BUSINESS MODEL OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

COMPETITIVE STRENGTHS

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

Strong and innovative product design and development capabilities

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

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

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

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

Vertically integrated front-to-back-end operation

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

Technical ability to manufacture complex apparel

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

Established relationship with international fashion retailers

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

Stringent quality control measures to ensure high quality of products

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

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

BUSINESS STRATEGIES

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

Further developing the own brand products operation

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

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

Enhancing the Group's manufacturing facilities

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

Further strengthening the Group's design capability

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

Implementation of the business strategies

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

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

PRODUCTS

Types of products

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

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

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

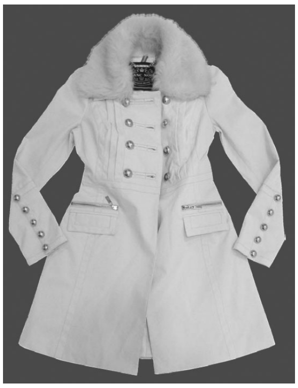
Note: All of the Group's sales of private label products can be regarded as OEM sales as the designs of private label products are generally modified based on customers' request even though the original designs or inspirations are provided by the Group.

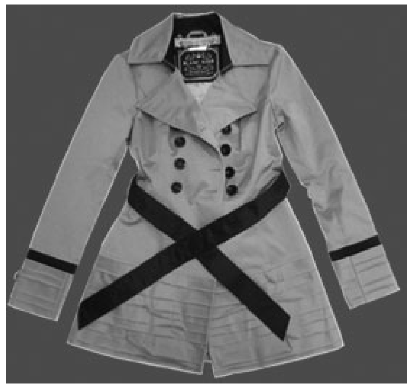
The Group's products are mainly for women, as illustrated in the following breakdown of the Group's turnover during the Track Record Period:

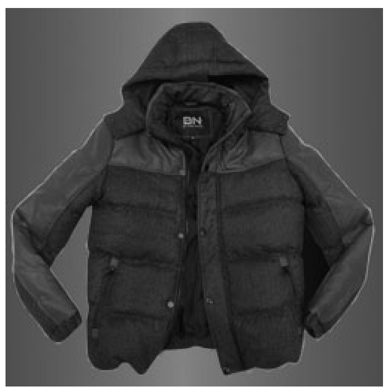
	Year ended 31 December 2011		Year ended 31 December 2012		Five months ended 31 May 2012		Five months ended 31 May 2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Women	270,545	88.3	293,254	88.6	50,516	74.8	55,693	91.5
Men	35,769	11.7	37,834	11.4	17,010	25.2	5,166	8.5
Total	**306,314**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

Set out below are some sample products of the Group:

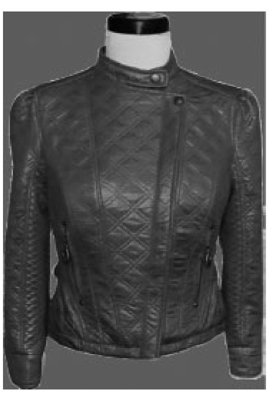
Own brand products under the "BLANC NOIR" label

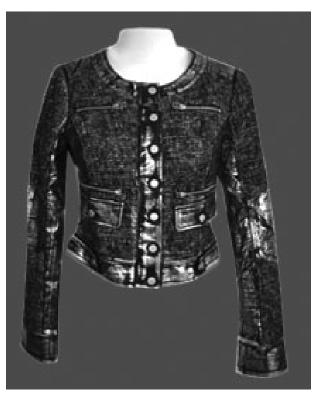


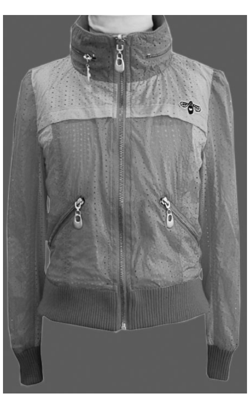


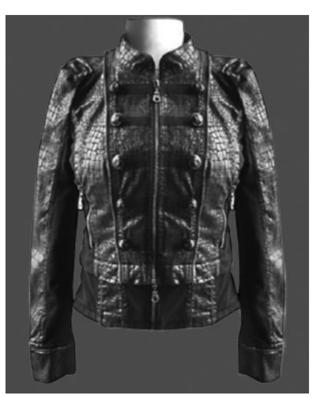


Own brand products under the "SUGARFLY" label

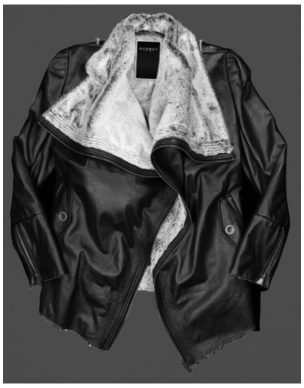
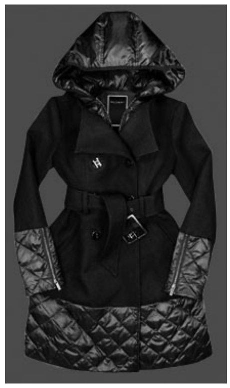
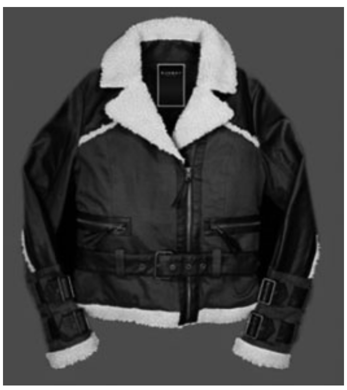
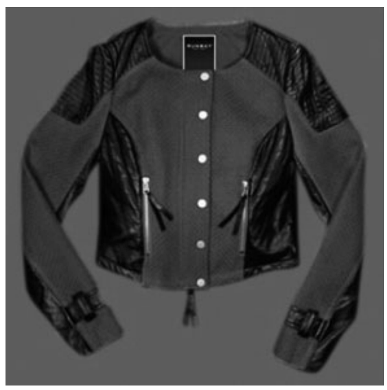








Own brand products under the "RUNWAY NEW YORK" label

Sales volume

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

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

Price and gross profit margin

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

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

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

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

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

Seasonality

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

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

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

denotes unaudited figure.

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

Trademarks

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

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

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

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

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

Product return and requirements on product quality and safety

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

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

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

Notes:

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

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

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

Product liabilities

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

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

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

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

Anti-dumping duties

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

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

CUSTOMERS

Characteristics of the Group's customers

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

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

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

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

Salient terms of a typical sales transaction

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

(i) Product description:

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

(ii) Order details:

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

(iii) Payment terms:

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

(iv) Delivery details:

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

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

(v) Other:

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

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

Location of customers

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

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

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

Denomination of sales

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

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

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

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

Payment terms and trade receivables

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

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

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

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

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

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

Top customers

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

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

For the year ended 31 December 2011

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

For the year ended 31 December 2012

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

For the five months ended 31 May 2013

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

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

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

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

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

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

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

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

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

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

Plans and measures to reduce reliance on major customers

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

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

SUPPLIERS, RAW MATERIALS AND INVENTORY

Raw material suppliers, product suppliers, and subcontractors

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

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

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

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

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

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

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

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

Characteristics of the Group's suppliers

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

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

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

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

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

Salient terms of a typical purchase transaction

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

(i) Product description:

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

(ii) Order details:

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

(iii) Payment terms:

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

(iv) Delivery details:

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

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

Location of suppliers

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

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

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

Denomination of purchases

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

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

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

Top suppliers

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

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

For the year ended 31 December 2011

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

For the year ended 31 December 2012

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

For the five months ended 31 May 2013

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

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

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

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

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

Third-party product suppliers

Nature of and reasons for outsourcing arrangement

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

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

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

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

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

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

Basis of selection of third-party product suppliers

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

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

Quality control on third-party product suppliers

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

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

Relationship with third-party product suppliers

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

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

Inventory control

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

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

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

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

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

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

Fluctuations in prices of labour and raw materials

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

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

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

Sensitivity analysis

Costs of materials

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

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

Subcontracting cost

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

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

Labour cost

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

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

Exchange rate

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

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

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

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

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

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

PRODUCTION AND QUALITY CONTROL

Production flows

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

1. Product design and development

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2. Order placement by customer

↓

3. Production planning

↓

4. Procurement of raw materials

↓

5. Quality inspection of raw materials

↓

6. Preparation for bulk production

↓

7. Cutting

↓

8. Sewing

↓

9. Putting in buttons and zippers (if required)

↓

10. Ironing

↓

11. Quality inspection of finished products

↓

12. Packaging

↓

13. Final quality inspection

↓

14. Delivery

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

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

Product design and development

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

Order placement by customer

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

Production planning

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

Procurement of raw materials

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

Quality inspection of raw materials

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

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

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

Preparation for bulk production

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

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

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

Cutting

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

Sewing

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

Putting in buttons and zippers

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

Ironing

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

Quality inspection of finished products

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

Packaging and final quality inspection

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

Delivery

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

Quality control

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

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

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

Transfer pricing arrangement

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

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

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

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

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

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

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

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

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

Production facilities, capacity and utilisation

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

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

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

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

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

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

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

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

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

Notes:

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

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

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

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

SUBCONTRACTING

Nature of and reason for subcontracting

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

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

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

Basis of selection of subcontractors

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

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

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

Relationship with and background of subcontractors

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

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

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

Salient terms of a typical subcontracting transaction

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

(i) Processing description:

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

(ii) Order details:

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

(iii) Payment terms:

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

(iv) Delivery details:

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

PRODUCT DESIGN AND DEVELOPMENT

Product design and development capability

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

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

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

Product design and development team

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

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

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

Proprietary online product development platform

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

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

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

SALES AND MARKETING

Sales and marketing

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

Points of sales

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

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

Pricing policy

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

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

HEDGING OF CURRENCY RISK

Currency risk

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

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

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

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

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

Foreign exchange rate sensitivity analysis

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

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

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

Foreign exchange structured forward contracts

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

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

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

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

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

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

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

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

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

Exposure in respect of the outstanding foreign exchange structured forward contracts

Assuming an immediate depreciation of 5% of RMB against USD

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

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

Notes:

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

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

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

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

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

Assuming an immediate depreciation of 10% of RMB against USD

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

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

Notes:

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

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

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

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

Assuming an immediate appreciation of 5% of RMB against USD

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

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

Notes:

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

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

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

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

Assuming an immediate appreciation of 10% of RMB against USD

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

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

Notes:

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

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

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

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

Effectiveness of the hedging

The following table illustrates the effectiveness of the hedging:

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

Note:

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

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

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

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

Reasons for choosing the foreign exchange structured forward contracts

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

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

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

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

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

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

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

Use of foreign exchange structured forward contracts after [●]

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

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

Policies for approval and monitoring of hedging activities

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

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

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

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

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

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

INTERNAL CONTROL

Protection of product designs and intellectual property rights

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

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

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

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

Hedging of currency risk

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

MARKET AND COMPETITION

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

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

INSURANCE

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

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

HEALTH AND WORK SAFETY

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

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

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

ENVIRONMENTAL PROTECTION

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

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

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

EMPLOYEES

Number of employees by function and geographical location

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

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

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

Relationship with staff

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

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

Training and recruitment policies

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

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

Remuneration policy

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

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

PROPERTIES

Owned properties

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

Leased properties

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

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

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

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

Building orders issued by the Building Authority

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

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

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

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

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

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

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

PROPERTY INTERESTS AND PROPERTY VALUATION

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

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

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

NON-COMPLIANCE

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

Summary of non-compliances

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

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

Housing provident fund

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

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

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

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

Companies Ordinance

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

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

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

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

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

Indemnity given by the Controlling Shareholders

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

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

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

— dedicating one administrative staff for carrying out the calculation, administration and actual payment of the housing provident fund;

— assigning Mr. Chan Ka Yu, the Group's chief financial officer and the company secretary of the Company, to review and approve the work of the said administrative staff. Please refer to the section headed "Directors and senior management" in this document for further information on the profile and background of Mr. Chan Ka Yu;

— Mr. Chan Ka Yu, the company secretary of the Company, will be responsible for reviewing and updating the compliance policy and procedures on an annual basis for ensuring that the compliance policy and procedures are up to date in accordance with the regulatory requirements;

— induction training will be arranged for any newly appointed directors, company secretary or financial controller so as to discuss and study the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;

— the existing directors of the Company have attended directors' training provided by the Hong Kong Legal Advisers so as to discuss and study the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;

— the Board established the Corporate Governance Committee on 22 November 2013, comprising Mr. Tien, Mr. Tang Tsz Kai, Kevin (an independent non-executive Director), Mr. Lai Man Sing (an independent non-executive Director), Mr. Tang Shu Pui Simon (an independent non-executive Director) and Mr. Chan Ka Yu (the Group's chief financial officer and the company secretary of the Company and Runway HK), with Mr. Tang Tsz Kai, Kevin as the chairman of the corporate governance committee, to keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group. The primary functions of the corporate governance committee include, among others, reviewing and making recommendation to the Board in respect of the Group's policies and practices on corporate governance, reviewing and monitoring the Group's policies and practices on corporate governance, reviewing and monitoring the Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board, contained in any constitutional documents of the Group, or imposed by the [●], other applicable laws, regulations, rules and codes, and ensuring that appropriate monitoring systems are in place to ensure compliance against the relevant internal control systems, processes and policies, and monitoring the implementation of the Group's plan to maintain high compliance with own risk management standards;

— [●];

— Mr. Chan Ka Yu, the Group's chief financial officer and company secretary of the Company, was appointed as the company secretary of Runway HK in July 2013 to ensure the compliance by Runway HK with all the statutory filings under the Companies Ordinance;

— Mr. Chan Ka Yu, the Group's chief financial officer and company secretary of the Company, was appointed as the Group's internal compliance coordinator to (i) monitor the regulatory compliance regarding company secretarial and financial reporting matters including the statutory filing requirements under Companies Ordinance and the regulatory compliance with other laws and regulations in relation to the business of the Group; (ii) monitor the new developments in the rules, laws and regulations relevant to the business of the Group; (iii) keep the Directors, the compliance officer and the relevant staff of the Group abreast of the regulatory requirements including new developments regarding the Group's business and financial reporting; (iv) act as the principal channel of communication between members of the Group and the Company in relation to legal, regulatory and financial reporting compliance matters of the Group; (v) oversee the internal control procedures in general; and (vi) seek advice from the Group's external professional advisers when necessary to ensure the compliance with the relevant rules, laws and regulations and take the appropriate adaptive measures;

— upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, the internal compliance coordinator and/or the compliance officer of the Company will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from external professional advisers and report to the relevant members of the Group and/or the Board;

— all management and staff of the Group will be required to report to and/or notify the internal compliance coordinator, the Directors, the compliance officer or the legal advisers of the Group promptly of any non-compliance or potential non-compliance events; and

— meetings and seminars will be arranged for management and staff of the Group from time to time to discuss and study regulatory requirements and latest updates thereof applicable to the Group's business operations.

Review by [●]

On 13 May 2013, the Group engaged [●], an independent internal control adviser (the "Internal Control Adviser"), to perform an internal control review of the Group and provide recommendations to the Group for improvements. The scope of the internal control review include corporate internal control, such as control environment, risk assessment and management, information and communication, monitoring, internal control over various business cycles and financial reporting cycle. In addition, the Group has further engaged the Internal Control Adviser to review and provide recommendations to the Group's preventive measures for preventing those non-compliance incidents as mentioned above.

The Internal Control Adviser is a firm rendering internal control review services, which has been previously engaged in internal control review projects for companies listed on [●], for example, [●]. Besides, the Internal Control Adviser's engagement team includes members of the Hong Kong Institute of Certified Public Accountants.

In relation to the non-compliance incidents mentioned above, the Internal Control Adviser has reviewed and provided recommendations to the Group's internal control design for preventing the recurrence of the above-mentioned non-compliance incidents. The recommendations provided by the Internal Control Adviser have been incorporated into the Group's compliance policy and procedures and the key measures taken by the Group to avoid the recurrence of the non-compliance incidents, which are disclosed in the preceding paragraph headed "Key measures taken to avoid the recurrence of the non-compliance incidents".

Based on the understanding obtained, the Internal Control Adviser concluded that the Group did not have significant deficiencies in its internal control design for preventing the above non-compliances as of the date of this document.

LITIGATION

As at the Latest Practicable Date, there was one outstanding arbitration case in Hong Kong where Runway HK was the claimant while an independent third-party product supplier was the respondent (the "Respondent").

Particulars of the arbitration

The arbitration involved a contract dispute between Runway HK and the Respondent. The Directors confirm that the Respondent was not a long-term supplier of the Group with recurring transactions as the Group has only commenced business relationship with the Respondent since 2011 and there have been only 2 transactions between the Group and the Respondent since the commencement of business relationship including the one that led to the arbitration.

In January 2011, Runway HK outsourced the manufacturing process of certain ladies apparel to the Respondent and placed certain purchase orders (the "Purchase Orders") to purchase the finished apparel (the "Goods") from the Respondent. The total price for the Goods pursuant to the Purchase Orders was US$341,869.80 (the "Contract Price") and the Goods were to be shipped to a number of the Group's customers in the United States.

In August 2011, the Goods were in the process of being shipped. During shipment, it was noted that there were mistakes in the shipping documents which had been prepared by the Respondent. Runway HK considered that such mistakes would very likely lead to the seizure of the Goods by the United States customs for an indefinite period of time pending inspection and investigation. Runway HK therefore requested that the Goods be sent back to the PRC for re-shipping. The Respondent did not comply with Runway HK's request and did not deliver the Goods to the Group's customers or to the Group. Instead, the Respondent kept the Goods in its own possession.

Pursuant to the Purchase Orders, it was an express term that in case of non-delivery within the contracted time for shipment, the Respondent shall be responsible for any consequences arising therefrom. Further, it was an express term that in the event of interruption of transportation or other causes or circumstances beyond the control of Runway HK, Runway HK shall be entitled to cancel the Purchase Orders without payment to the Respondent.

While Runway HK did not pay the Contract Price of US$341,869.80 to the Respondent, Runway HK had, upon the Respondent's request, paid the Respondent a total of US$130,400.00 (the "Paid Amount") for expenses relating to the shipping of the Goods, which the Respondent agreed that such Paid Amount shall be used for offsetting part of the Contract Price.

In October 2011, upon the Respondent's offer, Runway HK agreed to purchase part of the Goods (the "Varied Goods") from the Respondent and paid a sum of US$153,055.92 (the "Varied Goods Price") for the Varied Goods. However, the Respondent only delivered a small portion of the Varied Goods to Runway HK and failed to deliver the rest of the Varied Goods that Runway HK had paid for. Further negotiations between Runway HK and the Respondent were not fruitful.

On 3 May 2012, Runway HK issued a notice of arbitration against the Respondent claiming for, *inter alia*, the undelivered portion of the Varied Goods (which Runway HK had paid for) and the Paid Amount.

On 2 November 2012, the Respondent filed its defense and counterclaim, pursuant to which the Respondent considered that, among other things, Runway HK should fulfill its obligation under the Purchase Orders, namely, to accept the remaining portion of the Goods in addition to the Varied Goods, and to make payment of the outstanding amount of the Contract Price (which the Respondent had calculated to be US$189,813.88).

On 25 April 2013, the tribunal of the arbitration proceedings set down the case for hearing and argument to be heard for 5 days in mid-September 2013.

The arbitration hearing took place over 2 days from 23 to 24 September 2013 but the Respondent was absent for both days. The Runway HK Legal Counsel made the closing submissions to the arbitration tribunal on 4 October 2013. As at the Latest Practicable Date, Runway HK is awaiting the arbitration tribunal to hand down its judgment.

Enforceability of the judgment of the tribunal

The Respondent is a company established in the PRC with its main operation located in the PRC. The PRC Legal Advisers consider that according to the 最高人民法院關於內地與香港特別行政區相互執行仲裁裁決的安排 (Supreme People's Court's Arrangement Concerning the Mutual Enforcement of Arbitral Awards Between the Mainland and the Hong Kong Special Administration Region) issued on 24 January 2000, there is no material legal obstacles to the enforcement in the PRC of the judgment to be handed down by the tribunal of the arbitration proceedings in Hong Kong in relation to the aforementioned arbitration.

Possible outcomes and maximum potential liability

The Runway HK Legal Counsel has advised that the tribunal of the arbitration proceedings is more likely to find in favour of Runway HK's version of events mainly because of the many difficulties in the Respondent's case and he is of the view that subject to the quality of the evidence of Runway HK's witnesses, Runway HK has slightly better than even chance in succeeding its claim in the arbitration proceedings. Based on the advice of the Runway HK Legal Counsel, the Directors are of the view that Runway HK has slightly better than even chance of success in the arbitration proceedings.

According to the counterclaim filed by the Respondent, if Runway HK ultimately loses in the proceedings, it may have to pay to the Respondent the outstanding amount of the Contract Price (which the Respondent has calculated to be US$189,813.88, or approximately HK$1.48 million) plus other possible damages and costs.

No provision has been made in the Group's financial statements with respect to the aforesaid maximum potential liability of the Group. The Directors consider that no provision is required at this stage of the proceedings in accordance with the Group's relevant accounting policy.

Indemnity given by the Controlling Shareholders

In relation to the aforesaid, the Controlling Shareholders have undertaken to indemnify the Group for any losses arising from the above arbitrage proceedings of Runway HK. Please refer to the subsection headed "Tax and other indemnities" in the section headed "Other information" of Appendix V to this document for further details.

No other litigation

Save as disclosed above, during the Track Record Period and as at the Latest Practicable Date, no member of the Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to the Directors to be pending or threatened against any member of the Group.

TAXATION

The Group is subject to Hong Kong profits tax, PRC enterprise income tax, PRC withholding income tax and United States federal corporate income tax during the Track Record Period.

Hong Kong profits tax

During the Track Record Period, Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits of Runway HK.

PRC enterprise income tax

The standard tax rate of PRC enterprise income tax is 25% on the income for statutory reporting purpose, adjusted for income and expense items which are not assessable or deductible for income tax purpose based on existing PRC income tax regulations, practice and interpretation thereof.

Runway Jiaxing is a foreign invested enterprise and is entitled to certain tax concessions. For the year ended 31 December 2011, Runway Jiaxing was subject to a preferential tax rate of 12.5% under the transitional preferential policies of the EIT Law. For the year ended 31 December 2012 and up to the Latest Practicable Date, Runway Jiaxing was subject to the standard tax rate of 25%.

PRC withholding income tax

In accordance with the Arrangement between Mainland China and Hong Kong Special Administrative Region for the Avoidance of Double Taxation and Prevention of Fiscal Evasion (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) promulgated on 21 August 2006 and effective on 8 December 2006, if a Hong Kong enterprise owns at least 25% equity interest in a PRC enterprise, the dividends paid by the PRC enterprise to the Hong Kong enterprise are subject to a withholding tax of up to 5% of the total amount of the dividends. The withholding income tax rate applicable to the Group is 5%.

United States federal corporate income tax

United States federal corporate income tax is calculated at 15% for each of the Track Record Period on the estimated assessable profits of Runway US.

LICENSES AND PERMITS

There is no specific licensing requirement for conducting the Group's business in Hong Kong, the PRC and the United States in addition to what is generally required for carrying on businesses in these places. Pursuant to the advice of the Hong Kong Legal Advisers, the PRC Legal Advisers and the US Legal Advisers, the Group has obtained all material licenses, permits and certificates which are necessary for its operations in Hong Kong, the PRC and the United States respectively.