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.

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 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 document.

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 document. 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 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 document.

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 document 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 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$[●] million will be incurred by the Group over the entire useable life of 10 years of the additional new manufacturing facilities, among which, based on straight-line method, approximately HK$[●] million will be incurred for the year ending 31 December 2014, and approximately HK$[●] 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" in this document. 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 document. 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 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), 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.