SUMMARY

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 document.

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 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 document.

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 [●]. 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 document 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 document 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 document).

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 document.

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:

	Finished goods inventory balance as at 31 May 2013	Subsequent sales up to 31 October 2013	
Age group	*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 document.

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 [●] 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 document 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 document. 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 document) 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 Directors confirm that subsequent to the Track Record Period and up to the date of this document, there has been no material adverse change in the financial or trading position or prospects 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 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 are set out in the section headed "Risk factors" in this document, 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.