

HISTORY, REORGANISATION AND GROUP STRUCTURE

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.

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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.

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

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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.

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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;

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- 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.

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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 [●], 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.

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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 PRC Legal Advisers are of the view that the Reorganisation does 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

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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.

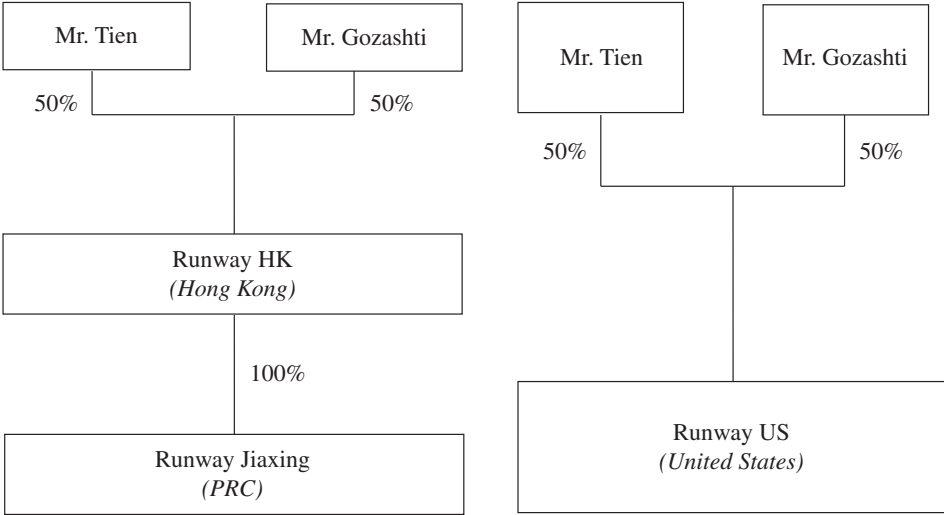
SAFE Circular No. 75

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:

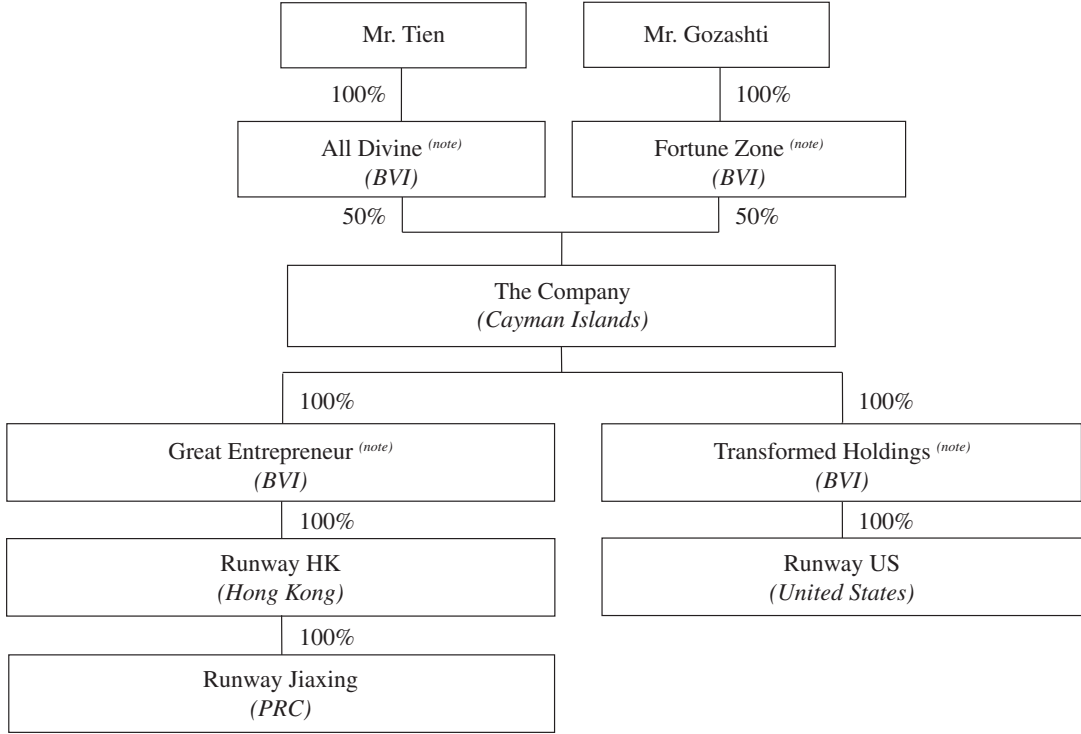
Immediately before the Reorganisation



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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.

SHAREHOLDERS

Immediately after the Reorganisation and prior to the [●], 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 document.