The following discussion of the Group's financial condition and results of operations should be read in conjunction with the Group's combined financial information as of and for each of the two years ended 31 December 2012 and the five months ended 31 May 2013, including the notes thereto, included in Appendix I to this document. The Group's combined financial information has been prepared in accordance with the basis of preparation and accounting policies set out in notes 2.2 and 5 of section II to Appendix I. The following discussion contains certain forward-looking statements that involve risks and uncertainties. The Group's future results could differ materially from those discussed below as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this document.

OVERVIEW

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

The Group is headquartered in Hong Kong and operates its owned Jiaxing Factory in the PRC. The Group also operates four showrooms in New York, Los Angeles, Hong Kong and in its Jiaxing Factory respectively.

The Group's turnover is principally derived from the sales of apparel products. The Group's products can be classified into two categories, namely, private label products and own brand products. Private label products are those designed and manufactured under the private labels owned or specified by the Group's customers, while own brand products are those designed and manufactured under the Group's proprietary labels, including "BLANC NOIR", "SUGARFLY" and "RUNWAY NEW YORK".

BASIS OF PRESENTATION

Prior to the [●], the Group underwent the Reorganisation pursuant to which the Company became the holding company of the Group. Please see the paragraph headed "Corporate reorganisation" in Appendix V to this document for details.

Accordingly, the financial information set out in the Accountants' Report in Appendix I to this document has been prepared using the merger basis of accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The combined statements of comprehensive income, the combined statements of changes in equity and the combined statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group, as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of incorporation or establishment, where there is a shorter period. The combined statements of financial position of the Group as at 31 December 2011 and 2012 and 31 May 2013 have been prepared to present the state of affairs of the Group as if the current group structure had been in existence as at the respective dates.

The assets and liabilities of the companies comprising the Group are combined using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination.

All intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group's results of operations and financial condition during the Track Record Period have been and will continue to be affected by a number of factors, including but not limited to those set forth in the section headed "Risk factors" in this document and as set out below:

Reliance on major customers

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

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

Demand for the Group's products

The Group's customers for private label products mainly include well-known apparel brand owners and fashion specialty chain retailers located in the United States as well as a Canadian-based apparel brand owner and wholesaler. The Group's customers for own brand products range from well-known retail chain department stores to independent fashion boutiques in the United States. Consumption demand for the Group's apparel products is mainly affected by global economic conditions and especially the general condition of the North American economy and apparel market. In particular, the US Federal Reserves has announced the possible tightening of its monetary policy in the near future and as such, the US economic situation may be negatively affected and may become worse than the prevailing conditions and the Group's sales to the US market may be adversely affected if the US economic situation deteriorates.

Product mix

The Group's products can be classified into two categories, namely, private label products and own brand products. The sales of private label products and own brand products accounted for approximately 89.9% and 10.1% for the year ended 31 December 2011, approximately 88.6% and 11.4% for the year ended 31 December 2012, and approximately 87.7% and 12.3% for the five months ended 31 May 2013 respectively, of the Group's total turnover. During each period of the Track Record Period, the Group's overall gross profit margins were approximately 21.7%, 24.5% and 21.1% respectively.

The Group's gross profit margins are partially affected by the proportion of its sales of products with higher gross profit margins (such as winter clothings and own brand products) to its sales of products with lower gross profit margins (such as summer clothings and private label products). Going forward, the Group may continue to adjust its product mix in response to demand and pricing for each type of product.

Costs of materials

Costs of materials include the costs of raw materials, semi-finished products and finished goods, which represent a significant portion of the Group's cost of sales. For each of the two years ended 31 December 2012 and five months ended 31 May 2013, such costs represented approximately 76.5%, 75.8%, and 67.7% of the Group's cost of sales respectively. As such, any significant fluctuation in the price of materials may have a significant impact on the Group's profitability.

In recent years, the Group has experienced price fluctuations for some raw materials due to various factors including changes in demand and supply for commodities; and for some semi-products and finished goods due to the increasing cost of labour and the appreciation of RMB against US$. Nevertheless, the Group has been able to reduce, to a limited extent, the impact of price fluctuations of materials by bulk purchase of these materials, and adjusting the selling price of apparel products. In addition, the Group believes that its long-term relationships with major suppliers would enhance its bargaining power and ability to obtain better prices.

Cost of labour and availability of labour

The Group's production is labour intensive. During the Track Record Period, the direct labour cost accounted for approximately 3.3%, 4.6%, and 9.5% of the Group's total cost of sales respectively. It is probable that there will be a continuous increase in labour cost in the PRC. If the Group is unable to identify and employ other appropriate means to reduce the labour cost, the financial results of the Group's operations may be adversely affected.

Market competition

The Group is expected to face competition from other manufacturers in the apparel manufacturing industry in the PRC. However, the Directors believe that the Group's market position would not be threatened as the Group's customers are mainly international apparel groups based in the US and Canada which require a high standard of quality from its suppliers, and it maintains well-established business working relationships with its existing customers. The Directors believe that the Group competes favourably with its competitors in terms of design capability, product quality and timely delivery. However, if the Group's customers cease to place orders with the Group or the Group fails to compete with other apparel manufacturers, the Group's operations will be adversely affected.

Seasonality

The Group's results of operations are subject to seasonality. The Group generally records higher sales during July to November each year as the Group's customers generally purchase more apparel products from the Group during the period which are mainly winter clothings that entail higher selling prices, such as coats and jackets, in preparation for the winter peak season. As such, the Group's revenue may be subject to seasonal factors depending on the number of purchase orders the Group receives for winter clothings from the customers. Notwithstanding the general market environment, due to the ever-changing fashion trends, it may not be possible to meaningfully predict levels of sales from period to period.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Group's financial position and results of operations as included in this document is based on the combined financial statements prepared using the significant accounting policies set forth in Note 5 to the Accountants' Report set out in Appendix I to this document, which conform with the HKFRS. The critical accounting estimates and judgements that the Group uses in applying its accounting policies are set out in Note 6 to the Accountants' Report set out in Appendix I to this document. Such estimates and judgements are made based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ under different assumptions or conditions.

Below is a summary of certain significant accounting policies that the Group believes are important to the presentation of its financial results and positions. The Group also has other accounting policies that the Group considers to be significant, the details of which are set forth in Note 5 to the Accountants' Report set out in Appendix I to this document.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided to write off the cost less their estimated residual value over their estimated useful life, using the straight-line method as follows:

Buildings	20 years
Leasehold improvements	4 to 5 years, or over the lease terms, whichever is shorter
Machinery	10 years
Furniture, fixtures and office equipment	3 to 5 years
Motor vehicles	4 to 5 years

The assets' estimated residual values, estimated useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at the end of each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Payments for leasehold land held for own use under operating leases

Payments for leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on straight-line method as an expense.

Financial instruments

(i) Financial assets

The Group classifies its financial assets at initial recognition, depending on the purpose for which the asset was acquired. Financial assets at fair value through profit or loss are initially measured at fair value and all other financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition of the financial assets. Regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. A regular way purchase or sale is a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

Financial assets at fair value through profit or loss

These assets include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which is managed and its performance evaluated on a fair value basis according to a documented management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade debtors), and also incorporate other types of contractual monetary asset. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method, less any identified impairment losses.

Cash and cash equivalents

Cash and cash equivalents, including cash and bank balances, comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. For the purpose of cash flows presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ii) Impairment loss on financial assets

The Group assesses, at the end of each reporting period, whether there is any objective evidence that financial asset is impaired. Financial asset is impaired if there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include:

— significant financial difficulty of the debtor;

— a breach of contract, such as a default or delinquency in interest or principal payments;

— granting concession to a debtor because of debtor's financial difficulty; and

— it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

For loans and receivables

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. The carrying amount of financial asset is reduced through the use of an allowance account. When any part of financial asset is determined as uncollectible, it is written off against the allowance account for the relevant financial asset.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

Financial liabilities at amortised cost

The Group classifies its financial liabilities as financial liabilities at amortised cost, including trade and bills payables, accruals and other payables, amounts due to directors and interest-bearing borrowings.

(a) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the loans using the effective interest method.

Interest-bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of each reporting period.

(b) Other financial liabilities

All other financial liabilities are recognised initially at their fair value, net of directly attributable transaction costs incurred and subsequently measured at amortised cost, using the effective interest method.

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vi) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

(vii) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKAS 39.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Derivative financial instruments

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year/period.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of return, discounts, rebate and sales related taxes. Revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which is at the time of delivery and the title is passed to customer.

Interest income is accrued on a time-proportion basis on the principal outstanding at the applicable interest rate; and

Sample income is recognised at the time when the transfer of significant risks and rewards of ownership to the customer, this is usually taken as the time when the samples are delivered and the customer has accepted the samples.

Income taxes

Income taxes for the year/period comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income.

Impairment of other assets

At the end of each reporting period, the Group reviews the carrying amounts of property, plant and equipment and payments for leasehold land held for own use under operating leases to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased.

If the recoverable amount (i.e. the greater of the fair value less costs to sell and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

The table below sets forth the Group's combined statements of comprehensive income during the Track Record Period:

	Year ended 31 December		Five months ended 31 May	
	2011	2012	2012	2013
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Revenue	306,314	331,088	67,526	60,859
Cost of sales	(239,751)	(249,866)	(55,819)	(48,003)
Gross profit	66,563	81,222	11,707	12,856
Other income and gains	186	303	96	106
Changes in fair value of derivative financial instruments	2,071	2,332	2,837	3,721
Selling and distribution expenses	(26,834)	(23,786)	(6,907)	(7,055)
Administrative expenses	(27,309)	(30,482)	(11,156)	(14,278)
Other operating expenses	(1,918)	—	—	—
Finance costs	(1,011)	(1,288)	(342)	(212)
Profit/(loss) before income tax	11,748	28,301	(3,765)	(4,862)
Income tax (expense)/credit	(2,331)	(5,149)	665	338
Profit/(loss) for the year/period attributable to the owners of the Company	9,417	23,152	(3,100)	(4,524)
Other comprehensive income, net of tax, attributable to the owners of the Company				
Item that may be reclassified subsequently to profit or loss:				
Exchange gain/(loss) on translation of financial statements of foreign operations	1,144	141	(301)	510
Total comprehensive income for the year/period attributable to the owners of the Company	10,561	23,293	(3,401)	(4,014)

Revenue

The Group's turnover is derived from the sales of apparel products to its customers. The Group's apparel products can be divided into two categories, namely, private label products and own brand products. The Group's sales volume is generally affected by customers' demand and average selling prices of the products.

The Group's turnover increased from approximately HK$306.3 million for the year ended 31 December 2011 to approximately HK$331.1 million for the year ended 31 December 2012 due to the increase in the Group's sales quantities while the turnover for the five months ended 31 May 2013 slightly decreased as compared to the corresponding period in 2012 which was mainly due to the delay in placing orders by certain customers of the Group in 2013 as compared to the customers' ordering schedule in 2012. The Directors consider that such delay is mainly attributable to the following reasons: (i) during the period from late December to early January each year, the Group usually receives considerably fewer orders from its customers in the United States due to, based on the Directors' understanding, the effect of Christmas and New Year and the usual holidays taken by the employees of the Group's customers during the period; (ii) during the period of Chinese New Year (which may start from as early as a few weeks before the Chinese New Year's Day), the ability of the Group to accept customers' orders (which is inevitably affected by the production capacity of the Jiaxing Factory) is significantly limited as a large number of the Group's production staff are usually on holiday; (iii) in 2012, the Chinese New Year happened to be in January and as such, the period of less orders from customers coincided with the period of limited order acceptance ability of the Group and such period was basically limited to January 2012; (iv) in 2013, the Chinese New Year happened to be in February (approximately 3 weeks later than in 2012), leading to the period of less orders from customers and limited order acceptance ability of the Group being extended to a considerably longer period (spanning from January to February) than in 2012; and (v) as customers of the Group generally understand the traditional and cultural background of the Chinese New Year in the PRC and the significant decrease in production ability of factories in the PRC during the period, they would delay placing orders until the Group resumed its normal order acceptance ability after the Chinese New Year period. Due to the above reasons, the Group experienced the aforementioned delay in placing orders by certain customers of the Group in 2013 as compared to the customers' ordering schedule in 2012. As it took time for the volume of orders to pick up gradually after February 2013, the revenue (which is recognised not upon order placement but at the time of delivery when the title of the goods are transferred to the customer which usually takes place another 60 to 120 days after order placement) for the five months ended 31 May 2013 was lower than that for the corresponding period in 2012.

The Directors consider that there may not be a fair and objective basis for estimating the amount of delayed orders and the number of customers involved. Nevertheless, based on the Group's unaudited management accounts, subsequent to 31 May 2013 and up to 31 October 2013, customers' orders had already picked up to a level above that for the corresponding period in 2012 and the Group's business in general exhibited growth in the ten months ended 31 October 2013 as compared to the ten months ended 31 October 2012. In particular, the revenue recognised for the ten months ended 31 October 2013 was approximately HK$297,378,000, representing an increase of approximately 4.1% from approximately HK$285,745,000 for the ten months ended 31 October 2012. In addition, the total amount of orders received for the ten months ended 31 October 2013 amounted to approximately HK$335,686,000, representing a growth of approximately 4.5% from approximately HK$321,160,000 for the ten months ended 31 October 2012.

The Group's total turnover derived from the sales of private label products and own brand products accounted for approximately 89.9% and 10.1% of the Group's total turnover for the year ended 31 December 2011, approximately 88.6% and 11.4% for the year ended 31 December 2012, and approximately 87.7% and 12.3% for the five months ended 31 May 2013 respectively. The following table sets out the Group's turnover by product categories for the years/periods indicated:

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

The following table sets out the total sales quantities of private label products and own brand products for the years/periods indicated:

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

The Group's revenue and sales quantities attributable to its own brand products increased during the year ended 31 December 2012 as compared to the year ended 31 December 2011 because it has been the Group's strategy to further develop its own brand products operation as own brand products generally (i) entail higher profit margins; (ii) allow the Group to enhance its production efficiency and have better control on its production schedules as the Group can make the final decision on every detailed specification of its own brand products and there is no need to wait for customers' approval; (iii) enhance public awareness of the Group's brands and develop brand loyalty; and (iv) reduce reliance on the Group's major customers (the majority of which are customers of private label products) and on the Group's private label products operation. The decrease in the sales volume and amount of own brand products during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012 was mainly due to the delay in placing orders by certain customers of the Group which resulted in the delay in the recognition of the relevant sales in 2013.

The following table sets out the average selling price for private label products and own brand products for the years/periods indicated:

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

Note: The average selling price represents the turnover for the financial year/period divided by the total sales quantities for the financial year/period.

The selling price of each of the product categories depends on (i) the complexity of the product design; (ii) the quantity of an order; (iii) the delivery schedule set out by the customers; and (iv) the prices of raw materials. Accordingly, the selling prices of the products vary significantly.

During the Track Record Period, the average selling price for the Group's products was decreasing because the quantities of private label knitwear products sold to the Canadian-based customer of the Group (the largest customer of the Group during the Track Record Period in terms of revenue contribution) was increasing while the average selling prices of such products sold to the customer were relatively lower.

The following table sets out the Group's turnover by location of the customers for the years/periods indicated:

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

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

The Group's sales to customers located in the United States, Canada and others countries accounted for approximately 70.6%, 26.4% and 3.0% of the Group's total turnover for the year ended 31 December 2011 respectively, approximately 65.7%, 33.1% and 1.2% for the year ended 31 December 2012 respectively, approximately 38.3%, 60.0% and 1.7% for the five months ended 31 May 2012 respectively, and approximately 47.7%, 50.3% and 2.0% for the five months ended 31 May 2013 respectively.

The sales to customers in the United States increased by approximately HK$3.3 million or 12.8% from HK$25.8 million for the five months ended 31 May 2012 to HK$29.1 million for the five months ended 31 May 2013, which was primarily due to increased orders from the Group's private label customers in the United States. The sales to the Group's Canadian-based customer decreased by 24.4% or HK$9.9 million from HK$40.5 million for the five months ended 31 May 2012 to HK$30.6 million for the five months ended 31 May 2013, which was primarily due to the delay in placing orders by the customer during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012.

The Group's sales to customers in the United States remained relatively stable for the year ended 31 December 2012 compared to the year ended 31 December 2011, amounting to approximately HK$216.1 million for 2011 and HK$217.7 million for 2012. The sales to the Group's Canadian-based customer increased by approximately 35.4% or HK$28.6 million from HK$80.9 million for the year ended 31 December 2011 to HK$109.5 million for the year ended 31 December 2012, which was primarily due to increased orders of knitwear products from the Group's Canadian-based customer.

The Group's sales to customers located in other countries fluctuated during the Track Record Period, which was primarily due to changes in the amount of orders from customers in the PRC. The Group considers that the PRC market is not the major target market of the Group and therefore fluctuations of the Group's sales to customers in the PRC will not adversely affect the Group's operating results in the future.

Cost of sales

Cost of sales primarily consists of costs of materials, direct labour cost, subcontracting fee, amortisation of land use right, depreciation of property, plant and equipment, development cost, write-down of inventories to net realisable value, and other production overheads. Costs of materials include the costs of fabric and leather, costs of finished goods purchased from third party product suppliers and costs of accessories including but not limited to buttons, zippers and labels; subcontracting fee includes the fee paid to subcontractors in the PRC; development cost includes the staff's salaries and consumables and other miscellaneous costs related to products design and development; write-down of inventories to net realisable value refers to the written down value of inventories to its net realisable value; and other production overheads include water and electricity, indirect labour cost, travelling expenses, testing fee, consumables, repair and maintenance expenses and other miscellaneous cost related to production. The following table sets out the Group's cost of sales by product categories for the years/periods indicated:

	Year ended 31 December				**Five months ended 31 May**			
	2011		**2012**		**2012**		**2013**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products	217,489	90.7	224,155	89.7	47,913	85.8	42,463	88.5
Own brand products	22,262	9.3	25,711	10.3	7,906	14.2	5,540	11.5
	239,751	100.0	249,866	100.0	55,819	100.0	48,003	100.0

The percentage of cost of sales of private label products to the total cost of sales of the Group (approximately 90.7%, 89.7% and 88.5% respectively for each period of the Track Record Period) is generally higher than the percentage of turnover of private label products to the total turnover of the Group (approximately 89.9%, 88.6% and 87.7% respectively for each period of the Track Record Period) given that the Group has relatively less bargaining power on the selling prices of the products under private label products compared to own brand products.

The following table sets out the breakdown of the Group's cost of sales for the years/periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		**2012**		**2012**		**2013**	
	HK$'000	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Costs of materials	183,479	76.5	189,432	75.8	44,153	79.1	32,507	67.7
Direct labour cost	7,973	3.3	11,556	4.6	4,285	7.7	4,585	9.5
Subcontracting fee	30,346	12.7	30,465	12.2	3,012	5.4	5,801	12.1
Amortisation of land use right	42	0.0	43	0.0	18	0.0	18	0.0
Depreciation of property, plant and equipment	2,019	0.8	1,985	0.8	821	1.5	747	1.6
Development cost	3,295	1.4	3,153	1.3	1,004	1.8	1,296	2.7
Write-down of inventories to net realisable value	293	0.1	—	0.0	—	0.0	—	0.0
Other production overheads	12,304	5.2	13,232	5.3	2,526	4.5	3,049	6.4
	239,751	100	249,866	100	55,819	100	48,003	100

The costs of materials increased by a lower rate from the year ended 31 December 2011 to the year ended 31 December 2012 compared to the increase in the turnover for the corresponding period, which was attributable to the bulk purchase orders placed to suppliers in the year ended 31 December 2012 which resulted in relatively lowered pricing. The costs of materials decreased by a higher rate from the five months ended 31 May 2012 to the five months ended 31 May 2013 compared to the decrease in the turnover for the corresponding period, which was attributable to the change in pattern of purchases of materials by adjusting purchase mix of raw materials, semi-products and finished goods during the five months ended 31 May 2013.

The following table sets out the breakdown of the Group's costs of materials for the years/periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Costs of finished goods purchased from third party suppliers	103,836	56.6	113,540	60.0	33,385	75.6	23,941	73.6
Costs of raw materials								
— Costs of fabric and leather	74,295	40.5	71,488	37.7	8,207	18.6	7,040	21.7
— Costs of accessories	5,348	2.9	4,404	2.3	2,561	5.8	1,526	4.7
	183,479	100.0	189,432	100.0	44,153	100.0	32,507	100.0

The costs of materials mainly consisted of the costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories. During the Track Record Period, costs of finished goods increased by approximately 9.3% and decreased by approximately 28.3% for the year ended 31 December 2012 and the five months ended 31 May 2013 respectively. The costs of raw materials of the Group decreased by approximately 4.7% and 20.4% for the year ended 31 December 2012 and the five months ended 31 May 2013 respectively.

Gross profit and gross profit margin

The following table sets out the Group's gross profit and gross profit margin by product categories for the periods indicated:

	Year ended 31 December				Five months ended 31 May			
	2011		2012		2012		2013	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Private label products	57,769	21.0	69,094	23.6	9,459	16.5	10,892	20.4
Own brand products	8,794	28.3	12,128	32.1	2,248	22.1	1,964	26.2
	66,563	21.7	81,222	24.5	11,707	17.3	12,856	21.1

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

Other income and gains

For the two years ended 31 December 2012, the Group's other income and gains amounted to approximately HK$0.2 million and HK$0.3 million respectively. For the five months ended 31 May 2012 and 2013, the Group's other income and gains amounted to approximately HK$0.1 million respectively. The other income and gains mainly represented interest income earned on bank deposits, income derived from sales of samples and other miscellaneous income.

Changes in fair value of derivative financial instruments

For each of the two years ended 31 December 2012, the Group recorded gain from changes in fair value of derivative financial instruments for approximately HK$2.1 million and HK$2.3 million respectively. For each of the five months ended 31 May 2012 and 2013, the Group recorded gain from changes in fair value of derivative financial instruments for approximately HK$2.8 million and HK$3.7 million respectively. Details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

Selling and distribution expenses primarily consist of (i) import duty; (ii) transportation costs for delivery of the products; (iii) rental expenses; (iv) staff costs; (v) overseas travelling expenses; and (vi) other selling and distribution expenses. The following table sets out the breakdown of the Group's selling and distribution expenses for the years/periods indicated:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Import duty	9,064	5,472	624	569
Insurance	335	392	162	167
Legal and professional fee	67	47	43	12
Transportation	6,797	6,688	1,639	1,763
Rental expenses	1,454	1,392	608	619
Staff costs	5,187	6,239	2,402	2,022
Telecommunication	66	58	23	29
Overseas travelling	2,354	2,243	818	1,414
Utilities	64	64	25	21
Miscellaneous	1,446	1,191	563	439
	26,834	23,786	6,907	7,055

The Group's total selling and distribution expenses were approximately HK$26.8 million and HK$23.8 million for each of the two years ended 31 December 2012 respectively, which accounted for approximately 8.8% and 7.2% of the Group's turnover. The decrease was mainly attributable to the decrease in import duty paid during the year ended 31 December 2012 as compared to the year ended 31 December 2011 because the types of fabric and/or raw materials involved in the Group's apparel products exported to the United States during the year ended 31 December 2012 were generally subject to a relatively lower import duty. For each of the five months ended 31 May 2012 and 2013, the Group's total selling and distribution expenses were approximately HK$6.9 million and HK$7.1 million representing approximately 10.2% and 11.6% of the Group's turnover respectively, which remained relatively stable. The slight increase was mainly attributable to the increase in overseas travelling during the five months ended 31 May 2013 as compared to the corresponding period in 2012 for the marketing of the Group's products.

Administrative expenses

Administrative expenses primarily consist of (i) bank charges; (ii) rental expenses; (iii) staff costs; (iv) exchange loss, net; and (v) other administrative expenses. The following table sets out the breakdown of the Group's administrative expenses for the years/periods indicated:

	Year ended 31 December		**Five months ended 31 May**	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Audit fee	52	200	100	100
Bank charges	1,492	1,762	419	423
Depreciation of property, plant and equipment	1,196	1,243	510	504
Amortisation of prepaid land lease	10	11	4	5
Insurance	221	200	108	185
[●]	—	—	—	2,567
Postage and courier	226	345	111	82
Local government levy	950	987	232	326
Legal and professional fee	730	210	63	161
Rental expenses	1,703	1,805	729	748
Repair & maintenance	232	256	122	122
Staff costs	16,750	19,150	7,175	7,693
Travelling expense	427	480	236	133
Telecommunication	307	346	106	135
Utilities	275	301	96	98
Exchange loss, net	1,344	1,362	400	370
Miscellaneous	1,394	1,824	745	626
	27,309	30,482	11,156	14,278

The Group's total administrative expenses amounted to approximately HK$27.3 million and HK$30.5 million for each of the two years ended 31 December 2012 respectively, which accounted for approximately 8.9% and 9.2% of the Group's turnover and remained relatively stable. For each of the five months ended 31 May 2012 and 2013, the Group's total administrative expenses were approximately HK$11.2 million and HK$14.3 million, representing approximately 16.5% and 23.5% of the Group's turnover respectively. The increase was mainly due to the [●] incurred during the five months ended 31 May 2013.

Finance costs

The Group's finance costs represent interest expenses on the Group's bank borrowings and obligations under finance leases. The Group's total finance cost amounted to approximately HK$1.0 million and HK$1.3 million for each of the two years ended 31 December 2012 respectively. The Group's total finance cost amounted to approximately HK$0.3 million and HK$0.2 million for each of the five months ended 31 May 2012 and 2013 respectively. Finance costs remained relatively stable during the Track Record Period despite the fact that the total outstanding interest-bearing borrowings of the Group fluctuated substantially as at the end of each year/period during the Track Record Period:

	As at 31 December 2011	**As at 31 December 2012**	**As at 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Interest-bearing borrowings			
— Current portion	3,679	2,060	28,424
— Non-current portion	649	418	317
	4,328	2,478	28,741

	Year ended 31 December 2011	**Year ended 31 December 2012**	**Five months ended 31 May 2013**
	HK$'000	*HK$'000*	*HK$'000*
Finance costs	1,011	1,288	212

This was because while the Group's outstanding interest-bearing borrowings exhibited substantial fluctuation throughout the year due to its different working capital needs and seasonal factors, its average monthly outstanding interest-bearing borrowings for the entire year/period during the Track Record Period exhibited less fluctuation:

Outstanding interest-bearing borrowings as at the end of the month	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
January	28,366#	19,933#	5,505#
February	14,969#	13,390#	14,287#
March	9,744#	20,262#	17,773#
April	14,402#	32,514#	22,295#
May	15,917#	39,751#	28,741
June	27,114#	36,010#	27,961#
July	36,760#	41,559#	49,314#
August	28,361#	33,580#	36,754#
September	31,888#	32,780#	31,068#
October	16,678#	24,516#	12,308#
November	4,299#	17,594#	N/A
December	4,328	2,478	N/A
Average month-end balance for the first five months	**16,680#**	**25,170#**	**17,720#**
Average month-end balance for the entire year	**19,402#**	**26,197#**	**N/A**

denotes unaudited figures.

The outstanding interest-bearing borrowings decreased from approximately HK$28.7 million as at 31 May 2013 to approximately HK$12.3 million as at 31 October 2013. The Group improved its liquidity position by generating profit and cash inflow during the period from 1 June 2013 to 31 October 2013, thus, the Group decreased the use of bank financing accordingly. This was generally in line with the decrease in interest-bearing borrowings during the similar period in 2011 and 2012 as disclosed above. As disclosed in the above table, as at 31 October 2011 and 2012, the Group's outstanding interest-bearing borrowings was approximately HK$16.7 million and HK$24.5 million respectively.

Income tax (expense)/credit

The Group's income tax expense amounted to approximately HK$2.3 million and HK$5.1 million for each of the two years ended 31 December 2012 respectively. The effective tax rate was approximately 19.8% and 18.2% for each of the two years ended 31 December 2012. The higher effective tax rate for the year ended 31 December 2011 was due to more non-deductible expenses incurred by Runway Jiaxing. The Group's recorded income tax credit amounted to approximately HK$0.7 million and HK$0.3 million for each of the five months ended 31 May 2012 and 2013 respectively, due to the reason that the Group recorded operating losses during each of the five months ended 31 May 2012 and 2013. The decrease in income tax credit for the five months ended 31 May 2013 was due to the non-deductible [●] expenses incurred. The Directors considered that future taxable profit is probable and will be available against which the tax losses can be utilised.

COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2011 compared to year ended 31 December 2012

Turnover

The Group's turnover increased by approximately 8.1% from approximately HK$306.3 million to HK$331.1 million for the year ended 31 December 2012, which was primarily attributable to increase in both sales of private label products by approximately 6.5% or HK$17.9 million and sales of own brand products by approximately 21.5% or HK$6.7 million.

Private label products

Turnover generated from the sales of private label products increased by approximately 6.5% from HK$275.3 million to HK$293.2 million for the year ended 31 December 2012, which was primarily attributable to an increase of approximately 9.5% in sales quantities of private label products from approximately 2.1 million units to 2.3 million units. The increase in sales quantities of private label products in year ended 31 December 2012 was primarily attributable to more sales orders placed by the Group's customers because the Group provided more designs of private label products for customers' selection.

Own brand products

Turnover generated from the sales of own brand products increased by approximately 21.5% from HK$31.1 million to HK$37.8 million for the year ended 31 December 2012, which was primarily attributable to an increase of approximately 26.9% in sales quantities of own brand products from approximately 144,992 units to 183,958 units. The increase in sales quantities of own brand products in the year ended 31 December 2012 was primarily attributable to the expansion of the Group's sales and marketing team during the year ended 31 December 2012 by the recruitment of more sales staff in the US.

Cost of sales

The Group's cost of sales increased by approximately 4.2%, from HK$239.8 million to HK$249.9 million for the year ended 31 December 2012, which was primarily due to (i) an increase of approximately 3.2% or HK$6.0 million in costs of materials; (ii) an increase of approximately 44.9% or HK$3.6 million in direct labour cost; and (iii) increase of approximately 7.5% or HK$0.9 million in other production overheads.

Costs of materials mainly consisted of costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories. Costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories accounted for approximately 56.6% (or HK$103.8 million), 40.5% (or HK$74.3 million) and 2.9% (or HK$5.3 million) for the year ended 31 December 2011 respectively and approximately 59.9% (or HK$113.5 million), 37.8% (or HK$71.5 million) and 2.3% (or HK$4.4 million) for the year ended 31 December 2012 respectively.

Costs of finished goods purchased from third party product suppliers increased by approximately 9.3%, from approximately HK$103.8 million to approximately HK$113.5 million for the year ended 31 December 2012, which was generally in line with the increase in turnover growth during the year.

Costs of fabric and leather slightly decreased by approximately 3.8%, from approximately HK$74.3 million to approximately HK$71.5 million, and costs of accessories decreased by approximately 17.0%, from approximately HK$5.3 million to approximately HK$4.4 million for the year ended 31 December 2012 respectively. Despite the Group's turnover growth for the period, the costs of raw materials decreased as a result of bulk purchases order by the Group.

Subcontracting fees represented approximately 12.7% and 12.2% of total cost of sales for the two years ended 31 December 2012 respectively. For the year ended 31 December 2012, the subcontracting fee slightly increased by approximately 0.4% or HK$0.1 million, which was mainly attributable to more auxiliary production (such as washing and embossing) being outsourced to subcontractors. The Group subcontracts certain auxiliary production procedures to outside subcontractors because the Group does not have capacity or capability to complete such procedure or when it is more economically efficient. The production procedures of each apparel product vary and may require different subcontracting procedures. Therefore, the change in subcontracting fee may not be directly related to sales volume.

Development cost represented approximately 1.4% and 1.3% of the total cost of sales for the two years ended 31 December 2012 respectively. The development cost was approximately HK$3.3 million and HK$3.2 million for each of the two years ended 31 December 2012 respectively, and remained relatively stable for the year ended 31 December 2012.

Direct labour costs represented approximately 3.3% and 4.6% of total cost of sales for the two years ended 31 December 2012 respectively. An increase in direct labour costs of approximately 44.9% or HK$3.6 million on a year-on-year basis from HK$8.0 million to HK$11.6 million for the year ended 31 December 2012, was primarily attributable to (i) increase in number of workers; (ii) increase in wage rate and average working hours of workers; and (iii) increase in discretionary bonus paid to workers in order to improve workers' loyalty and morale.

Other production overheads represented approximately 5.2% and 5.3% of total cost of sales for the two years ended 31 December 2012 respectively. For the year ended 31 December 2012, other production overheads increased slightly by approximately 7.5% or HK$0.9 million which was in line with the growth in sales during the year.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK$14.7 million or 22.0% and the gross profit margin increased from approximately 21.7% to 24.5% for the year ended 31 December 2012. The Group's turnover is derived from the sales of private label products and own brand products, and the gross profit and gross profit margin of the Group were primarily affected by the mix of those of private label products and own brand products. The increase in the Group's gross profit of approximately 22.0% was primarily attributable to the increase in gross profit of both private label products and own brand products in year ended 31 December 2012.

The Group's gross profit and gross profit margin of private label products increased by approximately HK$11.3 million or 19.6% from approximately HK$57.8 million to approximately HK$69.1 million, and increased by approximately 2.6% from approximately 21.0% to approximately 23.6% for the year ended 31 December 2012 respectively, primarily due to (i) increase in turnover; and (ii) decrease in material prices as a result of bulk purchase orders placed to suppliers.

The Group's gross profit and gross profit margin of own brand products increased by approximately HK$3.3 million or 37.5% from approximately HK$8.8 million to approximately HK$12.1 million, and increased by approximately 3.8% from approximately 28.3% to approximately 32.1% for the year ended 31 December 2012 respectively, primarily due to (i) increase in customers' acceptance of designs with higher profit margin; and (ii) more orders of complex style of own brand products with relatively high margin from customers.

Other income and gains

Other income and gains increased by approximately 50.0% from approximately HK$0.2 million to approximately HK$0.3 million for the year ended 31 December 2012, which was primarily attributable to the increase in sundry income.

Changes in fair value of derivative financial instruments

The Group's gain from changes in fair value of derivative financial instruments increased by approximately HK$0.2 million or 9.5% from approximately HK$2.1 million to approximately HK$2.3 million for the year ended 31 December 2012. The details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 11.2% or HK$3.0 million from approximately HK$26.8 million to approximately HK$23.8 million for the year ended 31 December 2012. The decrease was mainly attributable to a decrease in import duty for import of apparel products to the US of approximately HK$3.6 million. The Group's export of apparel products to the US is generally subject to different rates of import duty for apparel products with different fabrication. The nature of the Group's apparel products exported to the US during the year ended 31 December 2012 was generally subject to relatively lower import duty imposed by the customs of the US. On the other hand, the decrease in selling expenses was offset by an increase in staff costs by approximately HK$1.1 million. The other selling and distribution expenses remained relatively stable for the year ended 31 December 2012.

Administrative expenses

The Group's administrative expenses increased by approximately 11.7% or HK$3.2 million from approximately HK$27.3 million to approximately HK$30.5 million for the year ended 31 December 2012. The increase was mainly attributable to (i) increase in staff costs by approximately HK$2.4 million generally as a result of increase in directors' remuneration by approximately HK$1.6 million and increase in number of staff and salary rate by approximately HK$1.0 million; (ii) increase in bank charges by approximately HK$0.3 million; and (iii) increase in miscellaneous expenses by approximately HK$0.4 million.

Finance costs

The Group's finance costs increased by approximately 30.0% or HK$0.3 million from approximately HK$1.0 million to approximately HK$1.3 million for the year ended 31 December 2012, primarily due to an increase in interest expenses on the Group's bank borrowings resulting from an increase in financing from banks during the year ended 31 December 2012 for working capital purposes.

Profit before income tax

Profit before income tax increased by approximately 141.9% or HK$16.6 million from approximately HK$11.7 million for the year ended 31 December 2011 to approximately HK$28.3 million for the year ended 31 December 2012, which was mainly due to the combined effect of increase in turnover and improvement in gross profit margin during the year ended 31 December 2012.

Income tax expense

The Group's income tax expense increased by approximately 121.7% or HK$2.8 million from approximately HK$2.3 million to approximately HK$5.1 million for the year ended 31 December 2012, which was mainly due to increase in profit before income tax as a result of the combined effect of increase in turnover and improvement in gross profit margin for the year ended 31 December 2012. The higher effective tax rate for the year ended 31 December 2011 was due to more non-deductible expenses incurred by Runway Jiaxing.

Profit for the year

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

Five months ended 31 May 2012 compared to five months ended 31 May 2013

Turnover

The Group's turnover decreased by approximately 9.8% from approximately HK$67.5 million for the five months ended 31 May 2012 to approximately HK$60.9 million for the five months ended 31 May 2013, which was primarily attributable to decrease in both sales of private label products by approximately 7.0% or HK$4.0 million and sales of own brand products by approximately 26.5% or HK$2.7 million.

Private label products

Turnover generated from the sales of private label products decreased by approximately 7.0% from approximately HK$57.4 million for the five months ended 31 May 2012 to approximately HK$53.4 million for the five months ended 31 May 2013, which was primarily attributable to a decrease of approximately 17.2% in sales quantities of private label products from approximately 620,004 units to 513,450 units. The decrease in sales quantities of private label products for the five months ended 31 May 2013 was primarily attributable to the delay in placing orders by certain customers of the Group during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012.

Own brand products

Turnover generated from the sales of own brand products decreased by approximately 26.5% from approximately HK$10.2 million for the five months ended 31 May 2012 to approximately HK$7.5 million for the five months ended 31 May 2013, which was primarily attributable to a decrease of approximately 31.4% in sales quantities of own brand products from approximately 57,634 units to 39,564 units. The decrease in sales quantities of own brand products for the five months ended 31 May 2013 was primarily attributable to the reason that certain customers of the Group placed less orders during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012 and instead, they placed their relevant orders after the five months ended 31 May 2013.

Cost of sales

Costs of finished goods purchased from third party product suppliers, costs of fabric and leather, and costs of accessories accounted for approximately 75.6% (or HK$33.4 million), 18.6% (or HK$8.2 million), and 5.8% (or HK$2.6 million) for the five months ended 31 May 2012 respectively and approximately 73.8% (or HK$24.0 million), 21.5% (or HK$7.0 million) and 4.7% (or HK$1.5 million) for the five months ended 31 May 2013 respectively.

Costs of finished goods purchased from third party product suppliers decreased by approximately 28.1%, from approximately HK$33.4 million to approximately HK$24.0 million for the five months ended 31 May 2013, which was mainly due to decrease in sales orders for both private label and own brand products as a result of the delay in placing orders by certain customers of the Group during the five months ended 31 May 2013 as compared to the five months ended 31 May 2012. Costs of fabric and leather slightly decreased by approximately 14.6%, from approximately HK$8.2 million to approximately HK$7.0 million, and costs of accessories decreased by approximately 42.3%, from approximately HK$2.6 million to HK$1.5 million for the five months ended 31 May 2013, which was mainly due to decrease in sales order for both private label and own brand products. Besides, the decrease in costs of materials for the five months ended 31 May 2013 was the result of change in pattern of purchases of materials by adjusting the combination of purchases of raw materials, semi-finished products and finished goods, in order to obtain maximisation of production-cost efficiency.

Subcontracting fee represented approximately 5.4% and 12.1% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. For the five months ended 31 May 2013, the subcontracting fee increased by approximately 92.6% or HK$2.8 million, which was mainly attributable to more auxiliary production being outsourced to subcontractors for economical efficiency reason.

Development cost represented approximately 1.8% and 2.7% of the total cost of sales for the five months ended 31 May 2012 and 2013. The development cost increased by approximately 30.0% or HK$0.3 million from approximately HK$1.0 million for the five months ended 31 May 2012 to approximately HK$1.3 million for the five months ended 31 May 2013 respectively, mainly due to the addition of one designer in the US to strengthen the Group's design capability during the period.

Direct labour costs represented approximately 7.7% and 9.5% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. An increase in direct labour costs of approximately 7.0% or HK$0.3 million on a period-on-period basis from HK$4.3 million to HK$4.6 million for the five months ended 31 May 2013, was primarily attributable to an increase in wage rate.

Other production overheads represented approximately 4.5% and 6.4% of total cost of sales for the five months ended 31 May 2012 and 2013 respectively. For the five months ended 31 May 2013, other production overheads increased by approximately 20.7% or HK$0.5 million which was mainly attributable to the increase in indirect labour cost, handling charges and staff's welfare expenses incurred during the period.

Gross profit and gross profit margin

The Group's gross profit increased by approximately HK$1.1 million or 9.8% and the gross profit margin increased from approximately 17.3% to 21.1% for the five months ended 31 May 2013. The Group's turnover is derived from the sales of private label products and own brand products, and the gross profit and gross profit margin of the Group were primarily affected by the mix of private label products and own brand products. The increase in the Group's gross profit of approximately 9.8% was primarily attributable to the increase in gross profit margin of both private label products and own brand products for the five months ended 31 May 2013.

The Group's gross profit and gross profit margin of private label products increased by approximately HK$1.4 million or 14.7% from approximately HK$9.5 million for the five months ended 31 May 2012 to approximately HK$10.9 million for the five months ended 31 May 2013, and increased by approximately 3.9% from approximately 16.5% for the five months ended 31 May 2012 to 20.4% for the five months ended 31 May 2013 respectively, primarily due to (i) decrease in sales of knitwear products which had relatively lower gross profit margin in the five months ended 31 May 2012; and (ii) increase in sales of woven and leather wear products which had relatively higher gross profit margin.

The Group's gross profit of own brand products decreased by HK$0.2 million or 9.1% from approximately HK$2.2 million for the five months ended 31 May 2012 to approximately HK$2.0 million mainly due to decrease in sales of own brand products. The Group's gross profit margin of own brand products increased by approximately 4.1% from approximately 22.1% for the five months ended 31 May 2012 to 26.2% for the five months ended 31 May 2013, primarily due to increase in selling price offered by customers as a result of customers' satisfaction and appreciation of the Group's own brand products.

Other income and gains

The other income and gains remained stable at approximately HK$0.1 million for each of the five months ended 31 May 2012 and 2013 respectively.

Changes in fair value of derivative financial instruments

The Group's gain from changes in fair value of derivative financial instruments increased by approximately HK$0.9 million or 32.1% from approximately HK$2.8 million for the five months ended 31 May 2012 to approximately HK$3.7 million for the five months ended 31 May 2013. The details of the derivative financial instruments are set out in the paragraph headed "Foreign exchange structured forward contracts" in this section.

Selling and distribution expenses

The Group's selling and distribution expenses increased slightly by approximately 2.9% or HK$0.2 million from approximately HK$6.9 million for the five months ended 31 May 2012 to approximately HK$7.1 million for the five months ended 31 May 2013. The increase was mainly attributable to increase in overseas travelling expenses of approximately HK$0.6 million and increase in transportation expense of approximately HK$0.1 million; and partly set off by decrease in staff costs by approximately HK$0.4 million. The other selling and distribution expenses remained relatively stable for the five months ended 31 May 2013.

Administrative expenses

The Group's administrative expenses increased by approximately 27.7% or HK$3.1 million from approximately HK$11.2 million for the five months ended 31 May 2012 to approximately HK$14.3 million for the five months ended 31 May 2013. The increase was mainly attributable to increase in [●] expenses, legal and professional fee and staff costs by approximately HK$2.6 million, HK$0.1 million, and HK$0.5 million respectively, and offset by decrease in travelling expenses by approximately HK$0.1 million.

Finance costs

The Group's finance costs decreased by approximately 33.3% or HK$0.1 million from approximately HK$0.3 million for the five months ended 31 May 2012 to approximately HK$0.2 million for the five months ended 31 May 2013, primarily due to decrease in utilisation of banking facilities as a result of decrease in sales and improvement in bank balances for the five months ended 31 May 2013.

Loss before income tax

The first half-year is conventionally the slack season of the Group's apparel products which focus on winter-wear. Therefore, scheduled shipments to customers normally take place more in the second half of the year. Accordingly, turnover generated in the first half of the year is relatively lower than the second half of the year. Thus the Group recorded loss before income tax of approximately HK$3.8 million and HK$4.9 million for each of the five months ended 31 May 2012 and 2013 respectively, taking into account the fixed expenses incurred during the same period. Loss before income tax increased by approximately 28.9% or HK$1.1 million mainly due to the combined effect of the fluctuation set out above.

Income tax credit

The Group recorded income tax credit of approximately HK$0.7 million and HK$0.3 million for each of the five months ended 31 May 2012 and 2013 respectively, as the Group incurred losses from operation during each of the five months ended 31 May 2012 and 2013. The decrease in income tax credit for the five months ended 31 May 2013 was due to the non-deductible [●] expenses incurred. The Directors consider that future taxable profit is probable and will be available against which the tax losses can be utilised.

Loss for the period

The Group's loss for the period increased by approximately 45.2% or HK$1.4 million from approximately HK$3.1 million for the five months ended 31 May 2012 to approximately HK$4.5 million for the five months ended 31 May 2013 mainly due to the combined effect of the fluctuation set out above.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Overview

During the Track Record Period, the Group's operations were generally financed through a combination of shareholder's equity, internally generated cash flows and bank borrowings. The Directors believe that in long term, the Group's operation will be funded by internally generated cash flows and, if necessary, additional equity financing and bank borrowings.

Cash flows

The following table sets forth selected cash flows data from the Group's combined statements of cash flows for the Track Record Period.

	Year ended 31 December		Five months ended 31 May	
	2011	**2012**	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)	
Net cash generated from/(used in) operating activities	40,399	29,795	(33,716)	(24,964)
Net cash (used in)/generated from investing activities	(6,080)	2,607	(6,247)	(4,615)
Net cash (used in)/generated from financing activities	(22,696)	(8,916)	29,674	23,967
Net increase/(decrease) in cash and cash equivalents	11,623	23,486	(10,289)	(5,612)
Cash and cash equivalents at the beginning of the year/period	2,279	14,037	14,037	37,550
Effect of foreign exchange rates, net	135	27	(33)	40
Cash and cash equivalents at the end of the year/period	14,037	37,550	3,715	31,978

The Group has historically met its liquidity requirements principally through a combination of cash flows from operations, internal resources and bank borrowings. The Group's principal use of cash has been, and is expected to continue to be, operational costs and capital expenditures.

Cash flows generated from/(used in) operating activities

The Group generates its cash inflow from operating activities principally from the receipt of payments for the sale of its products. The Group's cash outflow from operating activities is principally for the purchase of materials, subcontracting fees, staff and labour costs, rental expenses and all other operating expenses.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash used in operating activities of approximately HK$25.0 million primarily as a result of the combined effect of (i) the operating loss incurred by the Group during the period due to seasonal factor as the period from January to May is within the traditional slack season of the Group; (ii) the use of cash in settling outstanding payables to suppliers incurred during the peak season in 2012; and (iii) the use of cash in purchasing materials for the production of peak season orders for the approaching peak season starting from July 2013.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash used in operating activities of approximately HK$33.7 million primarily as a result of the combined effect of (i) the operating loss incurred by the Group during the period due to seasonal factor as the period from January to May is within the traditional slack season of the Group; (ii) the use of cash for the production of more own brand products during the period which were targeted to be sold in the upcoming peak season as the Group intended to expand its own brand products operation; (iii) the use of cash in settling outstanding payables to suppliers incurred during the peak season in 2011; and (iv) the use of cash in purchasing materials for the production of peak season orders for the approaching peak season starting from July 2012.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash generated from operating activities of approximately HK$29.8 million primarily as a result of the combined effect of (i) the operating profit generated by the Group during the year ended 31 December 2012 as the Group recorded satisfactory financial performance from its operation during the year; (ii) the use of cash for income tax paid; and (iii) cash generated from the realised gain from the foreign exchange structured forward contracts.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group recorded net cash generated from operating activities of approximately HK$40.4 million primarily as a result of the combined effect of (i) the operating profit generated by the Group during the year ended 31 December 2011 as the Group recorded profitable financial performance from its operation during the year; (ii) cash generated from faster settlement of trade receivables from customers while outstanding payables that had not yet been settled to suppliers increased due to the growth in the Group's business; (iii) the use of cash for income tax paid; and (iv) cash generated from the realised gain from the foreign exchange structured forward contracts.

Cash flows (used in)/generated from investing activities

The Group's cash outflow from investing activities primarily consists of the purchases of property, plant and equipment, payment for pledged bank deposits and advances to directors. The Group's cash inflow from investing activities primarily consists of repayment from directors.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash used in investing activities of approximately HK$4.6 million primarily as a result of (i) the use of cash for the advance to Mr. Tien for his personal use; and (ii) the use of cash for normal replacement of machineries and office furniture and purchase of a new motor vehicle for business purposes.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash used in investing activities of approximately HK$6.2 million primarily as a result of the combined effect of (i) the use of cash for the advance to Mr. Tien for his personal use; (ii) cash generated from the decrease in pledged bank deposits required for bills payables in Runway Jiaxing due to decrease in utilisation of bill payables during slack season; and (iii) the use of cash for the normal replacement of machineries and office furniture.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash generated from investing activities of approximately HK$2.6 million primarily as a result of the combined effect of (i) cash generated from the repayment from Mr. Tien for the amount previously advanced to him for his personal use; (ii) the use of cash for the increase in pledged bank deposits required for bill payables in Runway Jiaxing due to the increase in utilisation of bill payables as a result of the growth in the Group's business; and (iii) the use of cash for the normal replacement of machineries and office furniture.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group's recorded net cash used in investing activities of approximately HK$6.1 million primarily as a result of (i) the use of cash for the advance to Mr. Tien for his personal use; (ii) the use of cash for the normal replacement of machineries and office furniture and the purchase of a new motor vehicle for business purposes; and (iii) the use of cash for the increase in pledged bank deposits required for bill payables in Runway Jiaxing due to the increase in utilisation of bill payables as a result of the growth in the Group's business.

Cash flows (used in)/generated from financing activities

The Group derives its cash inflow from financing activities principally from bank borrowings. The Group's cash outflow from financing activities relates primarily to the Group's repayment of principal and interest on its bank borrowings and payment of dividends.

Five months ended 31 May 2013

For the five months ended 31 May 2013, the Group recorded net cash generated from financing activities of approximately HK$24.0 million primarily as a result of the combined effect of (i) cash obtained from the net increase in interest-bearing borrowings for the purchase of materials and the production of peak season orders in preparation for shipment in peak season from July to November and settlement of trade payables which were brought forward from the peak season in last year; and (ii) cash used for repayment to directors.

Five months ended 31 May 2012

For the five months ended 31 May 2012, the Group recorded net cash generated from financing activities of approximately HK$29.7 million primarily as a result of (i) cash obtained from the net increase in interest-bearing borrowings for the purchase of materials and the production of peak season orders in preparation for shipment in peak season from July to November and settlement of trade payables which were brought forward from peak season in last year; (ii) the use of cash for the repayment to directors; and (iii) the use of cash for payment of dividend.

Year ended 31 December 2012

For the year ended 31 December 2012, the Group recorded net cash used in financing activities of approximately HK$8.9 million primarily as a result of (i) the use of cash for the repayment to directors; (ii) the use of cash for payment of dividend; (iii) the use of cash for repaying interest-bearing borrowings as a result of improvement of financial position; and (iv) the use of cash for interest paid for interest-bearing borrowings.

Year ended 31 December 2011

For the year ended 31 December 2011, the Group recorded net cash used in financing activities of approximately HK$22.7 million primarily as a result of (i) the use of cash for payment of dividend; (ii) the use of cash for repaying interest-bearing borrowings as a result of improvement of financial position; (iii) the use of cash for interest paid for interest-bearing borrowings; and (iv) the use of cash for the repayment to directors.

NET CURRENT ASSETS

The following table sets out details of the Group's current assets and current liabilities as at the respective financial position dates below:

	As at 31 December		As at 31 May	As at 31 October
	2011	**2012**	**2013**	**2013**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Current assets				
Inventories	23,790	27,275	42,060	25,793
Trade and bill receivables	40,109	49,575	24,569	88,555
Deposits, prepayments and other receivables	16,215	13,196	15,097	25,416
Amounts due from directors	5,895	—	4,593	—
Derivative financial instruments	1,477	1,486	4,547	3,147
Pledged bank deposits	6,074	8,801	8,544	8,780
Cash and cash equivalents	14,037	37,550	31,978	15,427
	107,597	137,883	131,388	167,118
Current liabilities				
Trade and bill payables	(67,348)	(73,431)	(52,724)	(93,407)
Accruals, other payables and receipts in advance	(15,689)	(20,899)	(15,025)	(22,058)
Amounts due to directors	—	(2,515)	(830)	(1,420)
Interest-bearing borrowings	(3,679)	(2,060)	(28,424)	(12,094)
Provision for taxation	(1,548)	(2,340)	(2,025)	(6,089)
	(88,264)	(101,245)	(99,028)	(135,068)
Net current assets	19,333	36,638	32,360	32,050

The Group's current assets primarily comprise inventories, trade and bill receivables, deposits, prepayment and other receivables, pledged bank deposits, and cash and bank deposits, while the Group's current liabilities primarily comprise trade and bill payables, accruals, other payables and receipts in advance, interest-bearing borrowings, and current tax liabilities. The Group had been in net current asset position during the Track Record Period and up to 31 October 2013, being the latest practicable date for ascertaining the financial information of the Group.

As at 31 October 2013, being the latest practicable date for ascertaining the financial information of the Group, the Group's net current assets slightly decreased by HK$0.3 million from approximately HK$32.4 million as at 31 May 2013 to approximately HK$32.1 million as at 31 October 2013. The net current assets of the Group as at 31 October 2013 mainly comprised cash and bank deposits (excluding pledged bank deposits) of approximately HK$15.4 million, trade and bill receivables of approximately HK$88.6 million, trade and bill payables of approximately HK$93.4 million, and interest-bearing borrowings of approximately HK$12.1 million. The considerable increase in trade and bill receivables and trade and bill payables as compared to those as at 31 May 2013 was mainly due to the seasonal effect as the Group has recorded turnover of approximately HK$236.5 million during the five months from June to October 2013, of which turnover of approximately HK$110.3 million was recorded during the two months from September to October 2013. In addition, cash and cash equivalents decreased by approximately HK$16.6 million from approximately HK$32.0 million as at 31 May 2013 to approximately HK$15.4 million as at 31 October 2013, which was mainly because more settlement was made to decrease the interest-bearing borrowings (including non-current portion) from approximately HK$28.7 million to approximately HK$12.3 million as less interest-bearing borrowings were necessary approaching the end of the peak production period.

The Group's net current assets decreased slightly during the five months ended 31 May 2013. The Group's net current assets position decreased slightly from approximately HK$36.6 million as at 31 December 2012 to approximately HK$32.4 million as at 31 May 2013, which was primarily as a result of (i) a decrease in trade and bill receivables of approximately HK$25.0 million which was in line with decrease in sales due to seasonal factor; and (ii) an increase in interest-bearing borrowings of approximately HK$26.3 million. These amounts were partially offset by (i) an increase in inventories of approximately HK$14.8 million; (ii) a decrease in trade and bill payables of approximately HK$20.7 million; (iii) a decrease in accruals, other payables and receipts in advance of approximately HK$5.9 million; and (iv) decrease in amounts due to directors of approximately HK$1.7 million.

The Group's net current assets improved during the year ended 31 December 2012. The Group's net current assets position increased from approximately HK$19.3 million as at 31 December 2011 to approximately HK$36.6 million as at 31 December 2012, which was primarily as a result of (i) an increase in inventories of approximately HK$3.5 million; (ii) an increase in trade and bill receivables of approximately HK$9.5 million; (iii) increase in pledged bank deposits of approximately HK$2.7 million; and (iv) increase in cash and cash equivalents of approximately HK$23.6 million as more operating cash inflow was recorded. These amounts were partially offset by (i) a decrease in deposits, prepayments and other receivables of approximately HK$3.0 million; (ii) increase in trade and bill payables of approximately HK$6.1 million; (iii) increase in accruals, other payables and receipts in advance of approximately HK$5.2 million; and (iv) increase in amounts due to directors of approximately HK$2.5 million.

AMOUNTS DUE FROM DIRECTORS

The following table sets out the amounts due from Directors during the Track Record Period:

	As at 1 January 2011	Maximum balance outstanding during 2011	As at 31 December 2011	Maximum balance outstanding during 2012	As at 31 December 2012	Maximum balance outstanding during 2013	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Directors:							
Mr. Tien	—	17,491	3,721	25,006	—	9,587	4,593
Mr. Gozashti	2,174	2,190	2,174	2,291	—	—	—
	2,174		5,895		—		4,593

Such amounts were unsecured, interest-free and repayable on demand. All such amounts due from Directors had been fully settled as at 31 August 2013.

As illustrated in the table above, the maximum balances outstanding in respect of the amounts due from Mr. Tien during each of the two years ended 31 December 2012 and the five months ended 31 May 2013 amounted to approximately HK$17.5 million, HK$25.0 million and HK$9.6 million respectively. The reason for such advances was for Mr. Tien's personal use.

FOREIGN EXCHANGE STRUCTURED FORWARD CONTRACTS

As explained in the paragraph headed "Foreign exchange structured forward contracts" under the "Business" section in this document, during the Track Record Period, the Group entered into 10 non-deliverable foreign exchange structured forward contracts for hedging purpose, among which 7 had already ended during the Track Record Period. The remaining 3 foreign exchange structured forward contracts outstanding as at the Latest Practicable Date will end on 29 July 2014, 7 January 2015 and 25 February 2015 respectively.

There was no formal documentation (as specified under Hong Kong Accounting Standards 39) of the hedging relationships and these foreign exchange structured forward contracts were not designated for a particular transaction. Given the above and since the effectiveness of the hedge cannot be measured reliably for any particular transaction, no hedge accounting policies in accordance to Hong Kong Accounting Standards 39 were adopted by the Group to account for the foreign exchange structured forward contracts.

For accounting purpose, the outstanding foreign exchange structured forward contracts are stated at fair value in the combined statements of financial position of the Group, and fluctuations of the exchange rate of RMB/US$ will result in fair value gain/loss of derivative financial instruments to be recognised in the combined statements of comprehensive income of the Group. The Group has recorded approximately HK$2.1 million, HK$2.3 million, HK$2.8 million and HK$3.7 million of gain from fair value changes from derivative financial instruments for each of the two years ended 31 December 2012, and the five months ended 31 May 2012 and 2013 respectively.

As at 31 May 2013, the fair value recognised in the combined statements of financial position of the 3 remaining foreign exchange structured forward contracts was approximately HK$4.5 million.

INVENTORY ANALYSIS

Overview

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

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

The Group's inventories increased by approximately 54.2% or HK$14.8 million, from HK$27.3 million as at 31 December 2012 to approximately HK$42.1 million as at 31 May 2013, primarily because (i) starting from second quarter each year, customers of the Group generally start placing orders with the Group for the peak seasons' winter clothing; (ii) for the production of such peak season orders, the Group generally needs to purchase more new raw materials, resulting in a significant amount of raw material inventory as at 31 May 2013 compared to 31 December 2012; and (iii) it usually takes 60 to 120 days for the Group to complete the production of an entire order and the Group usually delivers products to customers only when the production of an entire order is completed, resulting in a significant amount of finished goods inventory pending for delivery as well as in transit as at 31 May 2013 compared to 31 December 2012 (when peak delivery season was coming to an end).

The Group's inventories increased by approximately 14.7% or HK$3.5 million, from approximately HK$23.8 million as at 31 December 2011 to approximately HK$27.3 million as at 31 December 2012, primarily due to the increase in finished goods inventory as explained in further detail in the paragraph headed "Finished goods inventory" below in this sub-section of "Inventory analysis".

Inventory management

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

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

Inventory provision policies

Inventories are initially recognised at cost and subsequently stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

The Group reviews the inventories at each reporting date and makes allowance for impairment of obsolete, slow-moving and impaired items. The Group estimates the net realisable value for such inventories based primarily on the expected future market conditions and the estimated selling price. The Group makes allowance for impairment if the net realisable value is below the carrying amount.

Inventory turnover days

The following table sets out the Group's inventory turnover days during the Track Record Period:

	As at 31 December		**As at 31 May**
	2011	**2012**	**2013**
Inventory turnover days	36	40	132

Note: Inventory turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending inventory balances / cost of sales. Inventory turnover days for the five months ended 31 May 2013 = 151 x ending inventory balance / cost of sales.

The Group's inventory turnover days were 36, 40 and 132 for the two years ended 31 December 2012 and for the five months ended 31 May 2013 respectively. The increase in turnover days from 40 to 132 over the period ended 31 May 2013 and year ended 31 December 2012 was primarily attributable to (i) the significant increase in the Group's inventory balance as explained in detail in the paragraph headed "Overview" above under this sub-section of "Inventory analysis"; and (ii) inventory turnover days is calculated as the inventory balance as at the end of the year/period divided by cost of sales recognised during the corresponding year/period and as such, for the inventory turnover days as at 31 May 2013, it was calculated as the inventory in peak production season divided by the costs of sales recognised in slack season, resulting in the significant increase in the inventory turnover days of the Group as at 31 May 2013 compared to 31 December 2012.

The increase in inventory turnover days from 36 to 40 over the years ended 31 December 2011 and 2012 was primarily attributable to the increase in finished goods inventory of the Group as at 31 December 2012 compared to 31 December 2011 for reasons explained in further detail in the paragraph headed "Finished goods inventory" below in this sub-section of "Inventory analysis".

The following table sets out the inventory turnover days for the five months ended 31 May 2010, 2011, 2012 and 2013 respectively:

	Five months ended 31 May			
	2010	**2011**	**2012**	**2013**
	(unaudited)	(unaudited)	(unaudited)	
Inventory turnover days	67	74	87	132

Note: Inventory turnover days for the five months ended 31 May 2010, 2011, 2012 and 2013 = 151 x ending inventory balance / cost of sales.

The inventory turnover days increased from approximately 67 days for the five months ended 31 May 2010 to approximately 74 days for the five months ended 31 May 2011 and further increased to approximately 87 days for the five months ended 31 May 2012 primarily because (i) as the Group experienced a general growth in its business from 2010 to 2012, the amount and sales orders increased from 2010 to 2011 and further increased from 2011 to 2012, resulting in more inventories of raw materials and finished goods as at 31 May 2011 than 31 May 2010, and as at 31 May 2012 than 31 May 2011; and (ii) inventory turnover days in the above table is calculated as the amount of inventory as at 31 May divided by the cost of sales recognised during the five months ended 31 May (i.e. inventory in peak production seasons divided by costs of sales recognised in slack seasons), resulting in the inventory turnover days of the Group for the first five months of the year exhibiting an increasing trend from 2010 to 2012 as the Group's business during peak seasons kept growing.

The inventory turnover days significantly increased from approximately 87 days for the five months ended 31 May 2012 to approximately 132 days for the five months ended 31 May 2013 because there has been an increase in inventory balance as at 31 May 2013 compared to 31 May 2012 coupled with a decrease in cost of sales recognised for the five months ended 31 May 2013 compared to the five months ended 31 May 2012, as explained in more detail in the following table and the accompanying notes:

	Notes	**For the five months ended/ As at 31 May 2012** *HK$'000* (unaudited)	**For the five months ended/ As at 31 May 2013** *HK$'000*
Inventory balance			
— Raw materials and work in progress		18,101	18,397
— Private label finished goods	*1*	1,674	10,007
— Own brand finished goods	*2*	12,316	13,656
Total inventory balance (A)		**32,091**	**42,060**
Costs of sales (B)	*3*	**55,819**	**48,003**
Inventory turnover days (A/B x 151 days)		**87 days**	**132 days**

Notes:

1. Private label finished goods inventories increased significantly by approximately HK$8,333,000 from approximately HK$1,674,000 as at 31 May 2012 to approximately HK$10,007,000 as at 31 May 2013 primarily because of the following reasons:

   (i) Out of the increase of approximately HK$8,333,000, approximately HK$2,532,000 was attributable to a batch of private label finished goods (which amounted to approximately HK$2,532,000 at cost) that had been delivered to customer in the fourth quarter of 2012 but was returned to the Group for certain additional alterations as requested by the relevant customer. Such batch of goods was counted as the Group's inventory as at 31 May 2013 pending for completion of the alterations, thereby contributing to the increase in the inventory turnover days to 132 days for the five months ended 31 May 2013. Excluding the effect of the returned batch of private label finished goods of approximately HK$2,532,000, the inventory turnover days of the Group for the five months ended 31 May 2013 would have been approximately 124 days instead of 132 days.

   (ii) The remaining increase of approximately HK$5,801,000 was mainly attributable to the increased private label finished goods that were produced pursuant to sales orders received (including the delayed orders from customers as explained in detail in the paragraph headed "Revenue" under the sub-section headed "Combined statements of comprehensive income" above in this section of "Financial information") and were pending for delivery to customers.

2. Own brand finished goods increased by approximately HK$1,340,000 from approximately HK$12,316,000 as at 31 May 2012 to approximately HK$13,656,000 as at 31 May 2013 primarily due to the own brand finished goods produced in 2012 that were targeted to be sold in 2 to 3 peak seasons (i.e. 2 to 3 years) but remained unsold in the peak season of 2012 and therefore remained in the Group's inventory balance as at 31 May 2013.

3. Cost of sales decreased by approximately HK$7,816,000 from approximately HK$55,819,000 for the five months ended 31 May 2012 to approximately HK$48,003,000 for the five months ended 31 May 2013 primarily because the Group recorded a lower revenue (and thereby a lower cost of sales, being the denominator for the calculation of the inventory turnover days) for the five months ended 31 May 2013 compared to the five months ended 31 May 2012 due to the effect of the difference between the Chinese New Year period in 2012 and in 2013 as explained in more detail in the paragraph headed "Revenue" under the sub-section headed "Combined statements of comprehensive income" above in this section of "Financial information".

In order to improve the inventory turnover of the Group, the Group has increased its marketing effort in selling its finished goods inventory. For instance, approximately 55.8% of the Group's finished goods inventory aged over 1 year as at 31 May 2013 has been sold up to 31 October 2013, while approximately 67.1% of the Group's finished goods inventory aged between 181 and 365 days as at 31 May 2013 has been sold up to 31 October 2013. Please refer to the paragraph headed "Ageing analysis and subsequent usage/sales" below for further information regarding the subsequent sales progress of the Group's finished goods inventory as at 31 May 2013 of different age groups up to 31 October 2013.

Finished goods inventory

The following table sets out a breakdown of the Group's inventory of finished goods by private labels and own brand products and their subsequent sales:

	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013	Subsequent sales of finished goods balance up to 31 October 2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)
Finished goods inventory				
— Private label products	1,838	5,228	10,007	9,746
— Own brand products	12,493	12,251	13,656	7,314
	14,331	17,479	23,663	17,060

As illustrated in the table above, most of the Group's finished goods inventory was own brand products during the Track Record Period. Subsequent sales of the finished goods inventory up to 31 October 2013 amounted to approximately HK$17,060,000, representing approximately 72.1% of the Group's finished goods inventory as at 31 May 2013.

The inventory level of private label finished goods increased from approximately HK$1,838,000 as at 31 December 2011 to approximately HK$5,228,000 as at 31 December 2012 primarily due to the following reasons: (i) private label products are generally manufactured only after receiving customers' orders and as such, private label finished goods inventory mainly include products that are manufactured pursuant to customers' orders and pending for delivery as well as goods in transit; (ii) as the Group experienced a general growth in business in 2012 as compared to 2011, the amount of goods in transit and pending for delivery as at 31 December 2012 was higher than that as at 31 December 2011; and (iii) one batch of private label finished goods amounting to approximately HK$2,532,000 that had been delivered to the customer in the fourth quarter of 2012 was returned to the Group for certain alterations as requested by the relevant customer, and such batch of goods was counted as the Group's inventory as at 31 December 2012 pending for completion of the alterations.

The inventory level of private label finished goods further increased to approximately HK$10,007,000 as at 31 May 2013 as compared to the approximately HK$5,228,000 as at 31 December 2012 mainly because of the following reasons: (i) the peak season of the Group is generally from July to November during which delivery (and thus revenue recognised) is the highest; (ii) as at 31 December of each year, the peak season has just passed and there are fewer private label products that are still pending for delivery or that are in transit; (iii) as at 31 May of each year, the peak season for delivery is approaching and many private label customers have already started placing orders for winter collections starting from the second quarter of the year and as such, a large quantity of products would have already been produced at the time of the year pursuant to customers' orders and would be pending for delivery to customers or are in transit and are therefore counted as finished goods inventory as at 31 May; and

(iv) the aforementioned returned batch of private label products amounting to approximately HK$2,532,000 still remained as the Group's inventory as at 31 May 2013 pending for completion of the alterations as requested by customers.

The inventory level of own brand products remained at a stable level, changing slightly from approximately HK$12,493,000 as at 31 December 2011 to HK$12,251,000 as at 31 December 2012, which is in line with the general growth of the Group's own brand products operation during the period.

The inventory level of own brand products increased from approximately HK$12,251,000 to approximately HK$13,656,000 as at 31 May 2013 because of the following reasons: (i) it has been one of the Group's strategies to further develop its own brand products operation, which requires more own brand finished goods inventory that are ready for immediate delivery once customers' orders are confirmed; and (ii) as at 31 May 2013, the peak season for sales was approaching and therefore, more own brand products are required (and had been produced) to cope with the anticipated peak seasons from July to November 2013.

Ageing analysis and subsequent usage/sales

The following table sets out the inventory ageing of the major categories of inventories and the amount of subsequent usage or sales:

	1–30 days	**31–90 days**	**91–180 days**	**181–365 days**	**Over 1 year**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials						
— as at 31 May 2013 (A)	7,691	4,312	2,222	1,250	1,400	16,875
— subsequent usage up to 31 October 2013 (unaudited) (B)	7,114	3,832	1,980	825	760	14,511
— B/A	92.5%	88.9%	89.1%	66.0%	54.3%	86.0%
Work in progress						
— as at 31 May 2013 (C)	1,522	—	—	—	—	1,522
— subsequent usage up to 31 October 2013 (unaudited) (D)	1,522	—	—	—	—	1,522
— D/C	100%	NA	NA	NA	NA	100%
Finished goods						
— as at 31 May 2013 (E)	8,591	1,214	864	3,884	9,110	23,663
— subsequent sales up to 31 October 2013 (unaudited) (F)	7,839	982	551	2,606	5,082	17,060
— F/E	91.2%	80.9%	63.8%	67.1%	55.8%	72.1%

As illustrated in the above table, the age of the raw materials below 1 year and over 1 year accounted for HK$15.5 million (or 91.7%) and HK$1.4 million (or 8.3%) of the total inventory of raw materials respectively. The inventory of raw materials over 1 year mainly comprised those leftover materials and materials for the production of samples. The subsequent usage of this category of raw materials was 54.3% up to 31 October 2013. The Directors consider that these raw materials will be fully used in production of finished goods and samples, and still have re-sell value although they are slow moving.

The age of the finished goods below 1 year and over 1 year accounted for HK$14.6 million (or 61.6%) and HK$9.1 million (or 38.4%) of the total inventory of finished goods respectively. The inventory of finished goods over 1 year mainly comprised the own brand products pending for sales to customers. The reason for such aged inventory is that a large quantity of own brand winter clothing had been produced previously targeting to be marketed and sold in the peak winter seasons in 2012 and 2013. The aged finished goods inventory mainly comprised those that were unsold in the peak season in 2012 and were brought forward to 2013, pending for sales to customers in the winter season. The subsequent sales of this category of finished goods was 55.8% up to 31 October 2013.

It has been the Group's strategy to develop the sales of own brand products and provide immediate delivery of products to customers. Therefore, the Group would select certain designs of fashion and develop them as own brand products, and produce or outsource the production before customers place orders.

During 2012, the Group developed and manufactured a series of winter clothing with various designs in relatively bulk quantity so as to offer more choices of clothing style for immediate delivery to the customers.

In addition, as the nature of the Group's own brand products are autumn/winter clothing and are only ready for sales in cold season, customers would generally place orders for such own brand products (which are available for immediate delivery) during the peak season from July to November each year. Therefore, customers would place fewer orders for the autumn/winter clothing in the slack season before July each year.

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

Among approximately HK$9,110,000 of finished goods inventory aged over 1 year as at 31 May 2013, only approximately HK$746,000 were aged 2 years or above as at 31 May 2013. The Directors consider that no provision is necessary for such inventories aged 2 years or above because (i) out of approximately HK$746,000, a substantial portion amounting to approximately HK$500,000 had already been subsequently sold up to 31 October 2013 above its costs; and (ii) the remaining balance of approximately HK$246,000 is immaterial and the Directors are confident that such remaining inventory can be subsequently sold over its costs.

TRADE AND BILL RECEIVABLES ANALYSIS

Trade and bill receivables are initially recognised at fair value and thereafter stated as amortised cost, using the effective interest method, less any identified impairment losses. During the Track Record Period, the Group did not record any impairment losses on trade and bill receivables.

The Group's trade and bill receivables represented approximately 37.3%, 36.0% and 18.7% of the Group's total current assets as at 31 December 2011 and 2012 and 31 May 2013 respectively. The following table sets out the Group's trade and bill receivables balances as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade receivables	36,590	41,583	23,081
Bill receivables	3,519	7,992	1,488
	40,109	49,575	24,569

The Group's trade and bill receivables decreased by approximately 50.4% or HK$25.0 million from approximately HK$49.6 million as at 31 December 2012 to approximately HK$24.6 million as at 31 May 2013 which was in line with the decrease in sales due to the seasonal factor. The Group's trade and bill receivables increased by approximately 23.7% or HK$9.5 million from approximately HK$40.1 million as at 31 December 2011 to approximately HK$49.6 million as at 31 December 2012, primarily attributable to increase in turnover as a result of more sales order placed by the Group's customers during the year ended 31 December 2012.

The following table sets out the Group's trade receivables turnover days during the Track Record Period:

	As at 31 December		As at 31 May
	2011	2012	2013
Trade receivables turnover days	44	46	57

Notes:

1. Trade receivable turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending trade receivables balances/revenue.

2. In view of the distorting effect of the relatively higher-ending balance of the trade receivables as at 31 December 2012, trade receivables turnover days for the five months ended 31 May 2013 was calculated by dividing the trade receivables as at 31 May 2013 by revenue for the five months ended 31 May 2013 times 151 days.

The Group's trade receivables turnover days were approximately 44, 46 and 57 for the two years ended 31 December 2012 and for the five months ended 31 May 2013, respectively. The trade receivables turnover days increased by approximately 11 days from approximately 46 days for the year ended 31 December 2012 to approximately 57 days for the five months ended 31 May 2013, primarily attributable to relatively lower turnover during the first quarter of 2013 resulting from seasonal factor. Trade receivables turnover days for the years ended 31 December 2011 and 31 December 2012 remained relatively stable at approximately 44 days and approximately 46 days respectively.

The Group generally grants an average credit period of 10 to 60 days to its customers. The following table sets out the ageing analysis of the Group's trade receivables balances based on the invoice dates as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	2012	2013
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	13,927	8,334	9,457
31–60 days	15,370	20,065	6,234
61–90 days	4,655	9,208	4,935
91–180 days	2,578	3,881	2,374
Over 180 days	60	95	81
	36,590	41,583	23,081

Up to 31 October 2013, approximately 99.5% of the Group's trade receivables as at 31 May 2013 had been settled. The reason for the subsequent settlement of only 99.5% (rather than 100%) was due to late settlement by certain customers of the Group.

TRADE AND BILL PAYABLES ANALYSIS

Trade and bill payables are initially recognised at fair value and thereafter stated at amortised costs, using the effective interest method.

The Group's trade and bill payables primarily represent payables to its third-party raw material suppliers, third-party product suppliers and subcontractors. The following table sets out the breakdown of the Group's trade and bill payables as at the dates indicated:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Trade payables	64,263	63,120	41,465
Bill payables	3,085	10,311	11,259
	67,348	73,431	52,724

The Group's trade and bill payables decreased by approximately 28.2% or HK$20.7 million from approximately HK$73.4 million as at 31 December 2012 to approximately HK$52.7 million as at 31 May 2013. The decrease in trade and bill payables was primarily due to the decrease in purchase of materials during the slack season in the first five months of the year 2013. The Group's trade and bill payables increased by approximately 9.1% or HK$6.1 million from approximately HK$67.3 million as at 31 December 2011 to approximately HK$73.4 million as at 31 December 2012, primarily attributable to increase in purchase of materials during the year ended 31 December 2012, where higher sales volume were recorded.

The following table sets out the Group's trade payables balances based on the invoice dates as at the respective financial position dates below grouped by their ages.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
0–30 days	20,611	18,803	18,207
31–60 days	10,225	11,678	8,358
61–90 days	9,076	4,585	3,492
91–180 days	12,782	13,251	5,451
Over 180 days	11,569	14,803	5,957
	64,263	63,120	41,465

During the Track Record Period, credit periods granted by the Group's suppliers are in general in the range of 15 to 120 days.

Up to 31 October 2013, approximately 94.8% of the Group's trade payables as at 31 May 2013 had been settled.

The following table sets out the Group's trade payables turnover days during the Track Record Period:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
Trade payables turnover days	98	92	130

Notes:

1. Trade payables turnover days for each of the years ended 31 December 2011 and 2012 = 365 x ending trade payables balances / cost of sales.

2. In view of the distorting effect of the relatively higher ending balance of the trade payables as at 31 December 2012, trade payables turnover days for the five months ended 31 May 2013 was calculated by dividing the trade payables as at 31 May 2013 by cost of sales for the five months ended 31 May 2013 times 151 days.

The Group's trade payables turnover days were approximately 98, 92 and 130 for the two years ended 31 December 2012 and for the five months ended 31 May 2013 respectively. The trade payables turnover days increased from approximately 92 days for the year ended 31 December 2012 to approximately 130 days for the five months ended 31 May 2013, which was primarily attributable to (i) lower cost of sales recorded during the five months ended May 2013 due to the seasonal fluctuation; and (ii) a relatively higher balance of trade payables as at 31 May 2013 as the Group purchases more raw materials in April to May for the coming peak production season from July to November. Trade payables turnover days decreased slightly by approximately 6 days, from 98 days for the year ended 31 December 2011 to 92 days for the year ended 31 December 2012, which was primarily due to increase in settlement to suppliers.

Deposits, prepayments and other receivables

The following table sets out the Group's deposits, prepayments and other receivables as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Other receivables, net	7,986	9,833	7,874
Deposits	5,186	1,917	2,009
Prepayments	2,991	1,392	5,160
Payments for leasehold land held for own use under operating leases	52	54	54
	16,215	13,196	15,097

Deposits, prepayments and other receivables include prepayments for purchases of raw materials, utilities deposits, deposits paid for purchases of raw materials, other receivables which mainly comprise the advance to certain subcontractors and suppliers.

The balance of deposits, prepayments and other receivables increased by approximately HK$1.9 million from approximately HK$13.2 million as at 31 December 2012 to approximately HK$15.1 million as at 31 May 2013, which was mainly due to increase in prepayments for purchases of raw materials of approximately HK$3.8 million and partly offset by decrease in advances to subcontractors and suppliers by approximately HK$1.9 million. The balance of deposits, prepayments and other receivables decreased by approximately HK$3.0 million from approximately HK$16.2 million as at 31 December 2011 to approximately HK$13.2 million as at 31 December 2012, which was primarily due to decrease in deposits paid for purchases of raw materials by approximately HK$3.3 million and prepayments for purchases of raw materials by approximately HK$1.6 million, and partly offset by increase in advances to subcontractors and suppliers by approximately HK$1.8 million.

Accruals, other payables and receipts in advance

The following table sets out the Group's accruals, other payables and receipts in advance as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Accruals	4,362	5,461	4,026
Other payables	10,603	11,384	7,819
Receipts in advance	724	4,054	3,180
	15,689	20,899	15,025

Accruals included accrued salaries and utility expenses. Other payables mainly comprised transportation fee payable. Receipts in advance mainly comprised deposits from customers as at each of the reporting dates of the Track Record Period.

The balance of accruals, other payables and receipts in advance increased by approximately HK$5.2 million from approximately HK$15.7 million as at 31 December 2011 to approximately HK$20.9 million as at 31 December 2012, mainly due to increase in accruals by HK$1.1 million as a result of increase in accrued staff's salaries and bonuses and other operating expenses due to increase in turnover; and increase in receipts in advance of approximately HK$3.4 million as a result of more deposits received from customers during the year ended 31 December 2012.

The balance of accruals, other payables and receipts in advance decreased by approximately HK$5.9 million from approximately HK$20.9 million as at 31 December 2012 to approximately HK$15.0 million as at 31 May 2013, mainly due to decrease in accruals for staff salaries by approximately HK$1.4 million, other payables by approximately HK$3.6 million as a result of decrease in transportation fee and warehousing fee and receipts in advance by approximately HK$0.9 million as a result of decrease in deposits receipt from customers. All the aforesaid decreases were mainly due to the slack season effects during the period.

ANALYSIS OF FINANCIAL POSITION

The following table sets out the key financial ratios of the Group during the Track Record Period.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
Return on total assets	7.2%	14.6%	(3.0%)
Return on equity	22.6%	40.8%	(8.6%)
Current ratio	1.22	1.36	1.33
Quick ratio	0.95	1.09	0.90
Gearing ratio	10.4%	4.4%	54.9%

Key financial ratios

Return on assets

There was negative return on total assets for the five months ended 31 May 2013 due to the loss of approximately HK$4.5 million incurred by the Group for the period, which has been explained aforesaid in this section.

The Group's return on total assets increased from approximately 7.2% for the year ended 31 December 2011 to approximately 14.6% for the year ended 31 December 2012. This was mainly due to the increase in net profit for the year by approximately 145.9% over the two years ended 31 December 2012 due to the aforementioned reasons.

Return on equity

There was negative return on equity for the five months ended 31 May 2013 due to the loss of approximately HK$4.5 million incurred by the Group for the period, which has been explained aforesaid in this section.

The Group's return on equity increased from approximately 22.6% for the year ended 31 December 2011 to approximately 40.8% for the year ended 31 December 2012, primarily due to the increase in net profit for the year by approximately 145.9% over the two years ended 31 December 2012 due to the aforementioned reasons.

Current ratio

The Group's current ratio remained relatively stable during the Track Record Period at approximately 1.22, 1.36 and 1.33 as at 31 December 2011 and 2012 and 31 May 2013 respectively.

Quick ratio

The Group's quick ratio declined from approximately 1.09 as at 31 December 2012 to approximately 0.90 as at 31 May 2013 primarily due to a decrease in trade and bill receivables of approximately of HK$25.0 million from 31 December 2012 to 31 May 2013, which was mainly due to relatively lower sales volume recorded during the five months ended 31 May 2013 because of the seasonal factor.

The Group's quick ratio improved from approximately 0.95 as at 31 December 2011 to approximately 1.09 as at 31 December 2012. The improvement in quick ratio was primarily due to increase in balance of cash and cash equivalents as a result of improvement in profit margin and business growth.

Gearing ratio

The Group's gearing ratio was approximately 10.4%, 4.4% and 54.9% as at 31 December 2011, 2012 and 31 May 2013 respectively. The increase in gearing ratio from approximately 4.4% as at 31 December 2012 to approximately 54.9% as at 31 May 2013 was mainly due to increase in interest-bearing borrowings of approximately of HK$26.3 million as a result of more finance obtained from banks for purchases of inventory in preparation of production for peak season from July to November. The decline in gearing ratio from approximately 10.4% as at 31 December 2011 to approximately 4.4% as at 31 December 2012 was mainly due to decrease in interest-bearing borrowings by approximately HK$1.9 million as at 31 December 2012 as a result of improvement in cash and bank balances and improvement in business performance in the year ended 31 December 2012.

INDEBTEDNESS

The following table sets out the Group's interest-bearing borrowings and amounts due to Directors as at the respective financial position dates below.

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Current portion:			
Interest-bearing borrowings			
— Bank borrowings	3,461	1,828	28,187
— Obligations under finance leases	218	232	237
Amounts due to Directors	—	2,515	830
	3,679	4,575	29,254
Non-current portion:			
Interest-bearing borrowings			
— Obligations under finance leases	649	418	317
	4,328	4,993	29,571

Interest-bearing borrowings

The Group's bank borrowings during the Track Record Period were secured by pledged bank deposits, personal guarantees by the Directors, the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region, SME Financing Guarantee Scheme executed by the Hong Kong Mortgage Corporation Limited and/or the Group's buildings and payments for leasehold land held for own use under operating leases. Such personal guarantees will be released upon [●] and replaced by corporate guarantees of the Group.

The Group leased its office equipment under finance leases with an average lease term of 5 years. The Group's obligation under finance leases are secured by the lessors' title to the leased assets. Details of obligation under finance leases are disclosed in the paragraphs headed "Commitments" below.

As at 31 December 2011 and 2012 and 31 May 2013, interest-bearing borrowings of HK$1,828,000, HK$752,000 and HK$2,641,000 that are not scheduled to repay within one year were classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as current liabilities is expected to be settled within one year.

As at the respective financial position dates, total current and non-current interest-bearing borrowings were scheduled to repay as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	1,851	1,308	25,783
More than one year, but not exceeding two years	1,307	998	1,115
More than two years, but not exceeding five years	1,170	172	1,843
	4,328	2,478	28,741

Note: The amounts due are based on the scheduled repayment dates in the banking facilities and ignore the effect of any repayment on demand clause.

The interest-bearing borrowings carry interest at rates per annum ranging as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
Fixed-rate borrowings	6.0% to 6.7%	6.0%	2.8% to 6.2%
Variable-rate borrowings:			
— Prime/standard rate of the banks	5.8%	5.8%	3.5% to 6.6%
— PRC National benchmark interest rate	6.9%	—	—

Amounts due to Directors

The amounts due to Directors are unsecured, non-interest bearing and repayable on demand. The amounts due to Directors as at 31 December 2012 and 31 May 2013 represented advances from Mr. Tien and/or Mr. Gozashti for financing the daily operation of the Group which will be repaid by the Group prior to the [●].

Financial guarantee

The maximum amounts of financial guarantees provided by the Directors as well as the amount of interest-bearing borrowings and unutilised banking facilities during the Track Record Period are as follows:

	As at 31 December 2011	As at 31 December 2012	As at 31 May 2013
	HK$'000	*HK$'000*	*HK$'000*
Financial guarantees provided by:			
Mr. Tien	117,100	131,000	143,042
Mr. Gozashti	83,900	97,800	101,300
Interest-bearing borrowings outstanding	4,328	2,478	28,741
Unutilised banking facilities	112,100	126,000	110,466

As illustrated in the above table, the maximum amounts of financial guarantees provided by the Directors during the Track Record Period were significantly higher than the actual outstanding balances of interest-bearing borrowings as at the end of each years/period of the Track Record Period. Such significantly higher amounts of financial guarantees provided were necessary in view of the total amount of banking facilities granted by the relevant banks to the Group. The amounts of banking facilities allow flexibilities to the Group during peak seasons for production and working capital needs.

The Group had unutilised banking facilities of approximately HK$112.1 million, HK$126.0 million and HK$110.5 million as at 31 December 2011 and 2012 and 31 May 2013 respectively.

As at 31 October 2013, being the most recent practicable date for the purpose of this indebtedness statement in this document, the Group had the following outstanding borrowings:

	As at 31 October 2013
	HK$'000
	(unaudited)
Current portion:	
Interest-bearing borrowings	
— Bank borrowings	11,851
— Obligations under finance leases	243
Amounts due to Directors	1,420
	13,514
Non-current portion:	
Interest-bearing borrowings	
— Obligations under finance leases	214
	13,728

As at 31 October 2013, interest-bearing borrowings of HK$2,119,000 that are not scheduled to repay within one year were classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these interest-bearing borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as current liabilities is expected to be settled within one year.

Total current and non-current interest-bearing borrowings were scheduled to repay as follows:

	As at 31 October 2013
	HK$'000
	(unaudited)
Within one year	9,975
More than one year, but not exceeding two years	803
More than two years, but not exceeding five years	1,530
	12,308

Note: The amounts due are based on the scheduled repayment dates in the banking facilities and ignore the effect of any repayment on demand clause.

As at 31 October 2013, the total amount of unutilised banking facilities available to the Group amounted to approximately HK$136.7 million. On the same date, the Group's outstanding borrowings mainly comprised bank borrowings of approximately HK$11.9 million, which was secured by pledged bank deposits, personal guarantees by the Directors, the Special Loan Guarantee Scheme executed by the Government of Hong Kong Special Administrative Region, SME Financing Guarantee Scheme executed by the Hong Kong Mortgage Corporation Limited and/or the Group's buildings and payments for leasehold land held for own use under operating leases. The interest rates of such bank borrowings ranged from 2.7% to 6.2%. The personal guarantees will be released upon [●] and replaced by corporate guarantees of the Group.

Save as disclosed in this sub-section headed "Indebtedness" and in the paragraphs headed "Contingent liabilities" below, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as at 31 October 2013. The Directors further confirm that there has not been any material change in the Group's indebtedness position subsequent to 31 October 2013 up to the date of this document.

DISTRIBUTABLE RESERVES

The Company was incorporated on 19 June 2013. As at 31 May 2013, the Company had no distributable reserves available for distribution to the Shareholders.

WORKING CAPITAL

The Directors are of the opinion that, taking into consideration the Group's internal resources, available banking facilities and the estimated [●], the Group has sufficient working capital for its present requirements, for at least the next 12 months from the date of this document.

CAPITAL EXPENDITURES

The Group expects that the future capital expenditures are mainly for the purchase, upgrade and replacement of the Group's manufacturing facilities to increase production capacity and operational efficiency and to reduce operating costs. The Group estimates that the capital expenditure will amount to approximately HK$6.5 million and HK$10.0 million for the years ending 31 December 2014 and 2015. The source of funding for these capital expenditures will be mainly the [●]. The total capital expenditure of the Group were HK$1.6 million, HK$0.6 million and HK$0.4 million for the years ended 31 December 2011 and 2012, and the five months ended 31 May 2013 respectively.

CONTINGENT LIABILITIES

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

The arbitration involved a contract dispute between Runway HK and the Respondent, where Runway HK is claiming against the Respondent for certain undelivered apparel products (which Runway HK had paid for) and an amount in the sum of US$153,055.92 (or approximately HK$1.19 million). While Runway HK was the claimant, the Respondent has filed a counterclaim against Runway HK, according to which if Runway HK ultimately loses in the proceedings, it may be required to pay to the Respondent a certain amount (which had been calculated by the Respondent to be US$189,813.88, or approximately HK$1.48 million) plus other possible damages and costs. The outcome of the arbitration is uncertain as at the Latest Practicable Date. The Directors consider that no provision is required at this stage of the proceedings in accordance with the Group's relevant accounting policy.

COMMITMENTS

The Group's commitments relate to future aggregate minimum lease payments under its finance lease commitments and operating lease commitments.

(a) Finance lease commitments

The Group leased its office equipment under finance leases with an average lease term of 5 years. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Interest rate underlying all obligations under finance leases is fixed at the respective contract date at 6% per annum.

Future minimum rental payable at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	264	264	264
In the second to fifth years	704	440	330
	968	704	594
Less: Future finance charges	(101)	(54)	(40)
Present value of minimum lease payments	867	650	554

Present value of minimum lease payments at the end of each reporting period included in the combined statements of financial position are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Interest-bearing borrowings — Current portion	218	232	237
Interest-bearing borrowings — Non-current portion	649	418	317
	867	650	554

(b) Operating lease commitments

Future minimum rental payable under non-cancellable operating leases of the Group in respect of land and buildings at the end of each reporting period are as follows:

	As at 31 December		As at 31 May
	2011	**2012**	**2013**
	HK$'000	*HK$'000*	*HK$'000*
Within one year	2,547	2,876	2,641
In the second to fifth years	3,453	3,445	1,992
	6,000	6,321	4,633

The Group leases certain properties under operating leases. The leases run for an initial period of 3 months to 5 years. None of these leases include any contingent rentals.

CAPITAL RISK MANAGEMENT AND FINANCIAL RISK MANAGEMENT

Capital risk management

The Group regularly reviews and manages the capital structure in order to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Further details on the Group's capital risk management are set out in note 38 to the Accountants' Report in Appendix I to this document.

Financial risk management

The Group is exposed to market, credit and liquidity risks in the normal course of business. Further details on the Group's financial risk management objectives and policies are set out in note 37 to the Accountants' Report in Appendix I to this document.

DIVIDEND POLICY

During each of the two years ended 31 December 2012 and the five months ended 31 May 2013, Runway HK distributed interim dividends of approximately HK$3.9 million, HK$8.3 million and HK$0.4 million respectively to Mr. Tien and Mr. Gozashti. In addition, Runway HK declared a special dividend of HK$20.0 million in June 2013 to Mr. Tien and Mr. Gozashti, which was fully paid in June 2013.

The Company currently does not have a fixed dividend policy and may distribute dividends by way of cash or by other means that the Directors consider appropriate. A decision to distribute any interim dividend or recommend any final dividend would require the approval of the Board and depend upon the following factors:

- the Group's financial results;
- the Company's shareholders' interests;
- general business conditions, strategies and future expansion needs;
- the Group's capital requirements;
- the payment by its subsidiaries of cash dividends to the Company;
- possible effects on liquidity and financial position of the Group; and
- other factors as the Board may consider relevant.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that up to the date of this document, there has been no material adverse change in the financial or trading position or prospects of the Group since 31 May 2013 (being the date to which the latest audited combined financial statements of the Group were prepared), and that there is no event since 31 May 2013 which would materially affect the information shown in the accountants' report set out in Appendix I to this document.

RELATED PARTY TRANSACTIONS

Please refer to the paragraph headed "Related parties transaction" in note 34 to the Accountants' Report in Appendix I to this document.