

Company or any subsidiary at the time when an option is granted to such employee, adviser, consultant, service provider, agent, customer, partner or joint-venture partner or any person who, in the absolute discretion of the board of Directors has contributed or may contribute to the Group (“the Eligible Participants”), as incentive or reward for their contribution to the Group to subscribe for the Shares thereby linking their interest with that of the Group.

Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the GEM Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to the development of us so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

2. *Grant and acceptance of options*

Subject to the terms of the Share Option Scheme, the Directors may, in its absolute discretion make offer to the Eligible Participants. An offer shall be made to an Eligible Participant in writing in such form as the Directors may from time to time determine and shall remain open for acceptance by the Eligible Participant concerned for a period of 21 days from the date upon which it is made provided that no such offer shall be open for acceptance after the 10th anniversary of the adoption date of the Share Option Scheme or the termination of the same.

An offer shall be deemed to have been accepted by an Eligible Participant concerned in respect of all Shares 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 non-refundable remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within such time as may be specified in the offer (which shall not be later than 21 days from, and inclusive of, the date of offer).

Any offer may be accepted by an Eligible Participant in respect of less than the total number of Shares which are offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof.

3. *Price of Shares*

The subscription price for Shares under the Share Option Scheme shall be determined at the discretion of the Directors but in any event will not be less than the highest of (a) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the offer date of the particular option, which must be a Business Day; (b) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five Business Days immediately preceding the offer date of that particular option; and (c) the nominal value of a Share on the offer date of the particular option.

4. *Maximum number of Shares*

(i) Subject to (iii) below, the maximum number of Shares in respect of which options may be granted at any time under the Share Option Scheme together with options which may be granted under any other share option schemes for the time being of the Group shall not exceed such number of Shares as equals 10% of the issued share capital of the Company at the Listing Date (excluding the Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option). On the basis of a total of 600,000,000 Shares in issue as at the Listing Date (excluding the Shares which may have been issued pursuant to the exercise of the Offer Size Adjustment Option), the relevant limit will be 60,000,000 Shares which represent 10% of the issued Shares at the Listing Date. The Company may seek approval by its shareholders in general meeting to refresh the 10% limit provided that the total number of Shares available for issue under options which may be granted under the Share Option Scheme and any other schemes of the Group in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of refreshing of the limit. Options previously granted under the Share Option Scheme and any other share option schemes of the Group (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes and exercised options) will not be counted for the purpose of calculating the limit as refreshed.

(ii) The Company may seek separate approval by its shareholders in general meeting for granting options beyond the 10%. limit provided the options in excess of the limit are granted only to Eligible Participant specifically identified by the Company before such approval is sought. The Company will send a circular to the Shareholders containing a generic description of the specified Eligible Participant who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participant with an explanation as to how the terms of the options serve such purpose, and such information as may be required under the GEM Listing Rules from time to time.

(iii) The limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other options granted and yet to be exercised under any other share option schemes of the Group must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of the Group if this will result in the limit being exceeded.

(iv) Unless approved by the Shareholders in the manner set out below, the total number of Shares issued and to be issued upon exercise of the options granted to each grantee (including both exercised and outstanding options) in any 12-month period must not exceed 1%, of the Shares in issue. Where any further grant of options to an Eligible Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1 per cent. of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such Eligible Participant and his associates abstaining from voting. The Company must send a circular to the Shareholders and the circular must disclose the identity of the Eligible Participant, the number and terms of the options to be granted (and options previously granted to such Eligible Participant), and such information as may be required under the GEM Listing Rules from time to time. The number and terms (including the subscription price) of options to be granted to such Eligible Participant must be fixed before Shareholders' approval and the date of meeting of the board of Directors for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Directors shall make available sufficient of the then authorised but unissued share capital of the Company to allot the Shares on the exercise of any option.

5. Exercise of options

An option may be exercised at any time during the period to be determined and identified by the Board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the date of grant.

Subject to terms of the Share Option Scheme, an option shall be exercisable in whole or in part in the circumstances by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is so exercised. Each such notice must be accompanied by a non-refundable remittance for the full amount of the subscription price for Shares in respect of which the notice is given. Within 21 days after receipt of the notice and, where appropriate, receipt of the auditors' or the independent financial adviser's certificate, the Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative) credited as fully paid.

Though there is no specified minimum period under the Share Option Scheme for which an option must be held or the performance target which must be achieved before an option can be exercised under the terms and conditions of the Share Option Scheme, the Directors may make such grant of options, subject to such terms and conditions in relation to the minimum period of such options to be held and/or the performance targets to be achieved as the Directors may determine in their absolute discretion.

6. Restrictions on the time of grant of options

No option shall be granted by the Directors under the following circumstances:

(i) after inside information has come to the knowledge of the Company until such inside information has been announced; and

(ii) during the period commencing one month immediately preceding the earlier of:

(a) the date of the meeting of the board of Directors for the approval of the annual results, interim results and quarterly results of the Company; and

(b) the deadline for the Company to publish its annual results, interim results or quarterly results announcement under the GEM Listing Rules, and ending on the date of the results announcements.

7. Rights are personal to grantees

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest whatsoever in favour of any third party over or in relation to any option or enter into any agreement to do so.

8. Rights on ceasing employment

The option period in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the date on which the grantee ceases to be an Eligible Participant for any reason (other than his death) including the termination of his employment or engagement on any one or more of the grounds that he has been guilty of persistent or serious misconduct, or has become bankrupt or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or any member of the Group into disrepute) unless the Board otherwise determines to grant an extension at the absolute discretion of the Board.

9. Rights on death

In the event of the grantee ceasing to be an Eligible Participant by reason of his death before exercising the option in full and where the grantee is any employee of the Group none of the events which would be a ground for termination of his employment under paragraph 8 above arises, his personal representative(s) may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of death, or such longer period as the Directors may determine.

10. Cancellation of options

The Board may, with the consent of the relevant grantee, at any time cancel any option granted but not exercised.

Where the Company cancels options and offers new options to the same option holder, the offer of such new options may only be made under the Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders as mentioned in paragraph 4 above.

11. Effect of alterations to share capital

In the event of any alteration in the capital structure of the 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 or other offer of securities to holders of Shares (including any securities convertible into share capital or warrants or options to subscribe for any share capital of the Company, but excluding options under the Share Option Scheme and options under any other similar employee share option scheme of the Company), consolidation, sub-division or reduction of the share capital of the Company or otherwise howsoever, then, in any such case (other than in the case of capitalisation of profits or reserves) the Company shall instruct the auditors or an independent financial adviser to certify in writing:

(i) the adjustment, if any, that ought in their opinion fairly and reasonably to be made either generally or as regards any particular grantee, to:

(a) 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

(b) the subscription price; and/or

(c) the maximum number of Shares referred to in paragraph 4(i); and/or

(d) the method of the exercise of the option(s)

and an adjustment as so certified by the auditors shall be made, provided that:

(a) any such adjustment must give a grantee the same proportion of the equity capital as that to which that person was previously entitled;

(b) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;

(c) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;

(d) the issue of securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and

(e) to the advantage in any respect of the grantee without specific prior approval of the shareholders of the Company;

(ii) in respect of any such adjustment, other than any made on a capitalisation issue, the auditors must confirm to the Directors in writing that the adjustment so made satisfies the requirements of the relevant provisions of the GEM Listing Rules and any guidance/interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

12. Rights on a general offer

If a general or partial offer is made to all the holders of Shares, 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, the Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, the grantee shall, notwithstanding any other term on which his 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 the Company at any time thereafter and up to the close of such offer (or any revised offer).

13. Rights on winding up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as it despatches such notice to each member of the Company give notice thereof to all grantees (containing an extract of the provisions of this paragraph) and thereupon, each grantee or his personal representative(s) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above, allot and issue the relevant Shares to the grantee credited as fully paid.

14. Rights on a compromise or arrangement

Other than a general or partial offer or a scheme of arrangement contemplated in paragraph 15 below, in the event of a compromise or arrangement between the Company and its members or creditors being proposed for the purpose of or in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a compromise or arrangement and any grantee or his personal representative(s) may by notice in writing to the Company accompanied by a remittance of the full amount of the subscription price in respect of which the notice is given (such notice to be received by the Company not later than two Business Days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice.

15. Rights on a scheme of arrangement

If a general or partial offer by way of scheme of arrangement is made to all the holders of Shares, 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, the Company shall use all its reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such scheme of arrangement is formally proposed to the shareholders in the Company, the grantee shall, notwithstanding any other term on which his 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 the Company at any time thereafter and the record date for entitlements under the scheme of arrangement.

16. Ranking of Shares

Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank pari passu in all respects with the existing fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of the Company is closed, the first day of the reopening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered onto the register of members of the Company as the holder thereof.

17. Duration and administration of the Share Option Scheme

The Share Option Scheme shall be valid and effective commencing from the adoption date of the Share Option Scheme until the termination date as provided therein (which being the close of business of the Company on the date which falls ten years from the date of the adoption of the Share Option Scheme), after which period no further options will be granted but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted or exercised prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. The Share Option Scheme shall be subject to the administration of the Directors whose decision on all matters arising in relation to the Share Option Scheme or its interpretation or effect shall (save as otherwise provided herein and in the absence of manifest error) be final and binding on all persons who may be affected thereby.

18. Alterations to the terms of the Share Option Scheme

(i) Alterations of the provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of Eligible Participant without the prior approval of the Shareholders in general meeting;

(ii) any alteration to the terms and conditions of the provisions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme;

(iii) any change to the authority of the Directors or administrator of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme must be approved by the Company's shareholders in general meeting; and

(iv) the amended terms of the Share Option Scheme or the options must still comply with the relevant requirements of the GEM Listing Rules and any guidance and/or interpretation of the GEM Listing Rules issued by the Stock Exchange from time to time.

19. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon:

(i) the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may be issued by the Company pursuant to the exercise of options granted under the Share Option Scheme;

(ii) the commencement of dealings of Shares on the Stock Exchange; and

(iii) the passing of the necessary resolution to approve and adopt the Share Option Scheme by the Shareholders in general meeting or by way of written resolution and to authorise the Directors to grant options at their absolute discretion thereunder and to allot, issue and deal with Shares pursuant to the exercise of any options granted under the Share Option Scheme.

20. Grant of options to connected persons or any of their associates

Each grant of options to any of the Directors, chief executive or Substantial Shareholder of the Company, or any of their respective associates must be approved by the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the option (if any)). Where any grant of options to a Substantial Shareholder or an independent non-executive Director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million, such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All connected persons (as defined in the GEM Listing Rules) of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. The circular must contain:

(i) details of the number and terms (including the subscription price) of the options to be granted to each Eligible Participant, which must be fixed before the shareholders' meeting and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the options) to the independent Shareholders as to voting; and

(iii) the information as may be required under the GEM Listing Rules from time to time.

Shareholders' approval is also required for any change in the terms of options granted to an Eligible Participant who is a Substantial Shareholder or an independent non-executive Director, or any of their respective associates.

21. Lapse of option

The Option Period (as defined in the Share Option Scheme) in respect of any option shall automatically terminate and that option (to the extent not already exercised) shall automatically lapse on the earliest of:

(i) the expiry of the Option Period;

(ii) the expiry of any of the periods referred to in paragraphs 8, 9 or 14, where applicable;

(iii) subject to the court of competent jurisdiction not making an order prohibiting the offeror from acquiring the remaining shares in the offer, the expiry of the period referred to in paragraph 12;

(iv) subject to the scheme of arrangement becoming effective, the expiry date of the period referred to in paragraph 15;

(v) the date on which the grantee ceases to be an Eligible Participant for any reason other than his death or the termination of his employment or engagement on one or more grounds specified in (vi) below;

(vi) the date on which the grantee of an option ceases to be an Eligible Participant by reason of the termination of his employment or engagement on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;

(vii) the date of the commencement of the winding-up of the Company referred to in paragraph 13;

(viii) the date on which the grantee commits a breach of paragraph 7; or

(ix) the date on which the option is cancelled by the Board as set out in paragraph 10.

22. Termination

The Company by an ordinary 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 options granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme and options granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

23. Miscellaneous

Any dispute arising in connection with the number of Shares of an option, any of the matters referred to in paragraph 11 above shall be referred to the decision of the independent financial adviser or 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.

24. Present status of the Share Option Scheme

Application has been made to the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme which shall represent 10% of the Share in issue upon completion of the Placing.

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

25. Value of options

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of the options. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

The Board confirms that the Board will not approve the exercise of any option if as a result which the Company will not be able to comply with the public float requirements under the GEM Listing Rules.

E. OTHER INFORMATION

1. Tax and other indemnities

The Controlling Shareholders (the "Indemnifiers") have entered into a deed of indemnity with and in favor of the Company (for itself and as trustee for each of the Company's present subsidiaries) (being the material contract (b) referred to in paragraph headed "Summary of material contracts" in the section headed "Further information about the business of the Company" in this appendix, to provide indemnities on a joint and several basis in respect of, among other matters:

(a) any estate duty, death duty, inheritance tax, succession duty or any other similar tax or duty which is or becomes payable by the Company or any members of the Group by the operation of any estate duty, death duty, inheritance tax, succession duty or any other similar legislation in Hong Kong, the United States, the PRC or any other relevant jurisdiction as a result or in consequence of any event or transaction occurring on or before the Listing Date, whether or not such event or transaction shall have taken place in conjunction with any circumstances whenever occurring;

(b) tax liabilities (including all fines, penalties, costs, charges, liabilities, expenses and interests incidental or relating to taxation) which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the Listing Date or any event or transaction entered into or occurring on or before the Listing Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and

(c) any costs (including but not limited to legal and other professional costs), claims, damages, expenses, losses, penalties, liabilities, actions and proceedings of whatever nature suffered or incurred by any members of the Group directly or indirectly in connection with:

(i) any possible or alleged violation or breach or non-compliance by any members of the Group with any laws or regulations of Hong Kong or the PRC or any laws or regulations in any relevant jurisdictions on all matters on or before the Listing Date which include, without limitation to, (aa) the Companies Ordinance and its subsidiary legislation; (bb) the requirement to obtain all relevant licenses, approvals, permit and certificates for conducting its business; and (cc) the PRC laws and regulations in relation to the contribution to employees social welfare scheme (including but not limited to any failure of the Group to make full social insurance and/or housing provident fund contributions for any of their respective employees as required under the relevant PRC laws and regulations); and (dd) any other applicable laws, rules or regulations in Hong Kong, the United States, the PRC, the Cayman Islands or in any part of the world; or

(ii) all litigation, arbitration, claims, counter-claims, actions, complaints, demands, judgments and/or legal proceedings by or against any members of the Group which was issued, accrued and/or arising from any act of any of such members of the Group at any time on or before the Listing Date including but not limited to the arbitration involving a contract dispute between Runway HK and the Respondent as set out in the paragraph headed "Litigation" in the section headed "Business" in this prospectus.

The Indemnifiers are under no liability under the deed of indemnity in respect of any taxation:

(a) to the extent that provision has been made for such taxation in the audited accounts of any member of the Group for any accounting period up to 31 May 2013;

(b) to the extent that such taxation or liability for such taxation falling on any of the members of the Group in respect of any accounting period commencing on 1 June 2013 and ending on the Listing Date, where such taxation or liability would not have arisen but for some act or omission of, or transaction voluntarily effected by, any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of the Indemnifiers, other than any such act, omission or transaction:

(i) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or after 1 June 2013; or

(ii) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 May 2013 or pursuant to any statement of intention made in this prospectus; or

(iii) consisting of any of members of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or

(c) to the extent that such taxation liability or claim 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 practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority (whether in Hong Kong, the United States, the PRC or any other part of the world) coming into force after the date of the deed of indemnity or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the deed of indemnity with retrospective effect; or

(d) to the extent that any provision or reserve made for taxation in the audited accounts of any member of the Group for each of the two years ended 31 December 2012 and the five months ended 31 May 2013 and which is finally established to be an over-provision or an excessive reserve, in which case the Indemnifiers' liability (if any) in respect of such taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied referred to in this paragraph to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or

(e) to the extent that such taxation arises as a result of the Group or any of members of the Group being in breach of any provision of the deed of indemnity; or

(f) to the extent that such taxation arises as a result of any incomes, profits or gains earned, accrued or received by the Group or any event occurred or any transactions entered into in the ordinary course of business of the Group on or after 1 June 2013.

2. Litigation

Save as disclosed in the paragraph headed "Litigation" in the section headed "Business" in this prospectus, during the Track Record Period and as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and, so far as the Directors are aware, no litigation, claim or arbitration of material importance is pending or threatened by or against any member of the Group.

3. Sponsor

The Sponsor has made an application on behalf of the Company to the Stock Exchange for listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme or the exercise of the Offer Size Adjustment Option.

4. Preliminary expenses

The estimated preliminary expenses of the Company in relation to its incorporation are approximately HK$56,000 and are payable by the Company.

5. Promoter

The Company has no promoter.

6. Qualifications of experts

The following are the respective qualifications of the experts who have given their opinion or advice which is contained in this prospectus:

Name	Qualification
Messis Capital Limited	licensed corporation to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
BDO Limited	Certified Public Accountants
Castores Magi (Hong Kong) Limited	Professional surveyors and valuers
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
ZHONGLEI Risk Advisory Services Limited	Independent internal control adviser
Law Offices of Robert Elliott	Legal advisers to the Company as to the US laws
Michael Li & Co.	Legal advisers to the Company as to Hong Kong laws
Tian Yuan Law Firm	Legal advisers to the Company as to PRC laws
Robin Gregory D'Souza	Barrister-at-law, Hong Kong

7. Consents of experts

Each of the parties listed in the paragraph headed "Qualifications of experts" in the section headed "Other information" in this appendix has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their letters and/or reports and/or valuation certificate and/or references to their names in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Registration procedures

The register of members of the Company will be maintained in the Cayman Islands by Codan Trust Company (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

10. No material adverse change

The Directors confirm that there has been no material adverse change in the financial prospects of the Company or its subsidiaries since 31 May 2013 (being the date to which the latest audited financial statements of the Company were made up).

11. Miscellaneous

Save as disclosed herein:

(a) within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of the Company has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company;

(iii) no commission has been paid or payable (except to sub-underwriter) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any Shares; and

(iv) no founder, management or deferred shares of the Company have been issued or agreed to be issued; and

(b) No share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the written consents of the experts referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in Appendix V to this prospectus, and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business of the Company" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Michael Li & Co. at 19th Floor, Prosperity Tower, 39 Queen's Road Central, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants' report prepared by BDO Limited, the text of which is set out in Appendix I to this prospectus;

(c) the report on unaudited pro forma financial information of the Group prepared by BDO Limited, the text of which is set out in Appendix II to this prospectus;

(d) the letter, summary of valuations and valuation certificates relating to the property interests of the Group prepared by Castores Magi (Hong Kong) Limited, the text of which is set out in Appendix III to this prospectus;

(e) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarizing certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

(f) the Companies Law;

(g) the rules of the Share Option Scheme;

(h) the material contracts referred to in the paragraph headed "Summary of material contracts" in the section headed "Further information about the business of the Company" in Appendix V to this prospectus;

(i) the written consents referred to in the paragraph headed "Consents of experts" in the section headed "Other information" in Appendix V to this prospectus;

(j) the service agreements and letters of appointment referred to in the paragraph headed "Particulars of service agreements" in the section headed "Disclosure of interests" in Appendix V to this prospectus;

(k) the Hong Kong legal opinion dated 27 November 2013 and issued by Michael Li & Co.;

(l) the PRC legal opinion dated 27 November 2013 and issued by Tian Yuan Law Firm;

(m) the US legal opinion dated 27 November 2013 and issued by Law Offices of Robert Elliott;

(n) the legal opinion dated 15 May 2013 and issued by Robin Gregory D'Souza;

(o) the findings and recommendation for preventive measure for non-compliance dated 31 August 2013 and issued by ZHONGLEI Risk Advisory Services Limited; and

(p) the follow-up report on preventive measures in relation to non-compliance dated 27 November 2013 and issued by ZHONGLEI Risk Advisory Services Limited.

Runway Global Holdings Company Limited
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