

KNT

KNT HOLDINGS LIMITED

嘉藝控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1025

GLOBAL OFFERING

Sole Sponsor



Joint Global Coordinators



Pacific
Foundation

* For identification purpose only

IMPORTANT

If you are in any doubt about any contents of this prospectus, you should obtain independent professional advice.

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嘉藝控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	:	130,000,000 Shares (comprising 104,000,000 new Shares and 26,000,000 Sale Shares and subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	:	13,000,000 Shares (subject to reallocation)
Number of International Offer Shares	:	117,000,000 Shares (comprising 91,000,000 new Shares and 26,000,000 Sale Shares and subject to reallocation and the Over-allotment Option)
Maximum Offer Price	:	Not more than HK\$1.26 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal Value	:	HK\$0.01 per Share
Stock Code	:	1025

Sole Sponsor



Joint Global Coordinators



Joint Bookrunners and Joint Lead Managers



Co-Lead Managers



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness, and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies in Hong Kong and available for inspection — Documents delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or about Thursday, 21 February 2019 and, in any event, not later than Monday, 25 February 2019. The Offer Price will be not more than HK\$1.26 and is currently expected to be not less than HK\$0.98. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum Offer Price of HK\$1.26 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$1.26.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in The Standard (in English) and Sing Tao Daily (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If, for any reason, the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) are unable to reach an agreement on the Offer Price by Monday, 25 February 2019, the Global Offering will not proceed and will lapse.

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk factors" in this prospectus.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that trading in our Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, or for the account or benefit of U.S. persons, except that Offer Shares may be offered, sold or delivered to outside the United States in accordance with Regulation S.

* For identification purpose only

15 February 2019

EXPECTED TIMETABLE⁽¹⁾

If there is any change in the following expected timetable, our Company will issue an announcement to be published on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.kntholdings.com.

Latest time to complete electronic applications under
the **HK eIPO White Form** service through
the designated website at www.hkeipo.hk⁽²⁾ 11:30 a.m. on Wednesday, 20 February 2019

Application lists open⁽³⁾ 11:45 a.m. on Wednesday, 20 February 2019

Latest time for lodging **WHITE** and **YELLOW**
Application Forms 12:00 noon on Wednesday, 20 February 2019

Latest time to give **electronic application instructions**
to HKSCC⁽⁴⁾ 12:00 noon on Wednesday, 20 February 2019

Latest time to give complete payment of **HK eIPO**
White Form applications by effecting internet
banking transfer(s) or
PPS payment transfer(s)⁽²⁾ 12:00 noon on Wednesday, 20 February 2019

Application lists close⁽³⁾ 12:00 noon on Wednesday, 20 February 2019

Expected Price Determination Date⁽⁵⁾ on or around Thursday, 21 February 2019

(1) Announcement of the final Offer Price, the results of
the applications in the Hong Kong Public Offering,
the level of indications of interest in the International
Offering and the basis of allocation of the Hong Kong
Offer Shares under the Hong Kong Public Offering to be
published in The Standard (in English) and Sing Tao Daily
(in Chinese) on or before Wednesday, 27 February 2019

(2) Results of allocations (with successful applicants’
identification document numbers or Hong Kong
business registration numbers) in the Hong Kong
Public Offering will be available through a variety of
channels as described in the section headed
“How to apply for the Hong Kong Offer Shares —
11. Publication of Results” in this prospectus from Wednesday, 27 February 2019

EXPECTED TIMETABLE⁽¹⁾

A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the website of the Stock Exchange at www.hkexnews.hk and the website of our Company at www.kntholdings.com ⁽⁶⁾ from . . Wednesday, 27 February 2019

Results of allocations in the Hong Kong Public Offering will be available at www.tricor.com.hk/ipo/result with a “search by ID function” Wednesday, 27 February 2019

Despatch/collection of Share certificates of the Offer Shares or deposit of Share certificates of Offer Shares into CCASS in respect of wholly or partially successful applications under the Hong Kong Public Offering on or before⁽⁷⁾⁽⁹⁾ Wednesday, 27 February 2019

Despatch/collection of refund cheques or **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications if the final Offer Price is less than the maximum Offer Price payable on application (if applicable) and wholly or partially unsuccessful applications under the Hong Kong Public Offering on or before⁽⁸⁾⁽⁹⁾ Wednesday, 27 February 2019

Dealings in the Shares on the Stock Exchange expected to commence at 9:00 a.m. on Thursday, 28 February 2019

Notes:

- (1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated.
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 February 2019, the application lists will not open or close on that day. For further details, please refer to the section headed “How to apply for the Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Wednesday, 20 February 2019, the dates mentioned in this section may be affected. A press announcement will be made by us in such event.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to the section headed “How to apply for the Hong Kong Offer Shares — 6. Applying by giving **electronic application instructions** to HKSCC via CCASS” in this prospectus.
- (5) The Price Determination Date is expected to be on or around Thursday, 21 February 2019 and, in any event, not later than Monday, 25 February 2019. If for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) by Monday, 25 February 2019, the Global Offering will not proceed and will lapse.
- (6) Neither the website of our Company nor any of the information contained on the website of our Company forms part of this prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (7) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Thursday, 28 February 2019 provided that (i) the Global Offering has become unconditional in all respects and (ii) none of the Underwriting Agreements has been terminated in accordance with its terms.
- (8) e-Auto Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant's Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant's Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant's Hong Kong identity card number or passport number may lead to delays in encashment of, or may invalidate, the refund cheques.
- (9) Applicants who have applied on **WHITE** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect refund cheques (if any) and share certificates (if any) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, 27 February 2019. Applicants being individuals who opt for personal collection may not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, identification and (where applicable) authorisation documents acceptable to our Hong Kong Share Registrar.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all required information may collect their refund cheques, if any, in person but may not elect to collect their share certificates as such share certificates will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through the **HK eIPO White Form** service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering can collect their share certificates (if any) in person from our Hong Kong Share Registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong between 9:00 a.m. to 1:00 p.m. on Wednesday, 27 February 2019.

Applicants who have applied through the **HK eIPO White Form** service and paid their application monies from a single bank account, e-Auto Refund payment instructions (if any) will be despatched to their application payment bank account on or before Wednesday, 27 February 2019. Applicants who apply through the **HK eIPO White Form** service and used multiple bank accounts to pay the application monies, refund cheque(s) (if any) will be despatched to the address specified in their **electronic application instructions** to the **HK eIPO White Form** Service Provider on or before Wednesday, 27 February 2019 by ordinary post at their own risk.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the section headed "How to apply for the Hong Kong Offer Shares" in this prospectus for details.

Uncollected share certificates and/or refund cheques will be despatched by ordinary post, at the applicants' own risk to the addresses specified in the relevant applications. Further information is set out in the section headed "How to apply for the Hong Kong Offer Shares — 14. Despatch/Collection of share certificates and refund monies" in this prospectus.

Particulars of the structure of the Global Offering, including the conditions thereto, are set out in the section headed "Structure of the Global Offering" in this prospectus.

CONTENTS

This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the Hong Kong Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdictions or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong and no action has been taken to permit the distribution of this prospectus in any jurisdictions other than Hong Kong. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information not given or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Selling Shareholders, the Joint Global Coordinators, any of the Underwriters, any of their respective directors, officers or representatives, or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all of the information which may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

We are a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses and were the largest bridesmaid dresses manufacturer in the PRC in terms of revenue with approximately 2.9% market share in 2017, according to the Ipsos Report. We derived over 95% of our revenue during the Track Record Period from brand apparel companies. Over the years, we have built our reputation and gained customers’ recognition from our dedication to provide our customers with one-stop solutions and consistently high quality products, which has increased our customers’ reliance on us and in turn enabled us to maintain our market position as one of the leading bridesmaid dresses manufacturers in the PRC. Our customers’ reliance on us is demonstrated by us being the sole supplier of certain customers for bridesmaid dresses, three of whom were our five largest customers during the Track Record Period and had maintained an average of over 12 years of relationship with us as at the Latest Practicable Date.

We principally sell our products which include bridesmaid dresses, bridal gowns and special occasion dresses to brand apparel companies based in the U.S.. In addition to manufacturing products for our customers, we strive to become an integral part of our customers’ business operations by offering a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management. We actively create designs and provide advice on the selection of materials for our customers’ consideration and jointly develop products with them by applying our extensive industry knowledge and market intelligence which we have accumulated over the years. We believe our ability to collaborate with our customers and provide advice to them throughout their supply chain increases our customers’ reliance on us and differentiates us from our competitors.

We manufacture our products at our production facility located in Humen Town, Dongguan City, the PRC. Depending on the product and capacity at our production facility, we subcontract part of the production processes of our products to third-party subcontractors in order to supplement our limited production capacity to meet our customers’ increasing demand for our products. As product quality is of utmost importance to us, we implement stringent quality control measures at different stages of the production process to ensure that our raw materials, semi-finished products and final products comply with our quality standards in all respects.

SUMMARY

Products

Our products can be divided into four categories, namely bridesmaid dresses, bridal gowns, special occasion dresses and others. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our revenue was mainly derived from the sales of bridesmaid dresses, representing approximately 79.3%, 77.3%, 62.3% and 42.7% of our total revenue for the relevant periods, respectively. The decrease in revenue contribution by bridesmaid dresses as a percentage of total revenue for the year ended 31 March 2018 and the six months ended 30 September 2018 was primarily attributable to the increase in sales of our special occasion dresses as a result of our strategy to allocate more of our limited production capacity and resources to special occasion dresses, which generally have lower average selling prices and shorter production lead time.

SUMMARY

The following table sets forth our revenue, percentage of total revenue and gross profit margin by product categories during the Track Record Period:

	Year ended 31 March						Six months ended 30 September					
	2016			2017			2018			2017		
	Revenue	% to total	Gross profit margin	Revenue	% to total	Gross profit margin	Revenue	% to total	Gross profit margin	Revenue	% to total	Gross profit margin
	HK\$'000	%	%	HK\$'000	%	%	HK\$'000	%	%	HK\$'000	%	%
(unaudited)												
Bridesmaid dresses	130,997	79.3	26.3	130,893	77.3	31.6	129,827	62.3	30.9	73,599	61.5	29.3
Bridal gowns	14,797	9.0	33.9	9,924	5.9	33.7	4,842	2.3	30.6	2,583	2.2	29.4
Special occasion dresses	16,412	9.9	23.0	25,407	15.0	15.5	69,108	33.2	23.5	40,161	33.6	20.2
Others <i>(Note)</i>	3,008	1.8	3.6	3,060	1.8	4.2	4,626	2.2	4.6	3,288	2.7	4.5
Total	165,214	100.0	26.2	169,284	100.0	28.8	208,403	100.0	27.8	119,631	100.0	25.6
										153,906	100.0	24.1

Note: Others primarily include sales of fabrics and accessories.

SUMMARY

Our total revenue increased from HK\$165.2 million for the year ended 31 March 2016 to HK\$208.4 million for the year ended 31 March 2018, representing a CAGR of approximately 12.3%. Our overall gross profit margin remained relatively stable during the Track Record Period. The gross profit margin of our bridesmaid dresses increased from 26.3% for the year ended 31 March 2016 to 31.6% for the year ended 31 March 2017 primarily as a result of (i) the decrease in raw material costs as we sourced more raw materials from the PRC; and (ii) savings in our production costs due to the depreciation of the Renminbi. The gross profit margin of our special occasion dresses decreased from 23.0% for the year ended 31 March 2016 to 15.5% for the year ended 31 March 2017 primarily as a result of us offering relatively lower average selling prices to two of our existing bridesmaid dresses and bridal gowns customers to attract them to purchase special occasion dresses from us. The gross profit margin of our special occasion dresses increased from 15.5% for the year ended 31 March 2017 to 23.5% for the year ended 31 March 2018 primarily as a result of the rebound in the gross profit margin of our special occasion dresses sold to certain of our customers, with whom we believe we had established stable relationships and gained stronger bargaining powers.

We are exposed to foreign currency risk arising from the currency mismatch between our sales and costs in different currencies. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, 76.7%, 76.0%, 78.7% and 81.8% of our operating costs and expenses were denominated in currencies other than U.S. dollars, including Renminbi, HK dollars, GBP, respectively, while 91.1%, 92.7%, 95.7% and 97.4% of our revenue was denominated in U.S. dollars, respectively. The depreciation of Renminbi by approximately 5.5% between the years ended 31 March 2016 and 2017 resulted in (i) savings in our cost of sales which in turn contributed to the increase in our gross profit margin during the year ended 31 March 2017; and (ii) savings in our administrative expenses in respect of our operations in the PRC which in turn contributed to the increase in our net profit margin during the year ended 31 March 2017.

Customers

Most of our customers are brand apparel companies, from whom we derived over 95% of our revenue during the Track Record Period. Our other customers are trading companies and supply chain management companies, from whom we derived our remaining revenue during the Track Record Period. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, the revenue generated from our five largest customers accounted for approximately 83.7%, 79.6%, 86.3% and 93.4% of our total revenue, respectively, and the revenue generated from our single largest customer accounted for approximately 52.9%, 44.4%, 35.0% and 52.0% of our total revenue, respectively.

SUMMARY

We categorise our revenue based on the country in which the customer is headquartered. Most of our revenue was derived from our customers headquartered in the United States during the Track Record Period. The following table sets forth a breakdown of our revenue by geographic location for the years indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000 (unaudited)	%	HK\$'000	%
United States	145,145	87.8	149,966	88.6	193,426	92.8	111,255	93.0	145,759	94.7
Europe	14,832	9.0	13,859	8.2	10,521	5.0	5,006	4.2	3,783	2.5
Australia	3,560	2.2	3,503	2.1	2,503	1.2	1,461	1.2	1,422	0.9
Others ^(Note)	1,677	1.0	1,956	1.1	1,953	1.0	1,909	1.6	2,942	1.9
Total	165,214	100.0	169,284	100.0	208,403	100.0	119,631	100.0	153,906	100.0

Note: Others primarily include Hong Kong, the PRC, Macau and Japan.

Suppliers

Our suppliers comprise (i) raw material suppliers whom we purchase raw materials from, such as chiffon, tulle, satin, lace, crepe, jersey, pongee, beads and zippers; and (ii) subcontractors engaged by us to perform parts of the production process of our products.

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our total raw material costs consumed was HK\$44.6 million, HK\$52.0 million, HK\$61.9 million and HK\$46.2 million, representing approximately 36.6%, 43.1%, 41.2% and 39.5% of our total cost of sales, respectively. During the Track Record Period, we purchased our raw materials mainly from our suppliers based in Hong Kong, the PRC, Korea and Taiwan.

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our subcontracting charges amounted to approximately HK\$44.8 million, HK\$33.5 million, HK\$45.6 million and HK\$46.8 million, representing approximately 36.8%, 27.7%, 30.3% and 40.1% of our total cost of sales, respectively. During the Track Record Period, all of our subcontractors were based in the PRC.

COMPETITIVE STRENGTHS

We believe the following strengths contribute to our position as a leading manufacturer of bridesmaid dresses in the PRC:

- leading position in the bridesmaid dresses industry;
- one-stop solutions provider of a comprehensive range of bridesmaid dresses, bridal gowns and special occasion dresses;

SUMMARY

- strong and established product design and development capabilities;
- established long-term relationships with our customers; and
- experienced management team and strong corporate culture of innovation and dedication.

For further details, please refer to the section headed “Business — Competitive strengths” in this prospectus.

BUSINESS STRATEGIES

We plan to reinforce our position as a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses by adopting the following business strategies:

- expand our production capacity;
- strengthen and broaden our customer base in the U.S.;
- strengthen our product design and development capabilities; and
- expand our raw material portfolio.

For further details, please refer to the section headed “Business — Business strategies” in this prospectus.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorised into (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; and (iv) risks relating to the Global Offering. For example, we rely on several major customers and generally do not enter into long-term agreements with our customers. Our success also depends on our ability and our customers’ ability to anticipate and respond in a timely manner to the rapid changes in consumer preferences, increasing demand for design and quality, and advances in technologies. In addition, we rely on the stable operation of our production facility and cannot assure you that our production would be free of disruption in the future including the potential adverse consequences due to title defects in relation to our production facility and staff dormitory. A detailed discussion of the risk factors is set forth in the section headed “Risk factors” in this prospectus.

SUMMARY

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL INFORMATION

Consolidated statements of profit or loss

The following table sets forth a summary of the consolidated statements of profit or loss of our Group for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue	165,214	169,284	208,403	119,631	153,906
Cost of sales	(121,849)	(120,576)	(150,408)	(89,044)	(116,885)
Gross profit	43,365	48,708	57,995	30,587	37,021
Other income	307	33	68	27	95
Other (losses) and gains	(8,787)	(4,698)	1,020	1,459	(145)
Administrative expenses	(19,071)	(13,439)	(18,685)	(8,880)	(10,499)
Listing expense	—	—	(8,080)	(1,129)	(4,014)
Finance costs	(1,011)	(1,227)	(1,806)	(875)	(1,317)
Profit before taxation	14,803	29,377	30,512	21,189	21,141
Income tax expense	(2,714)	(5,545)	(6,695)	(3,848)	(4,465)
Profit for the year/period	<u>12,089</u>	<u>23,832</u>	<u>23,817</u>	<u>17,341</u>	<u>16,676</u>

Non-HKFRS measures

We recognised non-recurring item during the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted profits as non-HKFRS measures.

We present these additional financial measures as they were used by our management to evaluate our financial performance by eliminating the impact of listing expense. As we consider listing expense is non-recurring in nature, listing expense is not indicative for evaluating the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

SUMMARY

The following table sets forth the reconciliation between the profit for the year/period and the adjusted profit for the year/period for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit for the year/period	12,089	23,832	23,817	17,341	16,676
Adjusted for:					
Listing expense	—	—	8,080	1,129	4,014
Adjusted profit for the year/period^(Note)	<u>12,089</u>	<u>23,832</u>	<u>31,897</u>	<u>18,470</u>	<u>20,690</u>

Note: Adjusted profit for the year/period refers to profit for the year/period excluding non-recurring listing expense. This non-HKFRS financial data is a supplemental financial measure that is not required by, or presented in accordance with, the HKFRS and is therefore referred to as a “non-HKFRS” financial measure. It is not a measurement of our financial performance under the HKFRS and should not be considered as an alternative measure to profit from operations or any other performance measures derived in accordance with the HKFRS, or as an alternative measure to cash flows from operating activities or as a measure of our liquidity.

Key balance sheet information

The following table sets forth a summary of the key consolidated balance sheet information of our Group as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	7,648	7,608	8,211	8,659
Current assets	78,208	101,249	116,247	119,292
Current liabilities	<u>45,804</u>	<u>69,589</u>	<u>82,763</u>	<u>81,892</u>
Net current assets	<u>32,404</u>	<u>31,660</u>	<u>33,484</u>	<u>37,400</u>
Net assets	37,361	38,828	41,255	45,626
Total equity	37,361	38,828	41,255	45,626

SUMMARY

Key cash flows statement information

The following table sets forth a summary of the key consolidated cash flows statement information of our Group for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Operating cash flows before movements in working capital	25,493	35,804	32,073	21,294	23,016
Net cash from/(used in) operating activities	22,583	8,239	28,927	23,099	(15,782)
Net cash (used in)/from investing activities	(14,756)	(27,468)	(22,842)	(11,793)	13,720
Net cash (used in)/from financing activities	(4,344)	16,319	11,841	(1,347)	729
Net increase/(decrease) in cash and cash equivalents	3,483	(2,910)	17,926	9,959	(1,333)
Cash and cash equivalents at the beginning of the year/period	(7,750)	(4,341)	(7,380)	(7,380)	10,718
Effect of foreign exchange rate changes	(74)	(129)	172	290	(136)
Cash and cash equivalents at the end of the year/period	<u>(4,341)^(Note)</u>	<u>(7,380)^(Note)</u>	<u>10,718</u>	<u>2,869</u>	<u>9,249</u>
Represented by					
Bank balances and cash	2,812	1,682	21,622	3,785	18,938
Bank overdrafts	(7,153)	(9,062)	(10,904)	(916)	(9,689)

Note: As at 31 March 2016 and 2017, we recorded negative cash and cash equivalents of HK\$4.3 million and HK\$7.4 million, respectively, which were attributable to the bank overdrafts of HK\$7.2 million and HK\$9.1 million, respectively. The utilisation of bank overdrafts by our Group was mainly a result of the combined effect of (i) negative cash and cash equivalents of HK\$7.8 million as at 1 April 2015; (ii) positive operating cash flows before movement in working capital of HK\$25.5 million and HK\$35.8 million for the years ended 31 March 2016 and 2017, respectively; (iii) settlement of derivative financial instrument of HK\$1.6 million and HK\$7.1 million for the years ended 31 March 2016 and 2017, respectively; and (iv) net advance to directors of HK\$11.4 million and HK\$29.3 million for the years ended 31 March 2016 and 2017, respectively.

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Our net cash from operating activities decreased from HK\$22.6 million for the year ended 31 March 2016 to HK\$8.2 million for the year ended 31 March 2017 primarily due to change in movement in working capital, which mainly resulted from (i) the increase in trade receivables by HK\$11.8 million as a result of the increase in our sales in March 2017 as compared with March 2016 while our trade receivables decreased by HK\$5.7 million for the year ended 31 March 2016, which was evidenced by the increase in trade receivable turnover days from 27 days for the year ended 31 March 2016 to 33 days for the year ended 31 March 2017; and (ii) the settlement of derivative financial instruments of HK\$7.1 million during the year ended 31 March 2017 while such settlement amounted only to HK\$1.6 million for the year ended 31 March 2016.

For the six months ended 30 September 2018, we recorded net cash used in operating activities of HK\$15.8 million which was primarily as a result of the increase in our trade receivables of HK\$34.7 million during the six months ended 30 September 2018 as we delivered our products to one of our top five customers near the end of the period with a credit term of 60 days. In order to improve our cash flow position, we have certain working capital management policies in place, including reviewing and updating our working capital policies regularly, preparation of cash flow forecasts and reports to our management, monitoring of payment status of our customers, negotiation with our customers for delivery of large orders by batches and negotiation with our suppliers for longer credit periods. For further details, please refer to the section headed “Financial information — Liquidity and capital resources — Working capital management policy” in this prospectus.

The settlement of derivative financial instruments was included in operating cash flows as the forward contract was linked with the exchange rate between U.S. dollar and Renminbi and entered into by our Group to mitigate the exposure to foreign currency risks arising from our operations.

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Financial ratios

The table below sets forth a summary of our key financial ratios as at the dates or for the years/periods indicated:

	As at/Year ended 31 March			As at/Six months ended 30 September
	2016	2017	2018	2018
Profitability ratios:				
Gross profit margin	26.2%	28.8%	27.8%	24.1%
Net profit margin	7.3%	14.1%	11.4%	10.8%
Return on assets	13.4%	24.5%	20.4%	N/A
Return on equity	28.2%	62.6%	59.5%	N/A
Liquidity ratios:				
Current ratio	1.71	1.45	1.40	1.46
Quick ratio	1.23	1.09	0.97	1.07
Solvency ratios:				
Gearing ratio ^(Note)	67.7%	115.3%	137.7%	130.1%
Debt to equity ratio	60.2%	110.9%	85.3%	88.6%
Interest coverage ratio	15.6	24.9	17.9	17.1

Note: Gearing ratio is calculated based on our total debt (being the total of bank borrowings and amount due to a related party) as at the end of the relevant years/period divided by our total equity as at the end of the corresponding years/period and multiplied by 100%.

For the definitions of the other major financial ratios, please refer to the section headed “Financial information — Major financial ratios” in this prospectus.

OUR SHAREHOLDING STRUCTURE

On 23 April 2018, in preparation for the Listing, Mr. S Chong and Mr. P Chong entered into the Acting in Concert Deed, whereby, among other things, they confirmed that since they became interested in and possessed voting rights in the shareholders’ meetings and board of directors of each member of our Group and up until the date of the Acting in Concert Deed, they had been acting in concert with each other in exercising and implementing the management and operation of such member of our Group (and our Group as a whole following the Reorganisation) as a single business venture. Each of Mr. S Chong and Mr. P Chong further agreed, confirmed and undertook that, from the date of the Acting in Concert Deed until the termination thereof, they would maintain their acting-in-concert relationship. For further details, please refer to the section headed “Relationship with our Controlling Shareholders — Our Controlling Shareholders” in this prospectus. Pursuant to the Acting in Concert Deed, Mr. S Chong and Mr. P Chong will, through Strategic Elite and Total Clarity, be collectively entitled to exercise or control the exercise of voting rights of 75.0% of our Shares eligible to vote in the general meeting of our Company immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option(s) which may be granted under the Share Option Scheme). As such, each of Mr. S Chong, Mr. P Chong, Strategic Elite and Total Clarity will be our Controlling Shareholders upon Listing under the Listing Rules.

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Mr. S Chong, an executive Director and one of our Controlling Shareholders, is the sole shareholder of Veromia, which is not a member of our Group and principally engaged in the import and wholesale of bridal, bridesmaid and occasion wear. During the Track Record Period, we (i) supplied bridesmaid dresses, bridal gowns and special occasion dresses to Veromia, which was one of our five largest customers for the year ended 31 March 2016; and (ii) sourced samples from Veromia. For details on our future transactions with Veromia, please refer to the sections headed “Connected transactions — Non-exempt continuing connected transactions — Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia” and “Business — Sales and marketing — Customers” in this prospectus.

DIVIDEND

We declared dividends of HK\$22.0 million, HK\$21.0 million, HK\$24.0 million and HK\$9.0 million for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively. The dividends declared were settled by offsetting against our amounts due from Directors. As at the Latest Practicable Date, we had not adopted any dividend policy. We have no present plan to pay any dividends to our Shareholders in the foreseeable future as we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

The recommendation of the payment of dividend by our Board is subject to the absolute discretion of our Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. The declaration and payment of future dividends will be subject to various factors, including but not limited to our results of operations, financial performance, profitability, business development, prospects, capital requirements and economic outlook. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders.

LISTING EXPENSES

The total estimated listing expenses in connection with the Global Offering is approximately HK\$44.8 million (based on the mid-point of the Offer Price of HK\$1.12 per Offer Share and assuming no Over-allotment Option will be exercised), of which (i) approximately HK\$8.1 million and HK\$4.0 million were charged to our consolidated statements of profit or loss for the year ended 31 March 2018 and the six months ended 30 September 2018, respectively; (ii) approximately HK\$13.8 million is expected to be charged to our consolidated statements of profit or loss for the six months ending 31 March 2019; (iii) approximately HK\$16.3 million is expected to be accounted for as a deduction from equity upon the Listing; and (iv) the remaining amount of HK\$2.6 million will be borne by the Selling Shareholders, being Strategic Elite and Total Clarity, wholly-owned by Mr. S Chong and Mr. P Chong, respectively.

Our Directors consider that our financial results will be affected by the estimated listing expenses in relation to the Global Offering as we expect to recognise approximately HK\$17.8 million in the consolidated statements of profit or loss for the the year ending 31 March 2019. Accordingly, the financial performance for the year ending 31 March 2019 is expected to be adversely affected by such listing expenses.

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Our Directors would like to emphasise that the estimated amount of listing expenses disclosed above is for reference only. The final amount of listing expenses in relation to the Listing to be recognised in our consolidated statements of profit or loss for the year ending 31 March 2019 will be subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 March 2019 is expected to be adversely affected by non-recurring listing expenses, and may or may not be comparable to the financial performance of our Group in the past.

FUTURE PLANS AND USE OF PROCEEDS

In the event that the Over-allotment Option is not exercised, we estimate the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$1.12 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$74.3 million, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering.

We intend to apply the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 76.0% of the net proceeds from the Global Offering (approximately HK\$56.5 million) will be used to increase our production capacity by building our second production facility in Guangdong Province, of which approximately HK\$21.6 million is expected to be utilised during the first half of the financial year ending 31 March 2020. Our Directors consider that the construction of a new production facility is necessary for our future growth after taking into account (i) our consistently high utilisation rates of our existing production facility throughout the Track Record Period; (ii) our limited production capacity in our existing production facility which had hindered our ability to approach potential customers for new orders and capture additional market share during the Track Record Period; and (iii) our practice of completing the first and final steps of the production process at our production facility, as opposed to subcontracting such steps to our subcontractors. In determining our production expansion plan, our Directors also considered that acquiring a parcel of land for establishment of our new production facility is for the purpose of meeting our long-term business needs and is more beneficial to us in the long run as compared to leasing properties from an Independent Third Party. Following the expected commencement of production at our new production facility during the year ending 31 March 2021, based on our best estimate on the demand for our products, we estimate that the utilisation rates of our existing production facility and new production facility will reach approximately 100% and over 30%, respectively, for the year ending 31 March 2022, our sales volume is expected to increase from approximately 790,600 units for the year ended 31 March 2018 to over 1,200,000 units for the year ending 31 March 2022 and our revenue is expected to increase by approximately 67.9% accordingly, representing significant growth for us. Regarding our sale of bridesmaid dresses to the U.S., our largest geographic segment, we expect that our sales volume would increase from approximately 400,000 units for the year ended 31 March 2018 to approximately 639,000 units for the year ending 31 March 2022 and our market share in terms of sales volume would increase from approximately 7.1% to approximately 10.6% accordingly after the commencement of

SUMMARY

production at our new production facility based on our expected utilisation rates, on the assumptions that for the year ending 31 March 2022 as compared to the year ended 31 March 2018, (i) our product mix among bridesmaid dresses, bridal gowns and special occasion dresses in terms of sales volume will remain the same; (ii) the proportion of our bridesmaid dresses sold to the U.S. in terms of sales volume will remain the same; and (iii) the average selling price of bridesmaid dresses in the U.S. will remain the same. For further details, please refer to the section headed “Business — Production expansion plan” and the section headed “Future plans and use of proceeds — Reasons for the Listing and the Global Offering — (a) Facilitate the implementation of our business strategies — (i) Construct a new production facility” in this prospectus;

- approximately 10.0% of the net proceeds from the Global Offering (approximately HK\$7.4 million) will be used to repay part of our term loan and revolving loans during the year ending 31 March 2019 and the first half of the financial year ending 31 March 2020;
- approximately 10.0% of the net proceeds from the Global Offering (approximately HK\$7.4 million) will be used to set up a sales office in the U.S., of which approximately HK\$1.0 million is expected to be utilised during the first half of the financial year ending 31 March 2020; and
- approximately 4.0% of the net proceeds from the Global Offering (approximately HK\$3.0 million) will be used for our working capital and general corporate purposes.

The above allocation of the proceeds will be adjusted on a *pro rata* basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the estimated Offer Price range or the Over-allotment Option is exercised.

We estimate the net proceeds to be received by the Selling Shareholders from the sale of Sale Shares, assuming an Offer Price of HK\$1.12 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$26.5 million, after deduction of underwriting fees and commissions and assuming the Over-allotment Option is not exercised. We will not receive any of the proceeds from the Sale Shares.

SUMMARY

For further details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

OFFER STATISTICS

	Based on the low end of indicative Offer Price range of HK\$0.98 per Share	Based on the high end of the indicative Offer Price range of HK\$1.26 per Share
Market capitalisation of our Shares ⁽¹⁾	HK\$509.6 million	HK\$655.2 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾	HK\$0.23	HK\$0.28

Notes:

- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised. The calculation of market capitalisation is based on 520,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is based on 520,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.

RECENT DEVELOPMENTS AND NO MATERIAL CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on being a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses, and our business model remained unchanged. For the nine months ended 31 December 2018, we sold approximately 880.6 thousand units of products, comprising approximately 281.8 thousand units of bridesmaid dresses, 2.4 thousand units of bridal gowns and 596.4 thousand units of special occasion dresses.

Recently, a trade war was initiated by the U.S. against the PRC, and certain products exported from the PRC to the U.S. are or will be subject to a new tariff. According to the Ipsos Report, in December 2018, the U.S. and the PRC have entered into a 90-day truce and agreed to delay an increase in the third round of tariffs on approximately US\$200 billion worth of Chinese-imported goods which were the targets of the second round of tariffs from 10% to 25%, which was originally set to take place on 1 January 2019, and agreed not to impose any additional tariffs after 1 January 2019. In January 2019, a vice-ministerial level meeting on trade agreements and future implementation of consensus between the U.S. and the PRC was held for discussions between the trade representatives from both countries coming into positive agreements through negotiations. The trade talks will continue in February 2019, according to the White House announcements, with an aim to reaching an agreement before the 90-day tariff truce expires on 1 March 2019. As at the Latest Practicable Date, the trade war did not have any material adverse impact on our business given that the U.S. government had not imposed or proposed to impose new tariffs on bridesmaid dresses, bridal gowns and special occasion dresses, and the new tariffs imposed or proposed to be imposed by the U.S. against the PRC are mainly targeted at Chinese technical products. However, given the uncertainties in the development of the trade war and its effects on the global economy, we cannot assure you that the trade war will not

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materially and adversely affect our business, financial condition and operations. For further details, please refer to the section headed “Risk factors — Our financial performance and results of operations could be adversely affected by import restrictions imposed by global trade policies, trade protection measures and trade war” in this prospectus. In the event that the U.S. imposes new tariff on our principal products, i.e. bridesmaid dresses, bridal gowns and special occasion dresses, our Directors believe that, subject to our negotiations with our customers, (i) in respect of bridesmaid dresses and bridal gowns, our customers may bear the new tariff due to our relatively stronger bargaining power over these customers who are heavily reliant on us given that (a) it may be difficult for them to immediately switch to suppliers located in countries that are not subject to tariffs and have similar or lower prices than suppliers in the PRC, such as Vietnam and Philippines, since the design and manufacturing of bridesmaid dresses and bridal gowns require skilled labour, which we believe such developing countries have yet to accumulate; and (b) we are the sole supplier of certain customers for bridesmaid dresses; and (ii) in respect of special occasion dresses, we and our customers may share the burden of the new tariff.

Save for the estimated non-recurring listing expenses as disclosed in the paragraph headed “Listing expenses” in this section, our Directors, after performing reasonable due diligence works which our Directors consider appropriate, have confirmed that since 30 September 2018 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affect our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants’ Report in Appendix I to this prospectus materially and adversely.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

“Acting in Concert Deed”	a deed of confirmation dated 23 April 2018 entered into by Mr. S Chong and Mr. P Chong whereby they confirmed the existence of their acting in concert (as such term is defined in the Takeovers Code) arrangements. A summary of the Acting in Concert Deed is set out in the section headed “Relationship with our Controlling Shareholders” in this prospectus
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context requires, any of them, relating to the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company conditionally adopted on 31 January 2019, which shall become effective upon the Listing Date, as amended, supplemented or otherwise modified from time to time, a summary of which is set out in the section headed “Summary of the constitution of our Company and the Cayman Islands Companies Law — 2. Articles of Association” in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“AUD”	Australian dollars, the lawful currency of Australia
“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“brand apparel companies”	companies that sell apparel products under its own or licensed brands, including wholesalers and retailers, for the purpose of this prospectus
“Business Day”	any day (other than a Saturday, Sunday or public holiday in Hong Kong and any day on which tropical cyclone warning no. 8 or above or a black rainstorm warning signal is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate

DEFINITIONS

“Capitalisation Issue”	the issue of 415,999,000 Shares (including 26,000,000 Sale Shares) to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company upon completion of the Global Offering referred to in the section headed “Statutory and general information — A. Further information about our Company and its subsidiaries — 4. Written resolutions of all the Shareholders passed on 31 January 2019” in Appendix IV to this prospectus
“Cayman Islands Companies Law”	the Companies Law, (as revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation;
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, but for the purposes of this prospectus and for geographical reference only (unless otherwise indicated), excluding Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“close associate(s)”	has the meaning ascribed to it under the Listing Rules
“Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented and otherwise modified from time to time
“Company” or “our Company”	KNT Holdings Limited, a company incorporated in the Cayman Islands on 5 July 2016 as an exempted company with limited liability and registered as a non-Hong Kong Company under Part 16 of the Companies Ordinance on 4 August 2017
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules, and in the context of this prospectus, means Mr. S Chong, Mr. P Chong, Strategic Elite and Total Clarity
“core connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Indemnity”	the deed of indemnity dated 31 January 2019 executed by each of our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), details of which are set out in the section headed “Statutory and general information — E. Other information — 1. Tax and other indemnities” in Appendix IV to this prospectus
“Deed of Non-competition	the deed of non-competition undertaking dated 31 January 2019 executed by each of our Controlling Shareholders in favour of our Company (for ourselves and as trustee for each of our subsidiaries), details of which are set out in the section headed “Relationship with our Controlling Shareholders — Non-competition undertaking” in this prospectus
“Director(s)” or “our Directors”	the director(s) of our Company
“EIT”	the PRC Enterprise Income Tax
“EIT Law”	the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) enacted by the National People’s Congress of the PRC
“ERP system”	enterprise resource planning system, an accounting-oriented information system for identifying and planning the enterprise-wide resources needed to take, make, distribute and account for customers’ orders

DEFINITIONS

“EUR” or “Euro”	the lawful currency of member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992)
“Exchange Participant(s)”	a person: (a) who, in accordance with the Listing Rules, may trade on or through the Stock Exchange; and (b) whose name is entered in a list, register or roll kept by the Stock Exchange as a person who may trade on or through the Stock Exchange
“GBP”	British pounds, the lawful currency of the United Kingdom
“GDP”	gross domestic product
“GEM”	GEM operated by the Stock Exchange
“Global Offering”	the Hong Kong Public Offering and the International Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “our”, “we” or “us”	our Company and our subsidiaries at the relevant time, or where the context refers to any time prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company and the business carried on by such subsidiaries or, as the case may be, the predecessors
“HIBOR”	Hong Kong Interbank Offered Rate
“HK\$” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be registered in the applicant’s own name by submitting applications online through the designated website of the HK eIPO White Form Service Provider at www.hkeipo.hk
“ HK eIPO White Form Service Provider”	the HK eIPO White Form service provider designated by our Company, as specified on the designated website at www.hkeipo.hk
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC

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“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Offer Shares”	the 13,000,000 Shares initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares to the public in Hong Kong (subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus) at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Share Registrar”	Tricor Investor Services Limited, the branch share registrar of our Company in Hong Kong
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 14 February 2019 relating to the Hong Kong Public Offering entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters
“HYG”	Dong Guan HYG Garment Limited Company* (東莞泓藝製衣有限公司), a company established in the PRC with limited liability on 22 January 2003 and our indirect wholly-owned subsidiary
“Independent Third Party(ies)”	a person or persons or a company or companies which, to the best of our Directors’ knowledge, information and belief having made all reasonable enquiries, is independent of and not connected with (within the meaning of the Listing Rules) any of our Directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of our Company, any of its subsidiaries or any of their respective associates (within the meaning of the Listing Rules)

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“Innovax Securities”	Innovax Securities Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being one of the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers
“International Offer Shares”	the 117,000,000 Shares (comprising 91,000,000 new Shares being initially offered by our Company for subscription and 26,000,000 Sale Shares being initially offered by the Selling Shareholders) being initially offered by our Company for subscription at the Offer Price pursuant to the International Offering together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option, the number of which is subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the conditional offering of the International Offer Shares by the International Underwriters as described in the section headed “Underwriting” in this prospectus
“International Underwriters”	the underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering and to be entered into between our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Selling Shareholders, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters on or about the Price Determination Date
Ipsos	Ipsos Limited, the independent market research agency engaged by our Company to prepare the Ipsos report
“Ipsos Report”	the market research report prepared by Ipsos
“Joint Bookrunners” or “Joint Lead Managers”	Innovax Securities, Pacific Foundation, Quasar Securities Co., Limited and Guotai Junan Securities (Hong Kong) Limited
“Joint Global Coordinators”	Innovax Securities and Pacific Foundation
“KNT”	KNT Limited (嘉藝貿易有限公司), a company incorporated in Hong Kong with limited liability on 9 February 1993 and our indirect wholly-owned subsidiary

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“KNTGL”	KNT Group Limited, a company incorporated in the BVI with limited liability on 29 April 2016 and our direct wholly-owned subsidiary
“KNT Int’l”	KNT International Holdings Limited (嘉藝國際控股有限公司) (formerly known as Wealth Step Management Limited (寶達管理有限公司)), a company incorporated in Hong Kong with limited liability on 19 July 2012 and our indirect wholly-owned subsidiary
“Latest Practicable Date”	6 February 2019, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	listing of our Shares on the Main Board
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Date”	the date expected to be on or about 28 February 2019, on which dealings in our Shares first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the options market) operated by the Stock Exchange which is independent from and operated in parallel with the GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company, adopted on 31 January 2019 with immediate effect and as supplemented, amended or otherwise modified from time to time, a summary of which is set out in the section headed “Summary of the constitution of our Company and the Cayman Islands Companies Law — 1. Memorandum of Association” in Appendix III to this prospectus
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部) or its predecessor, the Ministry of Foreign Trade and Economic Cooperation of the PRC (中華人民共和國對外貿易經濟合作部)
“Mr. S Chong”	Mr. Chong Sik (莊碩), an executive Director, the chairman of the Board and the chief executive officer of our Company, a Controlling Shareholder and brother of Mr. P Chong

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“Mr. P Chong”	Mr. Chong Pun (莊斌), an executive Director, a Controlling Shareholder and brother of Mr. S Chong
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$1.26 and expected to be not less than HK\$0.98, such price to be agreed upon by us (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date
“Offer Share(s)”	the Hong Kong Offer Share(s) and the International Offer Share(s), where relevant, any additional Shares to be issued and allotted pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option granted by our Company to the International Underwriters exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 19,500,000 additional Shares, representing 15% of the Shares initially being offered under the Global Offering, to cover over-allocations in the International Offering as described in the section headed “Structure of the Global Offering” in this prospectus
“Pacific Foundation”	Pacific Foundation Securities Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 9 (asset management) regulated activities under the SFO, being one of the Joint Global Coordinators, the Joint Bookrunners and the Joint Lead Managers, and the Stabilising Manager
“PRC Legal Advisers”	JunHe LLP, the legal advisers to our Company as to PRC laws
“Price Determination Agreement”	the agreement to be entered into between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date expected to be on or about 21 February 2019 but no later than 25 February 2019, on which the Offer Price is to be fixed by agreement between our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) for the purposes of the Global Offering
“Regulation S”	Regulation S under the U.S. Securities Act

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“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the reorganisation arrangements undergone by our Group in preparation for the Listing as described in the section headed “History, Reorganisation and group structure” in this prospectus
“RMB” and “Renminbi”	the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局), the PRC governmental agency responsible for matters relating to foreign exchange administration
“Sale Shares”	the 26,000,000 Offer Shares to be offered for sale by the Selling Shareholders under the International Offering
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Selling Shareholders”	Strategic Elite and Total Clarity, both of which legally and beneficially own the Sale Shares, particulars of which are set out under the paragraph headed “E. Other Information - 10. Particulars of Selling Shareholders” in Appendix IV to this prospectus
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) in the share capital of our Company, with a nominal value of HK\$0.01 each
“Share Option Scheme”	the share option scheme conditionally approved and adopted by our Company on 31 January 2019, the principal terms of which are summarised in the section headed “Statutory and general information — D. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holders of the Shares from time to time
“sq. m.”	square metres
“Stabilising Manager”	Pacific Foundation
“State Council”	the State Council of the PRC (中華人民共和國國務院)

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“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Strategic Elite on or around the Price Determination Date
“Strategic Elite”	Strategic Elite Limited, a company incorporated in the BVI with limited liability on 4 January 2017 and wholly-owned by Mr. S Chong
“Sole Sponsor”	Innovax Capital Limited, a corporation licensed to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the sole sponsor to the Global Offering
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Buy-backs issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Total Clarity”	Total Clarity Investments Limited, a company incorporated in the BVI with limited liability on 4 January 2017 and wholly-owned by Mr. P Chong
“Track Record Period”	the period comprising the three financial years ended 31 March 2018 and the six months ended 30 September 2018
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United States” or “U.S.”	the United States of America
“US\$” or “U.S. dollars”	the lawful currency for the time being of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time
“VAT”	value-added tax of the PRC
“Veromia”	Veromia Limited (formerly known as Astina Design Limited), a limited company incorporated in the United Kingdom on 25 September 2000 and wholly-owned by Mr. S Chong

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“ WHITE Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s/applicants’ own name(s)
“ YELLOW Application Form(s)”	the application form(s) for the Hong Kong Offer Shares for use by the public who require(s) such Hong Kong Offer Shares to be deposited directly into CCASS
“%”	per cent.

Unless otherwise specified, all references to any shareholdings in our Company are based on the assumption that the Over-allotment Option is not exercised.

The English translation of terms or names in Chinese which are marked with “” is for identification purposes only. In the event of any inconsistency, the Chinese terms or names shall prevail.*

FORWARD-LOOKING STATEMENTS

We have included in this prospectus forward-looking statements that are not historical facts but relate to our intentions, beliefs, expectations or predictions for future events and conditions which may not occur. Even though these statements have been made by our Directors after due and careful consideration and on bases and assumptions fair and reasonable at the time, they nevertheless involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward looking statements. Some of the risks are listed in the section entitled “Risk factors” and elsewhere in this prospectus. In some cases, you can identify these forward-looking statements, including, without limitation, words and expressions such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “potential”, “predict”, “project”, “propose”, “seek”, “could”, “should”, “will”, “would” or similar words or statements, or their negative in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets and globally.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including the risk factors described in the section headed “Risk factors” in this prospectus. These forward-looking statements include, without limitation, statements relating to:

- our business strategies, plans, objectives and goals;
- our operations and business prospects, including our future competitive environment;
- our future debt levels and capital needs;
- our financial condition;
- future developments, trends and conditions in the industry and markets in which we operate;
- capital market developments;
- certain statements with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates;
- the regulatory environment as well as the industry outlook generally;
- general global economic trends; and
- other statements in this prospectus that are not historical facts.

FORWARD-LOOKING STATEMENTS

The forward-looking statements reflect the current view of the management with respect to future events and are, by their nature, subject to risks, uncertainties and assumptions, including those described in the section headed “Risk factors” in this prospectus.

By their nature, forward-looking statements involve numerous assumptions, both general and specific, which may cause our actual results, performance or achievement to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Some of the key assumptions include, among others,

- the absence of any material adverse change in our operations;
- continuing positive labour relations; and
- the availability and accessibility of financing to us.

This prospectus also contains market data and projections that are based on a number of assumptions. The markets may not grow at the rates projected by the market data, or at all. The failure of the markets to grow at the projected rates may materially and adversely affect our business and the market price of our Shares. In addition, due to the rapidly changing nature of the economy, projections or estimates relating to the growth prospects or future conditions of the markets are subject to significant uncertainties. If any of the assumptions underlying the market data prove to be incorrect, actual results may differ from the projections based on these assumptions. You should not place undue reliance on these forward-looking statements.

We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the Latest Practicable Date. Any such intentions may potentially change in light of future developments.

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Potential investors should consider carefully all the information set out in this prospectus and, in particular, should evaluate and consider the following risks associated with an investment in our Company before making any investment decision in relation to our Company. Investors should also pay particular attention to the fact that our Company is incorporated in the Cayman Islands and that we conduct a significant part of our operations in Hong Kong and the PRC, and are governed by legal and regulatory environments which in some respects may differ from those that prevail in other countries. The business, financial condition and results of our operations or prospects could be adversely and materially affected by such risks and uncertainties. The trading price of the Shares could decline due to any of these risks and investors may lose all or part of their investment.

RISKS RELATING TO OUR BUSINESS

We rely on several major customers and generally do not enter into long-term agreements with our customers

Our five largest customers accounted for approximately 83.7%, 79.6%, 86.3% and 93.4% of our revenue for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively, and our largest customer accounted for approximately 52.9%, 44.4%, 35.0% and 52.0% of our revenue for the corresponding years/period, respectively. We do not enter into long-term agreements with any of them whose purchases are made through individual purchase orders. Our business with our customers has been, and we expect it will continue to be, conducted using individual purchase orders received from time to time. Our customers are not obligated in any way to continue placing orders with us at the same or increasing levels, or at all. Their level of demand for our products may fluctuate significantly from period to period. Such fluctuation is attributable to a number of factors, including changes in our customers' business strategies or plans, our customers' business needs or the direction of our customers' product emphasis, as well as our customers' purchase preferences and fashion trends. Our business, financial condition and results of operations may therefore fluctuate significantly in the future.

Our financial performance and results of operations could be adversely affected by import restrictions imposed by global trade policies, trade protection measures and trade war

We deliver a substantial amount of our products to our customers in the U.S. and Europe, who may then sell such products all over the world. Sales to our customers may be affected by adverse changes and developments in global trade policies and trade protection measures, such as the imposition of new trade barriers, sanctions, boycotts and other measures, which are beyond our control. Our business in foreign markets therefore requires us to respond timely and effectively to changes in global trade policies. Following the removal of textile quotas for garments and textile by the WTO from 2005 and other quota restrictions on 31 December 2008, textile and clothing shipments to the U.S. and Europe made on or after 1 January 2009 are no longer subject to any quotas. If new import quotas, higher tariffs or other trade barriers are introduced by the U.S. and Europe, we may have to slow down our expected increase in exports to major markets such as the U.S. and Europe.

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Recently, a trade war has been initiated by the U.S. against the PRC, and certain products exported from the PRC to the U.S. are or will be subject to a new tariff. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our customers who are headquartered in the U.S. contributed approximately 87.8%, 88.6%, 92.8% and 94.7% of our total revenue, respectively. While the U.S. had not announced any trade policies that may directly impact our bridesmaid dresses, bridal gowns and special occasion dresses under the trade war as at the Latest Practicable Date, we cannot accurately predict whether any anti-dumping duties, tariffs or quota fees will be imposed on our products by the U.S. in the future. Any trade restrictions imposed by the U.S. on our products could significantly increase our customers' purchase costs of our products, which may lead our customers to purchase from manufacturers based in other jurisdictions that are not subject to such tariffs. In addition, if markets which we mainly operate in introduce more favourable trade policies to countries other than the PRC, such as Vietnam and Philippines, terms offered by our competitors located in such countries may become more favourable than ours causing our customers to shift their purchases from us to such competitors. Furthermore, the uncertainties on the trade restriction policies resulting from the trade war may cause difficulties for our customers to project their purchasing plans and may cause them to reduce their orders from us. In such events, our business, financial condition and results of operations could be materially and adversely affected.

Our success depends on our ability and our customers' ability to anticipate and respond in a timely manner to the rapid changes in consumer preferences, increasing demand for design and quality, and advances in technologies

Our success depends on the market perception and consumer acceptance of our products, which depends in large part, on our ability to anticipate and respond to different consumer preferences in a timely manner. This requires us to continuously create new products and modify existing products in order to attract and retain customers. Demand for our products may decrease and our business would suffer if we are unable to utilise new technologies and techniques to appropriately anticipate market opportunities or to create and modify products in response to market and consumer preferences in a timely manner.

Similarly, the demand for our products also depends on whether our customers are able to create products with sufficient market appeal. If they are unable to do so, the demand for their products may decrease, leading to a decrease in the size of subsequent purchase orders placed with us. As our success is directly affected by the performance of our customers, their inability to keep in pace with consumer preferences and increasing demand for quality and design may adversely affect our results of operations and financial condition. We cannot assure you that we or our customers will be able to anticipate changes in consumer preferences accurately or to respond in a timely manner.

We rely on the stable operation of our production facility and cannot assure you that our production would be free of disruption in the future including the potential adverse consequences due to title defects in relation to our production facility and staff dormitory

Our revenue is dependent on the uninterrupted operation of our production facility located in the PRC. During the Track Record Period and as at the Latest Practicable Date, we leased our production facility and staff dormitory located in Humen Town, Dongguan City, the PRC from Mr. S Chong and Mr. P Chong. For details, please refer to the section headed "Connected transactions" in this

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prospectus. Our production facility is subject to risks beyond our control including, among others, fire, breakdown, failure of our computers, machinery and equipment, power shortage and labour strikes. In such events, our financial resources will need to be diverted to the maintenance of our production facility and we will therefore require maintenance services or purchase equipment from external vendors who may or may not provide timely services, equipment or parts. We cannot assure you that our production facility would be free of disruption in the future. Frequent or prolonged occurrence of any of the aforesaid events may have a material adverse effect on our business, financial condition and results of operations.

We also cannot assure you that our production would be free from any interruption in our operations as a result of any failure to comply with all applicable laws, regulations and standards in the PRC. Our production facility and staff dormitory stand on collectively-owned land where the owners of the land had not obtained the consent of at least two-thirds of the members or their representatives of the villagers' committee in respect of their leasing of the land as at the Latest Practicable Date in accordance with the relevant PRC laws and regulations. As a result, the lease agreements for our production facility and staff dormitory may be affected and we may be forced to vacate the land and relocate to other locations. If we are forced to move out of our current production facility, or if our relocation plan cannot be implemented as expected, we may be forced to suspend our production for a certain period of time resulting in loss of revenue and may incur significant costs for relocation and therefore our business, financial condition and results of operations could be materially and adversely affected. For further details on the title defects of our production facility, related risks and our relocation plan, please refer to the section headed "Business — Land and property interests — Leased properties — Title defect in relation to the Leased Properties" in this prospectus.

Our plan to expand our production capacity may not be successful and such expansion may result in significant increase in our cost of sales

To support our growing operations, we intend to expand our production capacity by constructing a new production facility in Guangdong Province, the PRC. The planned total investment cost is estimated to be approximately HK\$56.5 million and with a gross floor area of approximately 16,000 sq.m.. Our new production facility is expected to be completed by the fourth quarter of 2020 with operations expected to commence thereafter. We cannot assure you that this new production facility will be completed on time, or at all. If we are unable to obtain government approvals for any reason, or if we encounter unforeseen difficulties in the course of the construction, the construction may be significantly delayed and we may not be able to complete the new production facility on time. Any failure or delay in implementing any parts of our plan may result in a lack of production capacity to support our growth, which could materially and adversely affect our business, financial condition and results of operations.

Our plan to expand our production capacity is also subject to the following risks: (i) our actual production volume may vary depending on the demand for our products, subject to factors that are beyond our control such as market trend and customers' preferences. The demand for our products and revenue to be generated may not increase in line with our increase in production capacity; and (ii) we expect to incur additional direct labour costs, capital expenditure and depreciation costs in

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connection with the construction of a new production facility. We cannot assure you that our future growth will correspond to our expansion of production capacity. If we incur significant costs in connection with our expansion plan but our future growth does not meet our expectation, our business, financial condition and results of operations could be materially and adversely affected.

Any labour shortages, increased labour costs or other factors affecting labour supply for our production could adversely affect us

We rely on skilled workers to carry out our production process. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our cost of direct labour amounted to HK\$22.9 million, HK\$24.6 million, HK\$30.4 million and HK\$16.6 million, respectively, representing approximately 18.8%, 20.4%, 20.2% and 14.2% of our total cost of sales, respectively. The labour costs in the PRC have been gradually increasing in recent years and may continue to increase in the future due to a shortage of and growing demands for skilled workers. As competition for skilled workers is intense, we may need to enhance our remuneration packages and welfare for our employees in order to recruit and retain staff. We cannot assure you that our labour force will stay with us and will not demand an increase in their salaries. If we encounter such demands from our labour force and we are unable to pass on such increase in our labour costs to our customers, or we fail to retain our existing labour and/or recruit sufficient labour in a timely manner, we may not be able to accommodate future demand for our products or implement our expansion plan and our business, prospects, financial condition and results of operations could be materially and adversely affected.

We could be adversely affected by the performance of our subcontractors

During the Track Record Period, we subcontracted parts of the production process of our products to third-party subcontractors in order to supplement our limited production capacity to meet our customers' increasing demand for our products. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our subcontracting charges amounted to HK\$44.8 million, HK\$33.5 million, HK\$45.6 million and HK\$46.8 million, respectively, representing approximately 36.8%, 27.7%, 30.3% and 40.1% of our total cost of sales, respectively. For details, please refer to the section headed "Business — Procurement — Subcontracting" in this prospectus. However, we cannot assure you that the products processed by our subcontractors will be delivered to us in a timely manner or of satisfactory quality. If our subcontractors do not perform satisfactorily, substantially increase the prices of their services or terminate their business relationships with us, we may need to replace our subcontractors or make alternative arrangements which could increase our costs of operations and, in turn, could materially and adversely affect our business, reputation, financial condition and results of operations.

We are subject to risks of fluctuations in the exchange rate between RMB and HK dollars or U.S. dollars

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, 76.7%, 76.0%, 78.7% and 81.8% of our operating costs and expenses were denominated in currencies other than U.S. dollars, including Renminbi, HK dollars, GBP, respectively, while 91.1%, 92.7%, 95.7% and 97.4% of our revenue was denominated in U.S. dollars, respectively. Any future exchange rate volatility relating to RMB may give rise to uncertainties in the value of our net assets, profits and

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dividends. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our net foreign exchange loss amounted to HK\$0.2 million, HK\$0.6 million, HK\$0.3 million and HK\$0.1 million, respectively. We do not currently have a foreign currency hedging policy. Any significant fluctuations in the exchange rates between RMB and HK dollars or U.S. dollars could materially and adversely affect our financial condition and results of operations.

We are subject to credit risk in collecting the trade receivables from our customers

We generally grant our customers a credit period of 0 to 90 days. During the Track Record Period, our trade receivable turnover days were 27 days, 33 days, 37 days and 45 days, respectively. Among our trade receivables as at 31 March 2016, 2017 and 2018 and 30 September 2018, HK\$4.7 million, HK\$6.5 million, HK\$6.8 million and HK\$10.1 million, respectively, were past due. As at the Latest Practicable Date, we recorded subsequent settlement for trade receivables of HK\$53.8 million, representing approximately 96.9% of our trade receivables as at 30 September 2018. Our Group's profitability and cash flows are dependent to a large extent on the creditworthiness of our customers and their ability to settle the outstanding amount owed to our Group in accordance with the credit periods we have granted to them. There is no assurance that the creditworthiness and the financial position of our customers will remain healthy in the future. If any of our customers fail to settle the outstanding amount in full or in a timely manner, our financial condition and results of operation could be materially and adversely affected.

We recorded net cash used in operating activities for the six months ended 30 September 2018

We recorded net cash used in operating activities of HK\$15.8 million for the six months ended 30 September 2018, which was principally attributable to the increase in our trade receivables of HK\$34.7 million and the decrease in our contract liabilities of HK\$4.2 million, partially offset by our profit before taxation of HK\$21.1 million and increase in trade payables of HK\$1.7 million. For further details, please refer to the section headed "Financial information — Summary of our cash flows" in this prospectus. In the event that we are unable to generate sufficient cash flow for our operations or otherwise unable to obtain sufficient funds to finance our business, our liquidity and financial condition may be materially and adversely affected. We cannot assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs, and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us, or at all.

We are dependent on a stable and adequate supply of raw materials and do not enter into long-term agreements with our suppliers

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our raw material costs amounted to HK\$44.6 million, HK\$52.0 million, HK\$61.9 million and HK\$46.2 million, respectively, representing approximately 36.6%, 43.1%, 41.2% and 39.5% of our total cost of sales, respectively. Accordingly, our production volume and production costs depend on our ability to source quality materials at competitive prices. We enter into individual purchase orders instead of long-term agreements with our raw material suppliers, and we do not enter into any hedging arrangements or transactions to reduce our exposure to fluctuations in raw material costs. If we experience any interruption, reduction or termination in supply of raw materials from our suppliers,

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we may not be able to obtain the supply of raw materials needed for production of our products. Any increase in the prices of our major raw materials could result in additional costs to us and may lead to a reduction in our gross profit margin to the extent that we are unable to pass on such additional costs to our customers. As a result, our business, prospects, financial condition and results of operations could be materially and adversely affected.

If there is any unexpected sudden and dramatic change in market trend, our inventory may not have the required raw materials for production of bridesmaid dresses and bridal gowns ordered by our customers which could potentially result in delay in production and delivery of products to our customers

Our business model requires us to keep a certain inventory level of raw materials for production of our bridesmaid dresses and bridal gowns. For details, please refer to the section headed “Business — Procurement — Raw materials” in this prospectus. When determining the type, colour and quantity of raw materials to be sourced for our bridesmaid dresses and bridal gowns, we make reference to our historical sales performance analysis compiled by our sales and merchandising department on a weekly basis. However, we cannot assure you that our customers will order our bridesmaid dresses and bridal gowns in the styles and quantities that we expect. If there is any unexpected sudden and dramatic change in market trend, our inventory may not have the required raw materials for production of bridesmaid dresses and bridal gowns ordered by our customers which could potentially result in delay in production and delivery of products to our customers. In such event, our business, financial condition and results of operations could be materially and adversely affected.

We are exposed to risks of obsolete and slow-moving inventory

As at 31 March 2016, 2017 and 2018 and 30 September 2018, our total inventory was HK\$21.8 million, HK\$25.4 million, HK\$36.2 million and HK\$31.9 million, respectively. Our inventory turnover days increased from 62 days for the year ended 31 March 2016 to 71 days for the year ended 31 March 2017 and further to 75 days for the year ended 31 March 2018 and decreased to 53 days for the six months ended 30 September 2018. The demand for our products are highly dependent on our customers’ preferences and the economic condition of the markets where they operate, which are beyond our control. During the Track Record Period, we did not make any provision for inventories. Any increase in inventory may adversely affect our working capital. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected.

Failure and/or delays in deliveries could adversely affect us

We rely on third-party logistics service providers for the delivery of our finished products from our production facility to the designated ports of shipment or forwarders of our customers. Such delivery services could be disrupted due to unforeseen events beyond our control, including transportation bottlenecks, typhoons, floods, earthquakes and other natural disasters and labour

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strikes. In addition, our products may be subject to theft or damage by third parties. If our products are not delivered to our customers on time, or are damaged or lost during delivery, we may have to pay compensation to our customers. In such events, our business, market reputation, financial condition and results of operations could be materially and adversely affected.

Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity

We are exposed to potential product liability claims in the event that there is any damage caused by defective products, which could also adversely affect our reputation and business relationships. As the U.S. is our major market accounting for over 90% of our sales for the year ended 31 March 2018 and the nine months ended 30 September 2018, we are particularly exposed to product liability claims arising from the U.S. made on a contractual or tortious basis. Should there be a material increase in the number of product liability claims, we may incur significant time and legal costs regardless of the outcome of any claim of alleged defect and our business, financial condition and results of operations could be materially and adversely affected. In addition, international brand apparel companies have become increasingly concerned about their reputation with respect to environmental and social responsibility. Accordingly, they may require their suppliers, including us, to fulfil certain environmental standards, and/or corporate social responsibility standards set forth by governmental or non-governmental labour organisations. In the event that we fail to fulfil those standards or if we are otherwise publicly associated with poor environmental or social responsibility standards, our reputation, business, financial condition and results of operations could be materially and adversely affected.

Extraordinary events such as terrorist attacks, acts of war, political unrest, outbreak of contagious or epidemic diseases and natural disasters could adversely affect our production and the timely delivery of our products

Certain regions in the world, including where our production facility is located, are susceptible to the outbreak of contagious or epidemic diseases such as Severe Acute Respiratory Syndrome (SARS), the Ebola virus, Middle East Respiratory Syndrome (MERS), influenza A (H1N1) and avian flu (H5N1). Past occurrences of such diseases, depending on their scale of occurrence, have caused different degrees of damage to the national and local economies in various countries and regions. Accordingly, a recurrence of such diseases, especially in the cities where we have operations, may result in material disruption to our sales and production, which in turn could materially and adversely affect our financial condition and results of operations.

We are also subject to risks of other extraordinary events beyond our control including, among others, terrorist attacks, acts of war, political unrest and natural disasters. Such events may cause personnel casualties, loss of inventory, work disruptions and delays and damages to our production facility. If we are unable to react quickly upon the occurrence of these types of extraordinary events and our operations are disrupted severely, and the insurance policies we maintained are not adequate to cover all the losses, our business, financial condition and results of operations may be materially and adversely affected.

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Failure to maintain an effective quality control mechanism may adversely affect our reputation, operation and financial condition

Our customers have specific requirements for each batch of products they order from us. We rely on our internal quality control system to maintain the standards of quality to ensure that the finished products delivered to our customers live up to their quality expectations. If we fail to meet the required specifications of our customers, it could result in loss of sales which in turn would adversely affect our business reputation, results of operations, and financial condition.

We generally do not register intellectual property rights to the designs of our products

As we generally do not register intellectual property rights to the designs of our products, our customers are free to take those designs to other manufacturers, including our competitors, to manufacture the products for them. We cannot assure you that our designs would not be replicated or used by third parties in their products. In the event that our customers pass our designs to other manufacturers and purchase products from them instead of us, our sales may decrease and therefore, our business, financial condition and results of operations could be materially and adversely affected.

We may be unable to obtain financing on favourable terms, or at all, to meet our funding requirements

We currently fund our operations and capital expenditure primarily from cash flow generated from our operating activities and bank borrowings. In light of our expected future growth, we may need to obtain further financing from external sources to supplement our liquidity in the future. Our ability to obtain external financing in the future is subject to a number of uncertainties, including but not limited to the following: (i) our financial condition, results of operations, business reputation, cash flow and credit history; and (ii) the condition of the global and domestic financial markets. As at 31 December 2018, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, our total bank borrowings amounted to HK\$33.4 million. However, we cannot assure you that we will be able to obtain bank loans or renew existing facilities in the future on favourable terms or at all. We also cannot assure you that we will not be affected by any fluctuation in the interest rates on external financing secured or to be secured to fund our operations and planned expansion. If adequate funding is not available to us on favourable terms, or at all, our finance costs may increase and we may not be able to continue our existing operations, develop or expand our business, and therefore, our business, financial condition and results of operations could be materially and adversely affected.

Our success depends upon our key management personnel

Our Directors believe that our success depends, to a significant extent, on the capability, expertise and continued services of key members of our management team, including our executive Directors and other members of our management who have operational experience in our business. In particular, we rely on Mr. S Chong, one of our founders, the chairman of the Board, our chief executive officer and an executive Director, who has over 20 years of experience in the bridal wear and special occasion dresses industries. For details of the expertise and experience of our management team, please refer to the section headed “Directors and senior management” in this prospectus. If we

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were to lose the services of Mr. S Chong or any key member of our management team without a suitable replacement, or were unable to attract new qualified members with suitable experience to join our management team as we continue to grow, the implementation of our business strategies may be affected, which could materially and adversely affect our business, results of operations and prospects.

We also rely on our employees, including experienced design and product development, sales and procurement personnel, for our daily operations and business expansion. We cannot assure you that we will be able to continue to attract and retain sufficient skilled and experienced employees in the future. If we fail to recruit, retain or train skilled employees, our business, results of operations and prospects could be materially and adversely affected.

We may be involved in intellectual property rights infringement litigation initiated by others

During the course of our operations, we may design products that include elements that may inadvertently infringe third party copyright and other intellectual property rights, as a result of which other parties may initiate litigation or other proceedings against us. Moreover, our business is subject to the risk of third parties counterfeiting the products our customers ordered from us or otherwise infringing our intellectual property rights. We may not always be successful in securing protection for our intellectual property rights in preventing the production and sale of counterfeit products and preventing other infringements of our intellectual property rights. We may need to resort to litigation in the future to enforce our intellectual property rights. Involvements in these proceedings may require substantial costs and diversion of resources, and the result of these proceedings may be uncertain.

Our business strategies are subject to uncertainties and risks

We have set out our business strategies in the section headed “Business — Business strategies” in this prospectus. The implementation of these business strategies requires us to effectively and efficiently manage our sales, marketing, procurement, production and other aspects of our operations. If we fail to effectively and efficiently implement our business strategies, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our business strategies, there may be other unexpected events or factors that prevent us from achieving the desirable and profitable results from the implementation of our future plans, such as the changes in our ability to comply with, and related costs of, relevant laws, rules and regulations, delays in obtaining the necessary licences and approvals from the government. Our business, financial condition, results of operations and growth prospects could be materially and adversely affected if our future plans fail to achieve positive results.

RISKS RELATING TO OUR INDUSTRY

We are dependent on the consumer spending level in the U.S. and Europe

A substantial amount of our products are sold to the U.S. and Europe. As such, our results of operations and profitability are dependent on the consumer demand for our products and the macroeconomic conditions in the U.S. and Europe. There are many factors affecting the level of consumer spending on our products that are beyond our control, including but not limited to, wedding budget, disposable income, interest rates, recession, inflation, taxation, stock market performance,

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unemployment level and general consumer confidence. We cannot assure you that we can maintain the existing level of purchase orders from our customers in the U.S. and Europe or continue to expand our customer base in these regions. Any worsening of the general economic conditions in the U.S. and Europe may result in the slowing down of or decrease in orders from our customers in the U.S. and Europe and potential delay and/or default in payment by our customers, which could materially and adversely affect our business, financial condition and results of operations.

We operate in a highly competitive market and if we fail to compete effectively, we may lose market share

The bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industry in the PRC is highly fragmented with a large number of players. According to the Ipsos Report, in 2017, there were approximately 6,000 bridesmaid dresses, bridal gowns and special occasion dresses manufacturers in the PRC, and the top five bridesmaid dresses manufacturers in aggregate occupied only approximately 5.8% of the market share. We compete with both domestic and foreign bridesmaid dresses, bridal gowns and special occasion dresses manufacturers. The principal factors that influence our customers' purchasing choices include, among other things, product quality, price, design and development capabilities, operation scale, capacity and efficiency, and delivery punctuality. Customers rank the importance of these factors differently subject to their needs, target consumers and sales strategies. We cannot assure you that our customers will continue to choose us over our competitors as they may change their ranking of these factors following a change in their needs, target consumers and sales strategies. We may not be able to compete effectively against competitors including new market players who may have greater financial, human or other resources, greater operational efficiency or who adopt competitive pricing strategies and achieve greater scales of production at lower costs of production. Facing intense competition in the industry, we may be forced to reduce prices, provide more sales incentives to customers and increase capital expenditure, which may result in reduced margins and could therefore materially and adversely affect our business, financial condition and results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

We are subject to the political, economic and social developments as well as laws, rules and regulatory requirements in the PRC

Part of our businesses, assets, operations are located in or derived from our operations in the PRC, and as a result, our business, financial condition and results of operations are subject, to a significant degree, to the economic, political, social and regulatory environment in the PRC. The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. While the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises in recent years, a substantial portion of productive assets in the PRC is still owned by the PRC government and the PRC government continues to play a significant role in regulating industry development, the allocation of natural resources, production,

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pricing and management of currency. We cannot assure you that the PRC government will continue to pursue a policy of economic reform or that the current direction of reform will continue. In particular, our business, financial condition and results of operations could be materially and adversely affected by the following factors:

- political instability or changes in social conditions in the PRC;
- changes in laws, regulations and administrative directives;
- measures which control inflation or deflation;
- changes in the rate or method of taxation;
- imposition of additional restrictions on currency conversion and remittances abroad; and
- reduction in tariff protection and other import and export restrictions.

PRC regulations may limit our ability to finance our PRC subsidiary effectively with the net proceeds from the Global Offering

We plan to finance our equity-controlled PRC subsidiary with the net proceeds from the Global Offering through overseas shareholder loans or additional capital contributions, which require registration with, or approvals from, the PRC government authorities or the designated banks. Any overseas shareholder loans to our PRC subsidiary must be registered with the local branch of the SAFE as a procedural matter, and such loans cannot exceed the difference between the total amount of investment which our PRC subsidiary are approved to make under the relevant PRC laws and their respective registered capital. In addition, the amounts of the capital contributions are subject to the approval of or filing with the MOFCOM or its local counterpart. We cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, or at all, with respect to making future borrowings or capital contributions to our PRC subsidiary with the net proceeds from the Global Offering. If we fail to complete such registrations or obtain such approvals, our ability to contribute additional capital to fund our PRC operations may be negatively affected, which could adversely and materially affect our liquidity and our ability to fund and expand our business.

The payment of dividends by our operating subsidiary in the PRC is subject to restrictions under PRC law

We are a Cayman Islands holding company and we operate part of our business through our operating subsidiary in the PRC. The PRC laws require dividends to be paid only out of net profit and calculated according to the PRC accounting principles, which differ from generally accepted accounting principles in other jurisdictions. The PRC law requires the PRC companies, including the foreign-invested enterprises, to set aside 10% of their after-tax profit as statutory reserves until the accumulated statutory reserves account for 50% of the registered capital of the PRC companies. These

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statutory reserves are not available for distribution as cash dividends. Since the availability of funds to fund our operations and to service our indebtedness depends upon dividends received from our PRC subsidiary, any restrictions on the availability and usage of our major source of funding may impact our ability to fund our operations and to service our indebtedness.

Dividends from our PRC subsidiary paid to our Hong Kong subsidiaries might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under the EIT Law, if the foreign shareholder is not deemed a PRC tax resident enterprise under the EIT Law, dividend payments from PRC subsidiary to their foreign shareholders are subject to a withholding tax at the rate of 10%, unless the jurisdiction of such foreign shareholders has a tax treaty or similar arrangement with the PRC. Pursuant to a special tax arrangement between Hong Kong and the PRC, the withholding tax rate is lowered to 5% if a Hong Kong resident enterprise is the beneficial owner of more than 25% of a PRC company distributing the dividends. According to the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法), which was promulgated by the SAT on 27 August 2015 and became effective on 1 November 2015 and was amended on 15 June 2018, prior approval from or filings with SAT is no longer required before a non-resident taxpayer can enjoy the tax preferential treatment under the relevant treaties. A non-resident taxpayer may enjoy the tax preferential treatment at the time of tax return filings or withholding and declaration through a withholding agent if it is eligible for the tax preferential treatment under the relevant provisions of a tax treaty, subject to the follow-up administration by the relevant tax authority. During the follow-up administration, the PRC tax authorities may, if the non-resident taxpayer is deemed not eligible for the tax preferential treatment and underpays or fails to pay the tax at all, require the non-resident taxpayer to pay up the non-payment or underpayment of the tax within a specified timeframe. However, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the SAT on 20 February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. We cannot assure you that the PRC tax authorities will recognise and accept the 5% withholding tax rate on dividends paid by our PRC subsidiary and received by our Hong Kong subsidiary.

Uncertainties with respect to the PRC legal system could limit the legal protections available to you and us

Part of our business and operations are conducted in the PRC and governed principally by the PRC laws and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as reference. The PRC government has begun to develop a comprehensive system of laws and regulations governing economic matters in general such as foreign investment, corporate organisation and governance, commerce, taxation, finance, foreign exchange and trade. However, due to the continuous and rapid evolvement of the PRC legal system and the limited volume of published decisions which are non-binding in nature, the interpretations and enforcement of laws, regulations and rules may be inconsistent and involve uncertainties, which may limit legal protections available to us. The recently enacted laws and regulations may not sufficiently

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cover all aspects of economic activities in the PRC, or may be unclear or inconsistent. Even where adequate laws exist in the PRC, the enforcement of existing laws or contracts may be uncertain or sporadic, and it may be difficult to obtain swift and equitable enforcement of a judgment by a court. In addition, we cannot predict future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws and the interpretation or enforcement thereof, and the effects of such developments. These uncertainties could limit the legal protections available to us and other foreign investors, including you.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our Shares and an active trading market for our Shares may not develop

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for the listing of and permission to deal in our Shares on the Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments may affect the volume and price at which our Shares will be traded.

The liquidity and market prices of our Shares following this Global Offering may be volatile. The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations and the prospects for our business;
- timing of our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding the bridesmaid dresses, bridal gowns and special occasion dresses industry.

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In addition, the securities markets have from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Our interests may conflict with those of our Controlling Shareholders, who may take actions that are not in, or may conflict with, our or our public shareholders' best interests

Immediately following the Global Offering and Capitalisation Issue, Mr. S Chong and Mr. P Chong, through Strategic Elite and Total Clarity, will collectively beneficially own 75.0% of our Company's outstanding Shares on a fully-diluted basis, without taking into account the allotment and issue of Shares upon exercise of the Over-allotment Option or options to be granted under the Share Option Scheme. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, the non-controlling Shareholders could be disadvantaged by the actions that our Controlling Shareholders choose to cause us to pursue. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including but not limited to mergers, privatisations, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions. Our Controlling Shareholders have no obligation to consider the interests of our Company or the interests of our other Shareholders. As such, our Controlling Shareholders' interests may not necessarily be in line with the best interests of our Company or the interests of our other Shareholders, which could have a material and adverse effect on our Company's business operations and the price at which our Shares are traded on the Stock Exchange.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future financings

Potential investors will pay a price per Share that substantially exceeds the per Share value of our net tangible assets and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from this offering will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a pro rata basis to existing Shareholders, the percentage ownership of

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such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by our Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent prior to the payment of dividends;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flows to fund capital expenditures, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for or reacting to changes in our business and our industry.

Dividends paid in the past may not be indicative of the amounts of future dividend payments or our future dividend policy

Historical dividend distributions by our subsidiaries are not indicative of our future distribution policy and we give no assurance that dividends of similar amounts or at similar rates will be paid in the future. Any future dividend declaration and distribution by us will be at the discretion of our Directors and will depend on our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our constitutional documents and the Cayman Islands Companies Law, as well as (where required) the approval of Shareholders. In addition, our future dividend payments will depend upon the availability of dividends received from our subsidiaries in Hong Kong and the PRC in accordance with our dividend and distribution policy as described in the section headed “Financial information — Dividend” in this prospectus.

Sale, or perceived sale, of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our Offer Shares

Sale of substantial amounts of our Shares in the public market after completion of the Global Offering, or the perception that such sale could occur, could adversely affect the market price of our Shares and could materially impair our future ability to raise capital through offerings of our Shares. The Shares held by our Controlling Shareholders, representing 75.0% of the issued share capital of our Company immediately after completion of the Global Offering (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme) are subject to a lock-up arrangement until six months after the Listing Date, details of which are set out in the section headed “Underwriting” in this prospectus. After the restrictions of the lock-up arrangements expire, our Controlling Shareholders may dispose of our Shares. Our Directors cannot predict what effect, if any, significant future sale or the perception of such sale may have on the market price of our Shares, and they could materially and adversely affect the prevailing market price of our Shares.

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You may face difficulties in protecting your interests under the laws of the Cayman Islands

We are a Cayman Islands company and our corporate affairs are governed by, among other things, our Memorandum of Association, Articles of Association, the Cayman Islands Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from the English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions. Such differences may mean that the remedies available to the minority shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

We cannot guarantee the accuracy of certain facts, forecasts, statistics and industry information that have come from various sources contained in this prospectus

Certain facts, forecasts, statistics and data presented in the section headed “Industry overview” and elsewhere in this prospectus relating to the global economy and markets of the bridesmaid dresses, bridal gowns and special occasion dresses have been derived, in part, from various publications and industry-related sources prepared by government officials or Independent Third Parties. We believe that the sources of the information are appropriate sources for such information and the Sole Sponsor and our Directors have taken reasonable care to extract and reproduce the publications and industry-related sources in this prospectus, and we have no reason to believe that such information is false or misleading or that any fact that would render such information false or misleading has been omitted. However, neither we, our Directors, the Sole Sponsor nor any of the parties involved in the Global Offering have independently verified, or make any representation as to the accuracy of such information and statistics. It cannot be assured that statistics derived from such sources will be prepared on a comparable basis or that such information and statistics will be stated or prepared at the same standard or level of accuracy as, or consistent with, those in other publications produced for other economies. Accordingly, prospective investors should consider carefully how much weight or importance they should attach to or place on such facts or statistics.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have entered into, and are expected to continue to carry on, after Listing, certain transactions, which would constitute continuing connected transactions of our Company under the Listing Rules upon Listing. We have applied to the Stock Exchange, and the Stock Exchange has granted, a waiver from strict compliance with the requirements set out in Chapter 14A of the Listing Rules in respect of such transactions. Further details of such continuing connected transactions and the waiver are set out in the section headed “Connected transactions” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purposes of giving information about our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all materials respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which is part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. Details of the terms of the Global Offering are described in the section headed “Structure of the Global Offering” in this prospectus.

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters, any of their respective directors, supervisors, agents, employees or advisers or any other party involved in the Global Offering.

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to Apply for the Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as at any subsequent time.

SELLING SHAREHOLDERS

The International Offer Shares consists of 26,000,000 Sale Shares being sold by the Selling Shareholders (comprising 15,730,000 Shares by Strategic Elite and 10,270,000 Shares by Total Clarity). We estimate that the net proceeds to the Selling Shareholders from the Sale Shares (after deduction of proportional underwriting fees and estimated expenses payable by our Selling Shareholders in relation to the International Offering) and assuming an Offer Price of HK\$1.12 per

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Offer Share, being the mid-point of the proposed Offer Price range of HK\$0.98 to HK\$1.26, will be approximately HK\$26.5 million. We will not receive any of the proceeds from the sale of the Sale Shares. Please refer to the details in the section headed “Statutory and general information — E. Other Information — 10. Particulars of Selling Shareholders” in Appendix IV to this prospectus.

UNDERWRITING

The Listing is sponsored by the Sole Sponsor. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. The International Offering is managed by the Joint Global Coordinators. The International Underwriting Agreement is expected to be entered into on or about the Price Determination Date, subject to the agreement on the Offer Price between us (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters). If, for any reason, the Offer Price is not agreed upon amongst us (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters), the Global Offering will not proceed and will lapse. Further details about the Underwriters and the underwriting arrangements are contained in the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any jurisdictions other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdictions or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom.

Prospective applicants for the Offer Shares should consult their financial advisers and seek legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws, rules and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should also inform themselves as to the relevant legal requirements and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

Each person acquiring the Offer Shares will be required, and is deemed by his acquisition of the Offer Shares, to confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our Shares in issue and to be issued as mentioned in this prospectus (including Shares to be issued pursuant to the Capitalisation Issue and the Global Offering, additional Shares which may be issued upon the exercise of the Over-allotment Option and any options that may be granted under the Share Option Scheme) on the Main Board.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Except that we have applied for the Listing to the Stock Exchange, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

REGISTER OF MEMBERS AND STAMP DUTY

The principal register of members of our Company will be maintained by its principal share registrar, Conyers Trust Company (Cayman) Limited, in the Cayman Islands and the branch register of members of our Company will be maintained by the Hong Kong Share Registrar, Tricor Investor Services Limited, in Hong Kong. All Shares to be issued pursuant to the Global Offering, the Capitalisation Issue and any Shares to be issued upon exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme will be registered on the branch register of members of our Company in Hong Kong. Only Shares registered on the branch register of members of our Company in Hong Kong may be traded on the Stock Exchange.

No stamp duty is payable by applicants in the Global Offering.

Dealings in our Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the shareholders listed on the branch register of members of our Company in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder, or if joint Shareholders, to the first-named therein in accordance with the Articles.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stock brokers or other professional advisers for details of the settlement arrangements that may affect their rights and interests. All necessary arrangements have been made for our Shares to be admitted into CCASS.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in our Shares. None of our Group, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, supervisors, agents, employees or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of, dealing in, or exercising any rights in relation to, our Shares.

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed “Structure of the Global Offering — Over-allotment Option” and the section headed “Structure of the Global Offering — Stabilisation” in this prospectus.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 28 February 2019, it is expected dealings in our Shares on the Main Board of the Stock Exchange will commence at 9:00 a.m. on 28 February 2019. Shares will be traded in board lots of 4,000 Shares each.

The stock code for our Shares is 1025.

Our Company will not issue any temporary documents of title.

Dealings in our Shares on the Stock Exchange will be effected by participants of the Stock Exchange whose bid and offer quotations will be available on the Stock Exchange’s teletext page information system. Delivery and payment for Shares dealt on the Stock Exchange will be effected two trading days following the transaction date (“T+2”). Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Only certificates for Shares registered on the branch share register of our Company in Hong Kong will be valid for delivery in respect of transactions effected on the Stock Exchange. If you are unsure about the procedures for dealings and settlement arrangement on the Stock Exchange on which our Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus and on the relevant Applications Forms.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in RMB, US\$ and GBP have been translated, for the purpose of illustration only, into Hong Kong dollars in this prospectus at the following exchange rates:

HK\$1.00: RMB0.88

HK\$1.00: US\$0.13

HK\$1.00: GBP0.095

No representation is made that any amounts in RMB, US\$ and GBP were or could have been or could be converted into Hong Kong dollars at such rate or any other exchange rates on such date or any other date.

ROUNDING

Certain amounts and percentage figures in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
Executive Directors		
Mr. Chong Sik (莊碩先生)	House 83, Miami Crescent 328 Fan Kam Road Sheung Shui, New Territories Hong Kong	Chinese
Mr. Chong Pun (莊斌先生)	House 130B Hong Lok Road East Hong Lok Yuen Tai Po, New Territories Hong Kong	Chinese
Mr. Lam Chi Yuen (林志遠先生)	Flat A, 5/F, Block 5 Grand Palisades 8 Shan Yin Road Tai Po, New Territories Hong Kong	Chinese
Non-executive Director		
Mr. Ting Chi Wai Roy (丁志威先生)	House 80 The Vineyard Mouton Avenue Ngan Tam Mei Yuen Long, Hong Kong	Chinese
Independent non-executive Directors		
Mr. Leung Martin Oh Man (梁傲文先生)	Flat B6, 7/F Coral Court 51-67 Cloud View Road North Point Hong Kong	Chinese
Mr. Lau Koong Yep (劉冠業先生)	Flat A, 40/F, Block 8 Park Central No.9 Tong Tak Street Tseung Kwan O, New Territories Hong Kong	Chinese
Mr. Yuen King Sum (袁景森先生)	Room 708, 7/F, Block F2 33 Wai Yip Street Telford Gardens Kowloon Bay, Kowloon Hong Kong	Chinese
Mr. Lau Kwok Fan (劉國勳先生)	Flat C605, 6/F Cheung Chi House Cheung Wah Estate Fanling, New Territories Hong Kong	Chinese

Please refer to the section headed “Directors and senior management” in this prospectus for further details of our Directors.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Innovax Capital Limited
Room 2002, 20/F, Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined in the SFO

Joint Global Coordinators

Innovax Securities Limited
Unit A — C, 20/F, Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities as defined in the SFO

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 9 (asset management) of the regulated activities as defined in the SFO

Joint Bookrunners and Joint Lead Managers

Innovax Securities Limited
Unit A — C, 20/F, Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities as defined in the SFO

Pacific Foundation Securities Limited
11/F, New World Tower II
16-18 Queen's Road Central
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 9 (asset management) of the regulated activities as defined in the SFO

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Quasar Securities Co., Limited
Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) of the regulated activities as defined in the SFO

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities as defined in the SFO

Co-lead Managers

Central China International Capital Limited
Suite 3108, Two Exchange Square
8 Connaught Place
Central
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined in the SFO

ChaoShang Securities Limited
Rooms 2206-2210, 22/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 2 (dealing in futures contracts) of the regulated activities as defined in the SFO

Fruit Tree Securities Limited
Room 1906, 19/F, China Insurance Group Building
141 Des Voeux Road Central
Central
Hong Kong
Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 4 (advising on securities) of the regulated activities as defined in the SFO

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Merdeka Capital Limited
Room 1108-1110, 11/F, Wing On Centre
111 Connaught Road
Central
Hong Kong
*Licensed corporation under the SFO to engage in type 1
(dealing in securities) of the regulated activities as
defined in the SFO*

SSIF Securities Limited
Unit A, 29/F, Tower 1, Admiralty Center
18 Harcourt Road
Admiralty
Hong Kong
*Licensed corporation under the SFO to engage in type 1
(dealing in securities) of the regulated activities as
defined in the SFO*

Legal advisers to our Company

As to Hong Kong law:
Robertsons
57/F, The Center
99 Queen's Road Central
Hong Kong

As to PRC law:
JunHe LLP
Suite 1301, 13/F, E Building, G.T. Land Plaza
No.13 Zhujiang East Road
Zhujiang New Town
Tianhe District, Guangzhou 510623
PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Legal adviser to the Sole Sponsor and the Underwriters

As to Hong Kong law:
Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>As to PRC law:</i> Jingtian & Gongcheng 34/F., Tower 3, China Central Place 77 Jianguo Road Beijing, PRC
Auditors and reporting accountant	Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F One Pacific Place 88 Queensway Hong Kong
Property valuer	Jones Lang LaSalle Corporate Appraisal and Advisory Limited 7/F, One Taikoo Place 979 King's Road, Quarry Bay Hong Kong
Independent industry consultant	Ipsos Limited 22/F, Leighton Centre 77 Leighton Road Causeway Bay, Hong Kong
Receiving bank	DBS Bank (Hong Kong) Limited 11th Floor, The Centre 99 Queen's Road Central Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Headquarters and principal place of business in Hong Kong	30th Floor EW International Tower No. 120 Texaco Road Tsuen Wan, New Territories Hong Kong
Company secretary	Ms. Chan Nga Chun <i>HKICPA</i> Flat F, 41/F Tower 2B, The Pavilia Bay 51 Wing Shun Street Tsuen Wan, New Territories Hong Kong
Authorised representatives	Mr. Chong Sik House 83, Miami Crescent 328 Fan Kam Road, Sheung Shui New Territories, Hong Kong Ms. Chan Nga Chun Flat F, 41/F Tower 2B, The Pavilia Bay 51 Wing Shun Street Tsuen Wan, New Territories Hong Kong
Audit committee	Mr. Leung Martin Oh Man (Chairman) Mr. Lau Koong Yep Mr. Yuen King Sum Mr. Lau Kwok Fan
Remuneration committee	Mr. Lau Koong Yep (Chairman) Mr. Leung Martin Oh Man Mr. Yuen King Sum Mr. Lau Kwok Fan
Nomination committee	Mr. Chong Sik (Chairman) Mr. Leung Martin Oh Man Mr. Lau Koong Yep Mr. Yuen King Sum Mr. Lau Kwok Fan

CORPORATE INFORMATION

Compliance adviser	Innovax Capital Limited Room 2002, 20/F, Chinachem Century Tower 178 Gloucester Road, Wanchai, Hong Kong <i>Licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) of the regulated activities as defined in the SFO</i>
Principal share registrar and transfer office	Conyers Trust Company (Cayman) Limited Cricket Square Hutchins Drive P O box 2681 Grand Cayman KY1-1111 Cayman Islands
Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	<p>The Hongkong and Shanghai Banking Corporation Limited 8/F Tower 2 HSBC Centre 1 Sham Mong Road Tai Kok Tsui Kowloon</p> <p>DBS Bank (Hong Kong) Limited 11th Floor, The Center 99 Queen's Road Central Central Hong Kong</p> <p>China CITIC Bank International Limited 61-65 Des Voeux Road Central Hong Kong</p>
Company website	<p>www.kntholdings.com <i>(Note: The contents of this website do not form part of this prospectus)</i></p>

INDUSTRY OVERVIEW

The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the Ipsos Report prepared by Ipsos, which was commissioned by us. We believe that the information in this section is derived from appropriate sources and we have taken reasonable care in the extraction and reproduction of such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information in this section has not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates, directors, officers, advisers or representatives or any other persons or parties involved in the Global Offering (except Ipsos Limited). Neither our Group, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective affiliates, directors, officers, advisers or representatives nor any other persons or parties involved in the Global Offering make any representation as to the completeness, accuracy or fairness of such information from official government publications.

The information extracted from the Ipsos Report reflects estimates of market conditions based on sampling, and is prepared primarily as a market research tool. References to Ipsos should not be considered as the opinion of Ipsos as to the potential investment in our Shares or our Group.

SOURCE OF INFORMATION

We have commissioned Ipsos, an independent industry research company, to conduct an analysis of, and to report on, the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC at a fee of HK\$783,800 and our Directors consider that such fee reflects market rates. To provide an analysis of the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries, Ipsos obtained and gathered data and intelligence by: (a) conducting desk research covering official government and regulatory statistics, industry reports and analyst reports, industry associations, industry journals and other online sources and data from the research database of Ipsos; (b) performing client consultation to obtain background information of our Group; and (c) conducting primary research by interviewing key stakeholders and industry experts. The information and data gathered by Ipsos have been analysed, assessed and validated using Ipsos' in-house analysis models and techniques. The methodology used by Ipsos is based on information sourced from multiple levels, which allows such information to be cross-referenced for accuracy.

Ipsos is an independent global consulting company wholly-owned by Ipsos Group S.A.. Founded in Paris, France, in 1975 and publicly-listed on the NYSE Euronext Paris in 1999, Ipsos Group S.A. acquired Synovate Limited in October 2011 and employs approximately 16,000 personnel worldwide across 88 countries. Ipsos conducts research on market profiles, market size, share and segmentation analyses, distribution and value analyses, competitor tracking and corporate intelligence.

Our Directors confirm that Ipsos, including all of its subsidiaries, divisions and units, are independent of and not connected with us (within the meaning of the Listing Rules) in any way. Ipsos has given its consent for us to quote from the Ipsos Report and to use information contained in the Ipsos Report in this prospectus.

INDUSTRY OVERVIEW

All of the information, data and forecasts contained in this section are derived from the Ipsos Report, various official government publications and other publications.

ASSUMPTIONS AND PARAMETERS USED IN THE IPSOS REPORT

Analyses in the Ipsos Report are based on the following assumptions:

- (i) the global economy remains in steady growth from 2018 to 2021; and (ii) the external environment remains stable and there are no shocks, such as financial crises or natural disasters, that will influence the demand and supply of the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC from 2018 to 2021.

The following parameters were taken into account in the market sizing and forecasting model in the Ipsos Report:

- (i) GDP and GDP growth rate in the PRC, the U.S. and Europe from 2012 to 2017, and forecast from 2018 to 2021; (ii) total number of population, breakdown by gender in the U.S. and Europe from 2012 to 2017, and the forecast from 2018 to 2021; (iii) number of marriages in the U.S. and Europe from 2012 to 2017 respectively; (iv) foreign exchange rates for (i) HK\$-to-Euros, (ii) HK\$-to-US\$, and (iii) HK\$-to-CNY from 2012 to 2017; and (v) total import value of selected apparel products ⁽¹⁾ in the U.S. and Europe from 2012 to 2017.

Note:

- (1) Selected apparel products refer to (i) knitted or crocheted women's dresses of synthetic fibers; (ii) knitted or crocheted girls' skirts or divided skirts of synthetic fibers; and (iii) non-knitted or no-crocheted women's or girls' dresses of synthetic fibers, which were chosen to represent the trade data of bridal gowns, bridesmaid dresses and special occasion dresses.

RELIABILITY OF INFORMATION IN THE IPSOS REPORT

Our Directors confirmed that, as at the Latest Practicable Date, after due and reasonable consideration, there had been no material adverse change in the market information since the date of the Ipsos Report which may qualify, contradict or have an impact on the information in this section.

OVERVIEW OF THE MACROECONOMIC INFORMATION OF THE U.S. AND EUROPE

The United States' population and number of marriages

From 2012 to 2017, the population in the U.S. grew from 314.0 million to 325.7 million, representing a CAGR of 0.7%. During 2018 to 2021, the population in the U.S. is expected to grow from 328.1 million in 2018 to 335.4 million in 2021, representing a CAGR of 0.7%. The population growth in the U.S. was mainly attributed to the gentle rise in net immigration, which estimated to increase at a CAGR of 1.8% from 2012 to 2016.

INDUSTRY OVERVIEW

The number of marriages in the U.S. increased from 2.1 million in 2012 to 2.3 million in 2017, representing a CAGR of 1.3%. The rise was supported by the improvement in financial confidence and the capability of Americans to pay for marriage ceremonies, as the disposable income per capita in the U.S. increased from US\$39,455 in 2012 to US\$44,114 in 2017, representing a CAGR of 2.3%. During the forecast period from 2018 to 2021, the number of marriages is expected to increase at a CAGR of 1.1%.

Europe's population and number of marriages

Europe's population grew from 503.2 million people in 2012 to 509.6 million people in 2017, representing a CAGR of 0.3%. The relatively stable growth trend was mainly attributed to the longer lifespans enjoyed by its citizens, with the percentage of its population aged 65 or older increased from 17.9% in 2012 to 19.4% in 2017, and the rise in the number of refugees and immigrants from politically unstable countries in neighbouring regions.

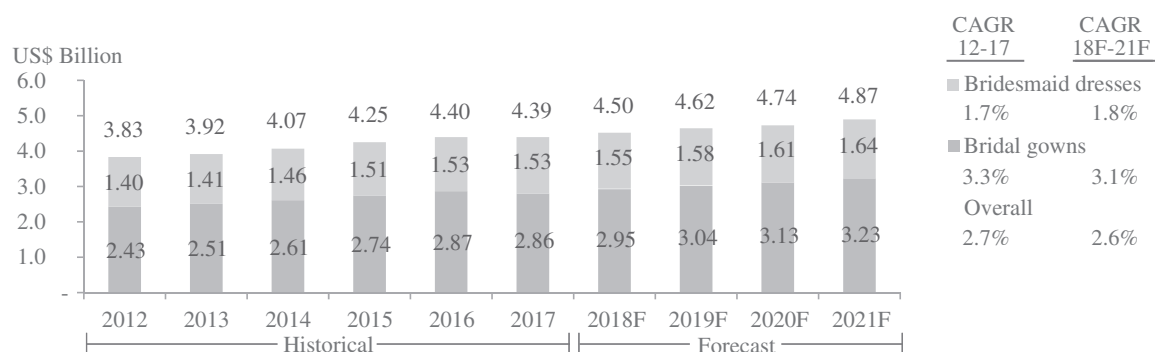
The number of marriages registered in Europe during the period from 2012 to 2017 recorded a small increase, maintaining at 2.2 million. The overall fluctuation can be mainly explained by cultural and financial concerns. There has been a rising trend for unmarried couples to cohabit and raise children together outside the bond of marriage in Europe. In addition, the average cost of hosting a wedding ceremony in Europe has also been increasing. The financial challenge from the rising cost of wedding ceremony combined with the sluggish European economy discourages young Europeans from getting married.

INDUSTRY OVERVIEW

OVERVIEW OF THE BRIDAL GOWNS, BRIDESMAID DRESSES AND SPECIAL OCCASION DRESSES RETAIL MARKETS IN THE U.S. AND EUROPE

Retail sales value of bridal gowns and bridesmaid dresses in the U.S.

The graph below sets forth the historical and forecasted retail sales value of bridal gowns and bridesmaid dresses in the U.S. from 2012 to 2017 and from 2018 to 2021, respectively:



Source: Ipsos research and analysis

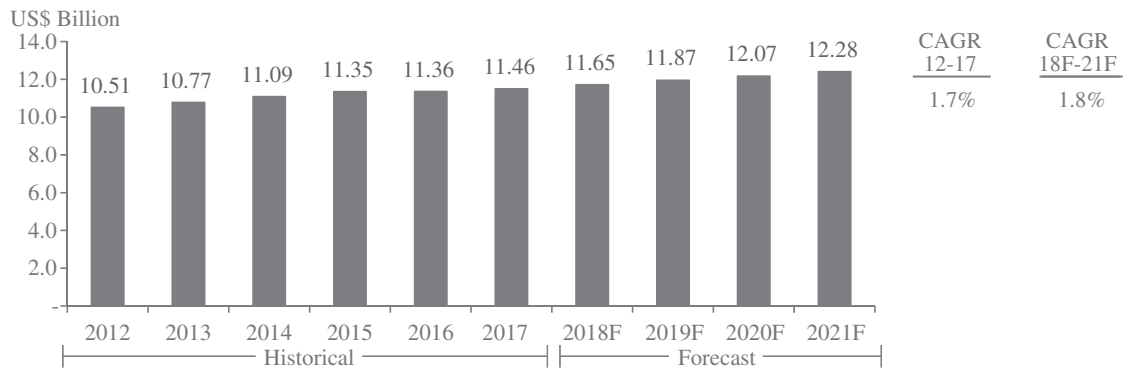
The retail sales value of bridal gowns increased at a CAGR of approximately 3.3%, while the retail sales value of bridesmaid dresses increased at a CAGR of 1.7% from 2012 to 2017. The increase in the retail sales value of bridal gowns and bridesmaid dresses in the U.S. can be explained by the moderate growth in the number of marriages, together with the increase in disposable income with the better economic environment in the U.S. during the aforesaid period.

During the forecast period from 2018 to 2021, the overall retail sales values of bridal gowns and bridesmaid dresses in the U.S. are expected to grow at a slower pace, at a CAGR of 2.6%, due to the expectation of a slower growth in the number of marriages. Nevertheless, with the increasing popularity of (i) customised wedding outfits; and (ii) wearing multiple wedding gowns during the ceremony, the retail sales values of bridal gowns and bridesmaid dresses are expected to increase moderately in the near future.

INDUSTRY OVERVIEW

Retail sales value of special occasion dresses in the U.S.

The graph below sets forth the historical and forecasted retail sales value of special occasion dresses in the U.S. from 2012 to 2017 and from 2018 to 2021, respectively:

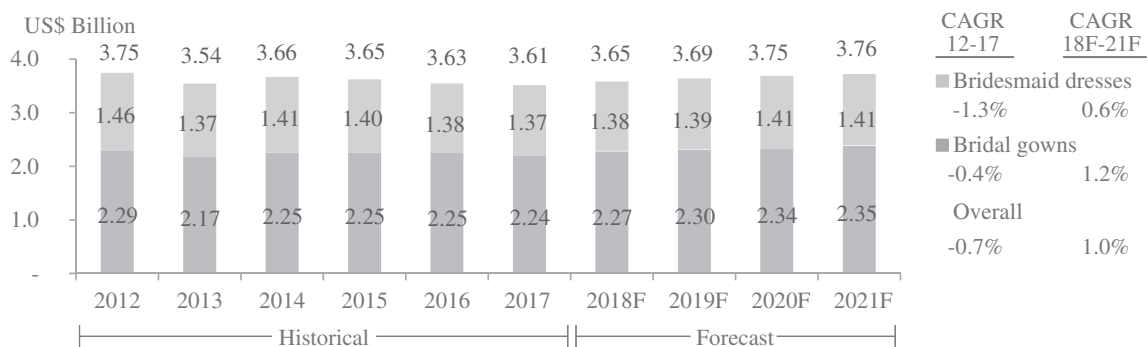


Source: Ipsos research and analysis

The retail sales value of the special occasion dresses in the U.S. grew at a CAGR of 1.7% from 2012 to 2017. The apparel retail market in the U.S. is mature and therefore the demand for overall apparel products, including special occasion dresses, is stable, which led to a constant increase in the retail sales value of special occasion dresses in the U.S.. Supported by the stable macro-economic environment in the U.S. and the continued demand for special occasion dresses, it is expected that the retail sales value of special occasion dresses will grow moderately, at a CAGR of 1.8%, sharing a similar growth rate of the historical retail sales value from 2012 to 2017.

Retail sales value of bridal gowns and bridesmaid dresses in Europe

The graph below sets forth the historical and forecasted retail sales value of bridal gowns and bridesmaid dresses in Europe from 2012 to 2017 and from 2018 to 2021, respectively:



Source: Ipsos research and analysis

The retail sales value of bridal gowns and bridesmaid dresses in Europe decreased from 2012 to 2017, at a negative CAGR of approximately 0.4% and 1.3%, respectively. The overall decrease can be explained by the decrease in average price of bridal gowns and bridesmaid dresses from 2012 to 2017 at a CAGR of -1.0% and -1.9%, respectively.

INDUSTRY OVERVIEW

With the number of marriage in Europe expected to slightly fluctuate without noticeable growth, the slight increase in the revenue of both industries during the forecasted period from 2018 to 2021 can be attributed to the two-wedding dresses trend. Since bridal gowns started becoming more bulky and heavier, there is a need for the bride-to-be to have their second dress with a shorter hemline, which is more suitable for the cocktail hour. The appearance of affordable gowns and dresses is another reason contributing to the forecasted growth. The abovementioned reasons are expected to directly boost the growth of demand for bridal gowns and bridesmaid dresses and offset the adverse impact on the market brought by the fluctuation of the number of marriages.

Estimated retail sales value of the special occasion dresses in Europe

The graph below sets forth the historical and forecasted retail sales value of special occasion dresses in Europe from 2012 to 2017 and from 2018 to 2021, respectively:



Source: Ipsos research and analysis

The retail sales value of special occasion dresses in Europe increased at a CAGR of approximately 1.9% from 2012 to 2017. The apparel retail market in Europe is mature with a constant demand for apparel products, including special occasion dresses. In light of the gradual growth of population in Europe, the retail sales value of special occasion dresses experienced a stable increment during the period from 2012 to 2017. Given that the European economy is gradually recovering with an improvement in consumer confidence, the special occasion dresses retail market is expected to grow faster from 2018 to 2021 compared to from 2012 to 2017, at a CAGR of approximately 2.2%.

INDUSTRY OVERVIEW

OVERVIEW OF THE BRIDAL GOWNS, BRIDESMAID DRESSES AND SPECIAL OCCASION DRESSES MANUFACTURING INDUSTRIES IN THE PRC



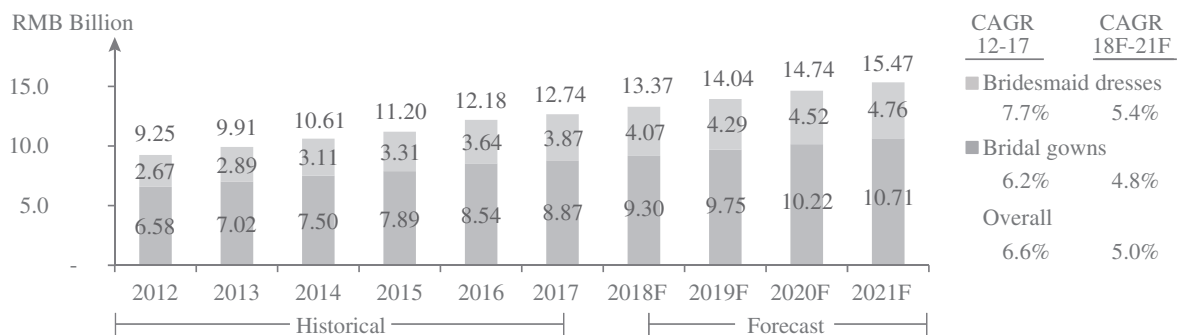
Source: Ipsos research and analysis

Nowadays, Chaozhou, Guangzhou, Suzhou and Xiamen are the four major production bases of bridal gowns, bridesmaid dresses and special occasion dresses in the PRC. These cities have strong embroidery history, allowing them to build up their reputation in producing apparel products which require high technical skills, including bridal gowns, bridesmaid dresses and special occasion dresses. Such cities have assisted the PRC in becoming the largest manufacturing hub of bridal gowns, bridesmaid dresses and special occasion dresses in the world.

The U.S. is the largest export destination of bridal gowns and bridesmaid dresses from the PRC. As many U.S. couples choose to have their wedding in the second half of the year, the seasonality is also present in the manufacturing industries in the PRC.

Revenue of the bridal gowns and bridesmaid dresses manufacturing industries in the PRC

The graph below sets forth the historical and forecasted total revenue of the bridal gowns and bridesmaid dresses manufacturing industries in the PRC from 2012 to 2017 and from 2018 to 2021, respectively:



Source: Ipsos research and analysis

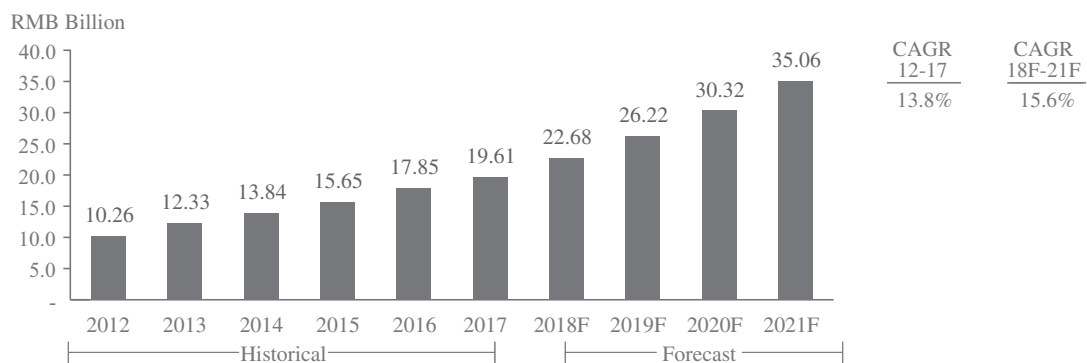
INDUSTRY OVERVIEW

During the period from 2012 to 2017, the revenue of the bridal gowns manufacturing industry in the PRC increased at a CAGR of approximately 6.2%. As for the bridesmaid dresses manufacturing industry in the PRC, the total revenue increased at a CAGR of approximately 7.7% during the same period. The aforesaid increases were due to the constant demand from foreign countries and the increasing domestic demand for bridal gowns and bridesmaid dresses. The constant foreign demand can be reflected by the increasing export value while the increase in domestic demand was contributed by the increase in popularity in mixed style (Chinese and Western) weddings in the PRC.

The forecasted total revenue of the bridal gowns and bridesmaid dresses manufacturing industry in the PRC is expected to increase at a CAGR of approximately 4.8% and 5.4% from 2018 to 2021, respectively. Given the mixed-style wedding trend is expected to gain its popularity continuously and expand to other major cities in China, the domestic demand for wedding outfits will increase constantly and drive the future growth of the industries. In addition, constant demand from foreign countries will also support the future growth of the industries. Take for instance, the retail sales of bridal gowns and bridesmaid dresses in the United States are forecasted to increase at CAGR of 3.2% and 2.0% respectively from 2017 to 2021.

Revenue of the special occasion dresses manufacturing industry in the PRC

The graph below sets forth the historical and forecasted total revenue of the special occasion dresses manufacturing industry in the PRC from 2012 to 2017 and from 2018 to 2021, respectively:



Source: Ipsos research and analysis

The total revenue of the special occasion dresses manufacturing industry in the PRC grew at a CAGR of approximately 13.8% during the period from 2012 to 2017. Due to cultural integration, people living in the PRC are more open to wearing special occasion dresses at different events and as a result, the domestic demand for special occasion dresses has been greatly driven. The forecasted total revenue of the special occasion dresses manufacturing industry in the PRC is expected to increase at a CAGR of approximately 15.6% during the period from 2018 to 2021. A major factor contributing to the expected growth is the government's initiative demonstrated in the tax refund policies for qualified cross-border e-commerce retail export enterprises. This encourages manufacturers to expand their business to overseas retail market by using the cross-border e-commerce platforms. With the aid from the government, the total revenue of the special occasion dresses manufacturing industry in the PRC is expected to grow significantly in the near future.

INDUSTRY OVERVIEW

Price trend of key raw materials

The following table shows the average price of key materials used in the production of bridal gowns, bridesmaid dresses and special occasion dresses in the PRC from 2012 to 2017:

	2012	2013	2014	2015	2016	2017	CAGR '12-17
Chiffon (RMB per meter)	4.42	4.36	4.34	4.32	4.37	4.52	0.5%
Cotton Chemical Lace ⁽¹⁾ (RMB per yard)	3.20	3.45	3.52	3.40	3.53	3.73	3.1%
Satin ⁽²⁾ (US\$ per meter)	2.78	2.65	2.66	2.27	2.41	2.85	0.5%

Notes:

- (1) Cotton chemical lace refers to 100% cotton water-solubility lace (3.5cm width)
- (2) Price trend of satin refers to the average import price of woven fabrics of nontextured polyester filaments, containing 85% or more of nontextured polyester filaments

Source: Ipsos research and analysis

Chiffon

The average price of chiffon in the PRC recorded an overall increase at a CAGR of approximately 0.5% from 2012 to 2017. Applying recent advancements in the use of chemical fibers in apparel production, manufacturers have been using polyester to produce chiffon. The falling price trend for embroidered chiffon from 2012 to 2015 can be explained by the decrease in the price of polyester fully drawn yard fiber. Nevertheless, supported by the recovery of crude oil price, the price of chiffon has rebounded since 2016.

Cotton chemical lace

The average price of cotton chemical lace in the PRC experienced an overall increase at a CAGR of approximately 3.1% from 2012 to 2017. The increase in the average price of the material can be explained by increasing production cost of cotton chemical lace. The main raw material used to produce cotton chemical lace is polyvinyl alcohol, and its price has been experiencing an overall upward trend because of insatiable global demand, causing an increase in production cost of cotton chemical lace.

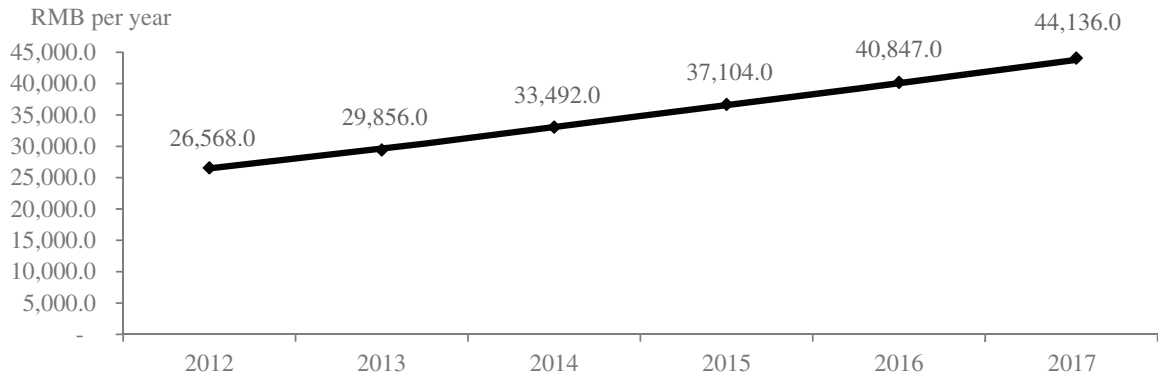
Satin

The average price of satin in the PRC fluctuated and experienced an overall increase from 2012 to 2017 at a CAGR of 0.5%. Satin is usually made from silk, nylon or polyester. Sharing similar price trends with chiffon, the average price of polyester satin also followed similar price trend of polyester, which fell from 2012 to 2015 before rebounding in 2016.

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Average wage of workers engaging in the apparel manufacturing industry in the PRC

The graph below sets forth the average wage of workers engaging in the apparel manufacturing industry in the PRC from 2012 to 2017:



Source: Ipsos research and analysis

The average yearly wage of workers engaging in the apparel manufacturing industry in the PRC increased from RMB26,568.0 per year in 2012 to RMB44,136.0 per year in 2017 at a CAGR of approximately 10.7%. The increasing average wage of employees is due to several socio-economic factors, including inflation and the decrease in labour supply. For instance, inflation has been occurring under the loosening of the monetary policy, while the decreasing labour supply can be explained by the impact of the One-Child Policy in the PRC.

COMPETITIVE ANALYSIS OF THE BRIDAL GOWNS, BRIDESMAID DRESSES AND SPECIAL OCCASION DRESSES MANUFACTURING INDUSTRIES IN THE PRC

Industry structure

In 2017, there were approximately 6,000 manufacturers producing bridal gowns, bridesmaid dresses and/or special occasion dresses in the PRC. The industries are highly fragmented as the top players among the industries only accounted for a small portion of market share with the presence of a large number of manufacturers. In 2017, the top five bridesmaid dresses manufacturers only head in aggregate 5.8% of the market share of the bridesmaid dresses manufacturing industry. Despite the presence of relatively large-scale manufacturers, most of the players in the industries are small family-owned business and small factories. These small-scale manufacturers generally operate with low production techniques and management skills, leading to uneven quality in their products and services when compared with those offered by large-scale competitors.

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Top 5 bridesmaid dresses manufacturers in the PRC in 2017

The graph below sets forth the top five bridesmaid dresses manufacturers in the PRC in 2017:

Rank	Company	Manufacturing Location	Revenue in 2017 ¹ (RMB\$ million)	Market Share ²	Principal Business
1	Our Group	Dongguan	112.6 ³	2.9%	Our Group is a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses.
2	Company A	Xiamen	50.7	1.3%	Produces wedding outfits and special occasion dresses which are sold to the America, Europe and Japan.
3	Company B	Chaozhou	23.5	0.6%	Produces wedding outfits and special occasion dresses which are export-oriented.
4	Company C	Dandong	21.4	0.6%	Manufactures wedding outfits, special occasion dresses, lace, embroidery and apparel accessories which are sold to countries such as the U.S., Italy, France and Russia.
5	Company D	Xiamen	17.1	0.4%	Produces wedding outfits and special occasion dresses which are sold to the America, Europe and Australia.
	Others		3,645.3	94.2%	
	Total		<u>3,870.6</u>	<u>100.0%</u>	

Notes:

- (1) Figures may not correspond with the sum of the figures due to rounding.
- (2) Percentages may not add up to 100% due to rounding.
- (3) Equivalent to HK\$129.8 million.

Sources: Ipsos research and analysis

INDUSTRY OVERVIEW

Factors of competition

Track record of quality products and on-time delivery

Manufacturers build up their reputational goodwill when they consistently maintain the high quality of their products and deliver them on time. Their good track records help differentiate them from competitors as well as attract new customers and retain existing customers. To ensure on-time delivery, manufacturers need to be strong in supply chain management which helps to reduce their production costs, compress average production lead time and maintain sustainable levels of inventories. It is vital that manufacturers have good supply chain management skills to meet the demands of their markets and the needs of their customers by making on-time delivery of high quality goods.

Possession of advanced production technique and management system

Another major competitive factor is access to advanced and standardised production techniques. Most apparel manufacturers in Chaozhou have obtained ISO9001:2000 certification to ensure their ability to meet the needs of customers and other stakeholders as well as to comply with statutory and regulatory requirements. To stay competitive, manufacturers of bridal gowns, bridesmaid dresses and special occasion dresses also utilise advanced production techniques and management systems, such as the use of computer-aided design and manufacturing (CAD/CAM), flexible manufacturing system (FMS) and management information system (MIS). These techniques and systems help manufacturers adapt and cope with the unique features of their markets including small-quantity orders, short lead time and large product variety.

Possession of a capable product research and design team

Competitive manufacturers have strong capabilities to develop new products through efforts in research and design. Experienced product development teams can help manufacturers stay in touch with the ever-changing preferences of their customers and produce goods that cater for the shifting demands of their markets. They can help manufacturers attract more customers, retain existing customers and build up their reputations within the industry.

Market drivers

Increasing number of marriages in the U.S.

The U.S. is one of the major bridal gowns and bridesmaid dresses retail markets in the world. The number of marriages in the U.S. increased from 2.1 million in 2012 to 2.3 million in 2017 at a CAGR of 1.3%. During the forecast period from 2018 to 2021, the number of marriages is expected to increase at a CAGR of 1.1%. The increased number of marriages have contributed to the increasing number of brides and bridesmaids, supporting the demand for bridal gowns and bridesmaid dresses in the U.S.. Since the PRC is the largest supplier of bridal gowns and bridesmaid dresses to the U.S., the increase in the demand from the U.S. has acted as a growth driver of the bridal gowns and bridesmaid

INDUSTRY OVERVIEW

resses manufacturing industries in the PRC, resulting in the increase in revenue of the industries at a CAGR of approximately 6.2% and 7.7% from 2012 to 2017, respectively. For the forecast period from 2018 to 2021, the bridal gowns and bridesmaid dresses manufacturing industries in the PRC is expected to grow at a CAGR of approximately 4.8% and 5.4% respectively.

Opportunities

China's industrial transformation and upgrading

As the efficiency and quality of Chinese producers are highly uneven, the PRC government initiated “Made in China 2025” (《中國製造2025》) in 2015 to improve the situation. Made in China 2025 is a guide to transform and upgrade the manufacturing industry with a goal to making it more efficient and integrated by applying new advanced supply chain management, automated machine tools, and new materials. It provides clear measures to traditional manufacturers, including the bridal gowns, bridesmaid dresses and special occasion dresses manufacturers, for innovation, quality, intelligent manufacturing and green production. In addition, traditional manufacturers can also benefit from the supports brought by tax incentives and loan policies. The policies provide a favourable environment and substantial opportunities for the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC.

Business opportunities come along with the Belt and Road

In March 2015, the PRC government issued “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road” 《推動共建絲綢之路經濟帶和21世紀海上絲綢之路的願景與行動》 (“**The Vision and Actions**”). The Vision and Actions states that investment and trade cooperation is a major task in building the Belt and Road. It also states that expansion of trading areas, improvement of trade structure, exploration of new growth areas of trade and promotion of trade balance are part of the development plans. In light of The Vision and Actions, the apparel manufacturing industry, including the bridal gowns, bridesmaid dresses and special occasion dresses industries, is expected to achieve increase in exports. The countries having joint the Belt and Road can be the potential growth points for the bridal gowns, bridesmaid dresses and occasion dresses manufacturing industries.

Entry barriers

Well-established relationship with brand owners by existing manufacturers

Bridal gowns, bridesmaid dresses and special occasion dresses are precisely niche products with relatively high manufacturing techniques. Therefore, brand owners tend to form long-term relationship with their manufacturers, as the cost for changing manufacturers is high. Since existing manufacturers in the industry have already established stable business relationships with brand owners, new entrants may find it difficult to convince brand owners for switching manufacturers, hindering them from entering the market.

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High initial investment in machinery, software and human resources

Capability to provide high quality and well-fitting design of bridal gowns, bridesmaid dresses and special occasion dresses is the core factors of competition for manufacturers to maintain their competitiveness. Innovative and advanced production supports, such as laser cutting machines and 3-D garment rendering software, are essential for manufacturers to produce well-fit products with the best effect and cutting. However, these machines and software require a relatively high capital requirement. The fast-changing market trend requires manufacturers to have a continuous investment in professional research and development team with great market understanding and senses, which enable them to react timely to the fast-changing market trend. Both possession of machinery and professional human resources require large initial capital and time investment, acting as an entry barrier for new entrants.

Threats

Intense competition from other countries with lower labour and production costs

The bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC are slowly losing global competitive advantages due to the increasing production costs. In contrast, the low production costs in developing countries located in Southeast Asia and other regions have surged both domestic and foreign investments to their apparel manufacturing industry. Therefore, a number of manufacturers in the PRC have relocated their factories to some of the Southeast Asian countries, such as Vietnam, Cambodia and Sri Lanka. Meanwhile, the governments of those countries have implemented supportive policies in favour of the overall apparel manufacturing industry. As a result, the increasing competition from Southeast Asian countries and the decrease in the global competitiveness in terms of production cost in the PRC pose a threat to the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC, possibly undermining the profitability and business opportunities of the manufacturers.

Vicious price competition with simulating designs

Along with the fast development of the economy and speedy spread of information, new generation couples usually have higher expectation and requirements on bridal gowns and bridesmaid dresses which are aligned with the global trend. However, the products provided by the domestic manufacturers in the PRC are highly homogeneous with small differentiation, which may not be able to fulfil the heightened requirements of customers. Moreover, in order to push the sales turnover and increase the market share within a short period of time, many small domestic manufacturers tend to compete on price by simulating designs from the market. The unscrupulous competition is expected to hinder the growth of the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC, as the trend of simulating design would discourage manufacturers to invest in product design while vicious price competition would undermine the profitability level of the industries.

INDUSTRY OVERVIEW

COMPETITIVE ADVANTAGES OF OUR GROUP

Good market reputation and relatively large market share

Good market reputation is perceived as one of the fundamental competitive advantages for apparel manufacturers in the PRC. Our Group's ranking and its market shares in the bridesmaid dresses manufacturing industry in the PRC reflect our Group's good reputation and competitiveness in the market. While the PRC is the leading manufacturing hub of bridesmaid dresses in the world and accounting for a global share of approximately 65% in terms of production revenue, our Group was the largest bridesmaid dresses manufacturer with the highest revenue generated in the PRC in 2017. Regarding the U.S. retail market, the total quantity of bridesmaid dresses sold in 2017 is estimated to be 5.6 million pieces. Taking into account of the 399,042 pieces of bridesmaid dresses sold by us to the U.S. in 2017, we accounted for a 7.1% market share in terms of the quantity of bridesmaid dresses sold in the U.S. in 2017. The established reputation with relatively high market shares allows us to expand our customer base and continue our growth in the industry.

Able to fulfil the compliance requirement of leading apparel retailers

It is generally perceived that the capability to maintain stable business relationships with leading international apparel retailers is one of the key competitive advantages for apparel manufacturers. The compliance requirements of these retailers are usually strict to ensure product quality, as well as business ethics. Manufacturers who cannot fulfil the compliance requirements would not be able to establish business relationships with them. For instance, one of our customers, an international brand apparel company, has laid out strict sourcing guidelines for manufacturers covering labour, environmental, health and safety standards. Our ability to meet the standards of these retailers and maintain stable business relationships with them reflects our strong competence which out-compete other players in the industry.

Able to provide one-stop solution for customers

We are able to provide one-stop solutions to our customers including fashion trend analysis, product design and development, raw material procurement, production, quality assurance and inventory management. We actively create designs and provide advice on the selection of materials for our customers' consideration and jointly develop products with them by applying our extensive industry knowledge and market intelligence which we have accounted over the years. Our one-stop solutions have helped us in differentiating ourselves from other players in the industries.

REGULATORY OVERVIEW

HONG KONG REGULATORY OVERVIEW

The following is a summary of certain aspects of the Hong Kong laws and regulations which are relevant to our Group's operation and business within the territory of Hong Kong.

Import and export declaration

Import and Export Ordinance, Import and Export (General) Regulations and Import and Export (Registrations) Regulations

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) is an ordinance to provide for, among others, the regulation and control of the import of articles into Hong Kong and the export of articles from Hong Kong.

Textiles, which include any natural or artificial fibre products and any combination of natural and artificial fibre as defined under the Import and Export (General) Regulations (Chapter 60A of the Laws of Hong Kong), a subsidiary legislation of the Import and Export Ordinance, are currently not a "prohibited article" under the provision of the Import and Export Ordinance and its subsidiary legislations. Thus, a licence issued by the Director-General of Trade and Industry for permission of importation and exportation is not necessary under the Import and Export Ordinance. However, we can apply for registration under the Import and Export (General) Regulations as a registered textiles trader under the textiles trader registration scheme ("TTRS"). TTRS is a voluntary registration scheme and is not a mandatory requirement for us to conduct our business.

The Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong), a subsidiary legislation of the Import and Export Ordinance, provides that when importing or exporting any articles into or out of Hong Kong, the importer or exporter must lodge an accurate and complete import or export declaration with the Customs and Excise Department.

Tax

Inland Revenue Ordinance

The Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) is an ordinance for the purposes of imposing taxes on property, earnings and profits in Hong Kong. The Inland Revenue Ordinance provides, among others, that persons, which include corporations, partnerships, trustees and bodies of persons, carrying on any trade, profession or business in Hong Kong are chargeable to tax on all profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. As at the Latest Practicable Date, the standard profits tax rate for corporations is at 16.5%. The Inland Revenue Ordinance also contains provisions relating to, among others, permissible deductions for outgoings and expenses, set-offs for losses and allowances for depreciation.

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The Inland Revenue Ordinance also provides for rules relating to transfer pricing adjustments. Section 20(2) of the Inland Revenue Ordinance provides that where a resident person conducts transactions with a “closely connected” non-resident person in such a way that if the profits arising in Hong Kong are less than the ordinary profits that might be expected to arise, the business performed by the non-resident person in pursuance of his or her connection with the resident person shall be deemed to be carried on in Hong Kong, and the non-resident person shall be assessable and chargeable with tax in respect of his or her profits from such business in the name of the resident person. Section 20A of the Inland Revenue Ordinance gives the Inland Revenue Department (the “IRD”) wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the Inland Revenue Ordinance and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the Inland Revenue Ordinance.

The Departmental Interpretation and Practice Notes No. 45 — Relief from Double Taxation due to Transfer Pricing or Profit Reallocation Adjustments issued by the IRD in April 2009 provides that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the tax treaty between Hong Kong and that country.

Labour, health and safety

Occupational Safety and Health Ordinance

Under the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong), employers must, as far as reasonably practicable, ensure safe and healthy conditions in their workplaces by:

- providing and maintaining plant and work systems that do not endanger safety or health;
- making arrangement for ensuring safety and health in connection with the use, handling, storage or transport of plant or substances;
- providing all necessary information, instruction, training, and supervision for ensuring safety and health;
- providing and maintaining safe access to and egress from the workplaces; and
- providing and maintaining a safe and healthy work environment.

REGULATORY OVERVIEW

Employment Ordinance

The Employment Ordinance (Chapter 57 of the Laws of Hong Kong) is an ordinance for, among others, the protection of the wages of employees and the regulation of the general conditions of employment and employment agencies in Hong Kong. The Employment Ordinance covers a comprehensive range of employment protection and benefits for employees including, among others, wage protection, paid annual leave, maternity protection, payment in lieu of notice and long service payment.

Mandatory Provident Fund Schemes Ordinance

Under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), the employers shall participate in a Mandatory Provident Fund Scheme (the “MPF Scheme”) for employees employed under the jurisdiction of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Contributions to the plan vest immediately.

Employees’ Compensation Ordinance

Under the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities both under the Employees’ Compensation Ordinance and at common law for injuries at work in respect of all their employees (comprising full-time and part-time employees).

Minimum Wage Ordinance

The current Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance. Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by the Minimum Wage Ordinance is void.

Intellectual property

Registered Designs Ordinance and Registered Design Rules

The Registered Designs Ordinance (Chapter 522 of the Laws of Hong Kong) is an ordinance to provide for registered design right and related matters.

REGULATORY OVERVIEW

Design elements of a wide range of products such as the shape, configuration, pattern or ornament of an article can be registered as registered designs provided that they appeal to and can be judged by the eye in the finished article. In order to obtain protection as registered designs in Hong Kong, designs must be registered under the Registered Designs Ordinance and the Registered Designs Rules (Chapter 522A of the Laws of Hong Kong), a subsidiary legislation of the Registered Designs Ordinance. It is not a mandatory requirement to register a design in Hong Kong.

The registration of a design under the Registered Designs Ordinance gives to the registered owner the exclusive right to the design in relation to the article for which the design is registered. The period of protection of a registered design is renewable for periods of five years, up to a maximum of 25 years in total.

PRC REGULATORY OVERVIEW

This section sets forth a summary of the general PRC laws and regulations applicable to our Group's business in the PRC. Information contained in the following should not be constructed as a comprehensive summary of laws and regulations applicable to us.

Wholly Foreign-owned Enterprise

Under the Provisions Guiding Foreign Investment Direction (指導外商投資方向規定), which was promulgated by the State Council on 11 February 2002, the Catalogue for the Guidance of Foreign Investment Industries (2017 Revision) (外商投資產業指導目錄) (2017年修訂) (the "Catalogue"), which was jointly promulgated by the National Development and Reform Commission of the PRC (the "NDRC") and the MOFCOM, and Special Administrative Measures for Access of Foreign Investment (Negative List) (2018 Edition) (外商投資准入特別管理措施(負面清單)(2018年版)) ("Negative List"), foreign investment projects in the PRC which fall into the Negative List shall satisfy the relevant requirements set out in the Negative List. The business of our subsidiary established in the PRC is not subject to the special administrative measures for access of foreign investment.

The establishment, operation and management of HYG, our subsidiary established in the PRC, are governed by the PRC Company Law (中華人民共和國公司法), which was promulgated on 29 December 1993 and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005, 28 December 2013 and 26 October 2018. Pursuant to the PRC Company Law, foreign-invested companies, including both limited liability companies and companies limited by shares, are also regulated by the PRC Company Law, unless where foreign-investment related laws provided otherwise.

The establishment procedures, verification and approval procedures, foreign exchange control, accounting practices, taxation, labor matters and all other relevant matters of HYG, being a wholly foreign-owned enterprise, are subject to the Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (the "Wholly Foreign-owned Enterprise Law"), which was promulgated by the Standing Committee of the National People's Congress of the PRC (the "SCNPC") on 12 April 1986 and amended on 31 October 2000 and 3 September 2016, and its implementation rules. According to the amendment to the Wholly Foreign-owned Enterprise Law made on 3 September 2016 and the Provisional Measures for Filing Administration of Establishment and Changes of Foreign

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Invested Enterprise (外商投資企業設立及變更備案管理暫行辦法), which was promulgated on 8 October 2016 and amended on 30 July 2017 and 29 June 2018, any major changes of wholly foreign-owned enterprises which are not subject to the implementation of special administrative measures for admission stipulated by the PRC shall be subject to filing administration.

Processing Trade

According to the Provisional Measures for Administration of the Examination and Approval of Processing Trade (加工貿易審批管理暫行辦法) promulgated by the Ministry of Foreign Trade and Economic Cooperation (later renamed as MOFCOM) on 27 May 1999, the import and export enterprises and foreign-invested enterprises which enter into import or export contracts for processing trade with foreign clients, as well as the service companies which have obtained the operation license for processing of materials provided by foreign clients and are dealing in processing and assembling trade with foreign clients (collectively “Operating Enterprises”), can only engage in processing business (including processing with supplied materials (來料加工) and processing with purchased materials (進料加工) upon approval of relevant competent authority of foreign trade and economy.

According to the Measures of the Customs of the PRC on the Supervision and Administration of Processing Trade Goods (中華人民共和國海關加工貿易貨物監管辦法) (the “Processing Trade Goods Measures”) promulgated on 12 March 2014 and amended on 20 December 2017 and 29 May 2018, enterprises engaging in processing trade operation, processing enterprises and contractors of processing trade shall go through the procedure with competent customs authorities regarding the establishment of manuals, import and export declaration, processing, supervision and write-off of processing trade goods pursuant to the relevant regulations under the Processing Trade Goods Measures. Materials for processing trade goods shall be used for the designated purposes only. Without the approval by the customs authorities, processing trade goods may not be pledged. Operating Enterprises are subject to the Processing Trade Goods Measures and therefore shall go through the procedure with the relevant competent customs authorities regarding the establishment of a processing trade goods manual.

Pursuant to the Announcement on matters related to canceling the examination and approval of processing trade business and establishing sound supervision mechanism in the national scope (關於在全國範圍內取消加工貿易業務審批、建立健全事中事後監管機制有關事項的公告), which was promulgated on 25 August 2016 and became effective on 1 September 2016, the approval requirement for the processing trade contracts has been abolished. According to the foregoing announcement, the enterprises engaging in processing trade shall establish or change their processing trade manuals at the customs by producing a valid Certificate of State of Operation and Production Capacity of the Trade Processing Enterprise (加工貿易企業經營狀況和生產能力證明).

Customs

Pursuant to the Customs Law of the PRC (中華人民共和國海關法), which was promulgated on 22 January 1987, and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, all inbound and outbound transportations, goods and articles shall, unless otherwise approved, enter or leave the territory at a place where there is a customs office of the PRC. Unless provided otherwise, the declaration of import/export goods may be completed by consignees

REGULATORY OVERVIEW

and consignors themselves, and such procedures may also be completed by their entrusted customs agencies that have registered with the customs. The declaration of inbound and outbound articles may be completed by the owners of such goods or their entrusted person. In addition, the consignors and consignees of the import/export goods and the customs agencies shall register themselves for declaration activities with the customs office. The consignee of import goods, the consignor of export goods and the owner of inbound and outbound articles shall be the payer of the customs duty. A fine may be imposed for any violation of the regulations on customs control prescribed in the Customs Law of the PRC, such as failure to make accurate declaration of the import or export goods to the PRC customs authority. Enterprises engaging in the processing trade shall be filed with the customs office. The amount of raw materials consumed during the production of the finished products shall be decided by the customs office. The finished products of processing trade shall be re-exported within the stipulated time limit.

According to the Provisions of the Customs of the PRC for the Administration of Registration of Customs Declaration Entities (中華人民共和國海關報關單位註冊登記管理規定), which was promulgated on 13 March 2014 and amended on 20 December 2017 and 29 May 2018, consignors and consignees of import/export goods shall, unless provided otherwise, go through customs declaration entity registration procedures with their respective local customs in accordance with the applicable provisions. After the registration with the customs, consignors and consignees of import/export goods may handle their own customs declarations at any customs port or any locality within the customs territory of the PRC where customs supervisory affairs are concentrated.

Product Liabilities

In accordance with the Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated on 22 February 1993 and was subsequently amended on 8 July 2000, 27 August 2009 and 29 December 2018, producers are liable for the quality of the products they produce. In the event that any person produces or sells products that do not comply with the relevant national and industrial standards for the protection of the health and safety of human and property, the relevant authority may order such person to suspend the production or sales, confiscate the products illegally produced or sold, impose a fine of an amount higher than the value of the products illegally produced or sold and less than three times of the value of such products, confiscate illegal gains (if any), and revoke the business license in severe cases. Where the activities constitute a crime, the offender will be prosecuted.

Pursuant to the Law of the PRC on the Protection of the Rights and Interests of Consumers (中華人民共和國消費者權益保護法), which was promulgated on 31 October 1993 and amended on 27 August 2009 and 25 October 2013 respectively, consumers' rights are protected when they purchase or use goods and accept services for daily consumption. All business operators must comply with this law when they supply self-manufactured goods or sell goods and provide services to customers. Breach of this law may lead to civil liability, rectification order, warning, fine, confiscation of illegal gains (if any), cease of operation or revocation of business license, etc. In extreme situations, breach of this law may lead to criminal liability.

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Pursuant to the PRC Tort Liability Law (中華人民共和國侵權責任法), which was promulgated on 26 December 2009, producers of products shall be liable for the damage caused to others by their defective products, and the injured party may seek compensation for such damage from either the producer or the seller. Where the defect in the product is caused by the producer, the seller may, after paying compensation, claim against the producer to recover the same. Where the defect in the product is caused by the seller, the producer may, after paying compensation, claim against the seller to recover the same.

Foreign Exchange Control

As the cross-border capital flows are common to us due to our business model, the PRC laws and regulations in relation to the foreign exchange have significant impact on our Group's business.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of foreign currency out of the PRC. The SAFE is responsible for administration of foreign exchange matters.

Under the existing PRC foreign exchange control regulations, all international payments and transfers are classified into current account items and capital account items. Foreign currency payments under the current account items category shall, in accordance with provisions of the foreign exchange administrative department under the State Council relating to payment and purchase of foreign currency, be made out of the payer's own foreign currency funds or be made with foreign currency purchased from any financial institution engaged in foreign exchange settlement and sales business with relevant valid documentation. Foreign currency income under the current account items category may be retained or sold to financial institutions engaged in foreign exchange settlement and sales business according to relevant rules. Foreign currency payments under the capital account items category shall, in accordance with the provisions of the foreign exchange administrative department under the State Council relating to payment and purchase of foreign exchange, be made out of payer's own foreign currency funds or be made with foreign currency purchased from any financial institution engaged in foreign currency settlement and sales business with valid documentation and, where an approval from the relevant foreign exchange administrative authority is required in accordance with the PRC provisions, the relevant approval shall be obtained before the foreign exchange payment is made. The payments under the current account items category can be made in foreign currencies by complying with certain procedural requirements without the prior approval from the SAFE. However, payments under the capital account items category are subject to significant foreign exchange controls and require the prior approval from the SAFE or the registration with the SAFE or its designated banks.

On 9 June 2016, the SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts (國家外匯管理局關於改革和規範資本項目結匯管理政策的通知) (the "SAFE Circular No. 16"). The SAFE Circular No. 16 unifies the Discretionary Foreign Exchange Settlement for all the domestic institutions. The Discretionary Foreign Exchange Settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the Discretionary Foreign Exchange

REGULATORY OVERVIEW

Settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of Discretionary Foreign Exchange Settlement of the foreign exchange capital is temporarily determined as 100%.

Furthermore, SAFE Circular No. 16 stipulates that the use of foreign exchange incomes of capital accounts by domestic enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the domestic enterprise from foreign exchange settlement shall not be used for the following purposes:

- (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations;
- (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products, unless otherwise provided by relevant laws and regulations;
- (iii) used for granting loans to non-connected enterprises, unless otherwise explicitly permitted by its business scope; and
- (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises).

Taxation in the PRC

EIT

According to the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), which was promulgated on 16 March 2007 and was amended and came into effect on 24 February 2017 and 29 December 2018, and its implementation rules (企業所得稅法實施條例) (collectively, the “EIT Law”), enterprises are classified into resident enterprises and non-resident enterprises. Enterprises, which are incorporated in the PRC or which are incorporated pursuant to the foreign laws with their “de facto management bodies” located in the PRC, are deemed as “resident enterprise” and subject to an enterprise income tax rate of 25% on their global income. Non-resident enterprises are subject to (i) an enterprise income tax rate of 25% on their income generated by their establishments or places of business in the PRC and its income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and (ii) an enterprise income tax rate of 10% on their income derived from the PRC but not connected with its establishments or places of business located in the PRC. Non-resident enterprises without an establishment or place of business in the PRC are subject to an enterprise income tax of 10% on their income derived from the PRC.

According to the EIT Law and its implementation rules, related party transactions should comply with the arm’s length principle (獨立交易原則) (i.e. to consummate transactions at a fair price and as per business norms), the tax authority may adjust the taxable revenue or income in compliance with reasonable methods (including comparable uncontrolled price method, resale price method, cost-plus method, transactional net profit method, profit split method and other methods that meet the arm’s

REGULATORY OVERVIEW

length principle). If the related party transactions fail to comply with the arm's length principle and result in the reduction of the enterprise's taxable revenue or income, the tax authority has the power to make a special adjustment within ten years from the tax paying year that the non-compliant related party transaction had occurred. Pursuant to such laws and regulations, any company entering into related party transactions with another company shall submit an annual related party transactions reporting form (年度關聯業務往來報告表) to the tax authority.

According to Announcement of the State Administration of Taxation on Relevant Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation (國家稅務總局關於完善關聯申報和同期數據管理有關事項的公告) (the "Circular 42") promulgated by SAT on 29 June 2016 and taking effect on the same day, enterprises which have related-party transactions shall prepare their contemporaneous documentation of related-party transactions (同期資料) per tax year and submit to the tax authority if required by the same. Contemporaneous documentation includes the master file (主體文檔), local file (本地文檔) and special issue file (特殊事項文檔), each of which is applied to different circumstances in relation to the related-party transactions of the PRC company.

Pursuant to the Announcement of the State Administration of Taxation on Issuing the Measures for the Administration of Investigation, Adjustment and Mutual Consultation Procedures of Special Tax (國家稅務總局關於發佈《特別納稅調查調整及相互協商程序管理辦法》) (the "Circular 6") promulgated by the SAT on 17 March 2017 and becoming effective on 1 May 2017, the enterprise shall maintain a reasonable profit level in principle if it engages in a single production business for its overseas related party, such as processing with supplied or purchased materials or engages in distribution and contract development business. If the said enterprise is in a loss, whether or not the enterprise meets the standards for preparing the contemporaneous documentation of related-party transactions under the Circular 42, it shall prepare the local file of contemporaneous documentation for the period of loss. The tax authority shall focus on the reviewing of the local file of the company and strengthen the monitoring and management. The tax authorities may adjust the tax where the company has borne the risk and losses which shall be borne by the related party due to the decision-making mistakes, insufficient start-up, slow sales of products, failure of research and development and etc.

Withholding Income Tax

Pursuant to the EIT Law, dividends generated after 1 January 2008 and payable by a foreign invested enterprise in the PRC to its foreign investors are subject to a 10% withholding income tax, unless otherwise provided in the tax treaty concluded between the PRC and such foreign investor's jurisdiction of incorporation.

Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) (the "Tax Treaty") concluded on 21 August 2006, the applicable withholding income tax rate for any dividends declared by a PRC company may be reduced to 5% for a beneficial owner being a Hong Kong resident enterprise holding at least 25% interest in its registered capital.

REGULATORY OVERVIEW

Pursuant to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of the Treatment under Tax Agreements (非居民納稅人享受稅收協定待遇管理辦法), which came into force on 1 November 2015 and was amended on 15 June 2018, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. If a competent tax authority, in the course of subsequent administration, finds out that a non-resident taxpayer enjoys convention treatment without meeting the conditions thereof and underpays or fails to pay them at all, it may instruct the non-resident taxpayer to pay the overdue taxes within a prescribed period.

VAT

The Provisional Regulations on Value-added Tax of the PRC (中華人民共和國增值稅暫行條例), which was promulgated on 13 December 1993 and was amended on 10 November 2008, 6 February 2016 and 19 November 2017, together with its implementation rules, set out that entities and individuals engaging in selling goods or labour services of processing, repair or maintenance, selling services, intangible assets or immovables in China, or importing goods to China are subject to the payment of VAT. Pursuant to the Notice of the Ministry of Finance and SAT on Adjusting VAT Rates (財政部、稅務總局關於調整增值稅稅率的通知) effective on 1 May 2018, a taxpayer who is previously subject to 17% on VAT-taxable sales activities shall have the applicable tax rate adjusted to 16%.

Environmental Protection

Our Group's business is subject to the various laws and regulations regarding the environmental protection in China.

Environmental Protection Law

The Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the "Environmental Protection Law"), which was promulgated on 26 December 1989 and was amended on 24 April 2014, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards and safeguard human health. The Environmental Protection Law requires that enterprises that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise, vibration, optical radiation and electromagnetic radiation, etc. generated during production, construction or other activities. Enterprises that discharge pollutants shall also establish an accountability system for environmental protection.

In addition, the PRC adopts the pollutant discharge license administration system in accordance with the law. Enterprises that are subject to the pollutant discharge license administration shall discharge pollutants according to the requirements under the pollutant discharge license and shall not discharge pollutants without obtaining the pollutant discharge license.

REGULATORY OVERVIEW

The Environmental Protection Law makes it clear that violation of said law may lead to various penalties being imposed on the non-compliant enterprise including warning, fine, order of rectification within a time limit, application to relevant people's government for compulsory cease of operation or shutout and even criminal punishment, etc.

Fire Prevention

The Fire Prevention Law of the PRC (中華人民共和國消防法) (the "Fire Prevention Law"), which was promulgated on 29 April 1998 and was amend on 28 October 2008, provides that the construction entity or entity using the public assembly venue shall, prior to the use and operation of any business thereof, apply for a safety inspection on fire prevention with the relevant fire prevention department, and such venue cannot be put into use and operation if it has not undergone the safety inspection on fire prevention or fails to conform to the safety requirements for fire prevention after such inspection. An enterprise shall prepare fire protection facilities and apparatuses according to the national standards and industrial standards, set up fire safety signs and conduct regular testing and maintenance so as to ensure that they are in good condition and effective, breach of which may lead to rectification order or fines being imposed.

Labour Protection

As our business operates on a labour-intensive basis and the number of the employees based in the PRC accounts for the majority of all of our employees, the PRC labour laws and regulations, especially the Labour Law of the PRC (中華人民共和國勞動法), the Labour Contract Law of the PRC (中華人民共和國勞動合同法) (the "Labour Contract Law") and the laws and regulations in relation to the social insurance and the housing provident fund, are material to our business.

Labour Law

The Labour Law of the PRC, which was promulgated on 5 July 1994 and was amended on 27 August 2009 and 29 December 2018, provides that employees are entitled to gain equal opportunities in employment, choose occupations, receive labour remuneration, have rest days and holidays, acquire protection of work safety and healthcare, social insurance and welfare, etc. Employers must establish and improve the system for work safety and healthcare, provide training on work safety and healthcare to employees, comply with national regulations on work safety conditions, and provide necessary labour protective supplies to employees.

Labour Contract Law

The Labour Contract Law, which was promulgated on 29 June 2007 and amended on 28 December 2012, together with its implementation rules, provide that the labour contracts shall be concluded in order to establish the labour relationship between employers and employees. The employer and employee shall fully perform their respective obligations as set forth in the labour contract. An employer shall inform the employees truthfully the scope of work, working conditions, workplace, occupational hazards, work safety conditions, labour remuneration and other information

REGULATORY OVERVIEW

requested by the employees. In addition, employers shall pay employees the remuneration timely and in full amount in accordance with terms under the labour contract and the relevant regulations promulgated by the state. The employer failing to comply with these regulations may be subject to rectification order or compensation.

Social Insurance and Housing Provident Funds

Under the Social Insurance Law of the PRC (中華人民共和國社會保險法), which was promulgated on 28 October 2010 and was amended on 29 December 2018, an employer is required to make contributions to social insurance schemes for its employees, including basic pension insurance, basic medical insurance, unemployment insurance, maternity insurance and work-related injury insurance. If the employer fails to make social insurance contributions in full and on time, the social insurance authorities may demand the employer to make payments or supplementary payments for the unpaid social insurance premium within a prescribed time limit together with a 0.05% surcharge of the unpaid social insurance premium from the due date. If the payment is not made within such time limit, the relevant administrative authorities will impose a fine ranging from one to three times of the total outstanding amount.

Under the Administrative Regulations on Housing Provident Funds (住房公積金管理條例), which was promulgated on 3 April 1999 and was amended on 24 March 2002, employers are required to make contribution to housing provident funds for their employees. Where an employer fails to pay up housing provident funds, the housing provident fund administration center may order it to make payment within a prescribed time limit. If the employer still fails to do so, the housing provident fund administration center may apply to the court for compulsory enforcement of the unpaid amount.

Provisions on work health and safety

The Law of the PRC on the Prevention and Control of Occupation Diseases (中華人民共和國職業病防治法) promulgated on 27 October 2001, which became effective on 1 May 2002 and was amended in 2011, 2016, 2017 and 2018, stipulates that employers shall create a work environment with conditions meeting the national occupational health standards and requirements and take measures to ensure that employees receive occupational health protection. When the employer fails to provide occupational disease protective facilities and occupational disease protective items for personal use, or provides protective facilities and items which do not meet the national occupational health standards and requirements, the work safety administrative department is entitled to issue a warning and rectification order within a prescribed time limit. If the enterprise fails to rectify within the time limit, a fine may be imposed upon the enterprise. In serious circumstances, the enterprise may be ordered to cease all operation which causes occupational disease hazards, or the work safety administrative department may request the relevant people's government to issue a shutdown order.

The PRC Work Safety Law (中華人民共和國安全生產法), which became effective on 1 November 2002 and was amended on 27 August 2009 and 31 August 2014, requires us to maintain safe production conditions as provided in it and other relevant laws, administrative regulations, national standards or industrial standards. Enterprises shall provide their employees with work safety education and training to ensure that their employees (i) have necessary work safety knowledge; (ii) are familiar with the relevant work safety policies and rules and safe operating procedures; (iii)

REGULATORY OVERVIEW

possess the safe operating skills for their respective posts; (iv) know the emergency response measures for accidents; and (v) are informed of their rights and obligations in terms of work safety. The design, manufacture, installation, use, checking and maintenance of our safety equipment shall meet the national or industrial standards. In addition, enterprises are required to provide employees with labour protection equipment that meets the national or industrial standards and to supervise and educate them to wear or use such equipment according to the prescribed rules.

Violation of the PRC Work Safety Law will cause various penalties, including being ordered to take corrective actions within a specified time, suspension of business, confiscation of illegal proceeds and payment of fine in accordance with the circumstances. In serious circumstances, business licenses will be revoked or criminal offences will be charged. Enterprises and persons directly responsible for the offences may be subject to criminal liability.

HISTORY, REORGANISATION AND GROUP STRUCTURE

BUSINESS DEVELOPMENT

Business History

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 5 July 2016. Since its incorporation, our Company has been an investment holding company with no business operation. Pursuant to the Reorganisation, as more particularly described in the paragraph headed “Reorganisation” in this section, our Company became the holding company of our Group for the purpose of the Listing.

Our history can be traced back to 1993 when KNT was established by Mr. S Chong, Mr. P Chong and Mr. Chong Yu Sang (father of Mr. S Chong and Mr. P Chong). Since the establishment of KNT, we have been principally engaged in the business of providing supply chain management services relating to supply of bridal gowns, and subsequently expanded the scope of our services to include special occasion dresses and bridesmaid dresses. In order to meet the increasing size of orders placed by our customers and their quality requirement, we, through HYG, set up our own production facility at the premises leased from Mr. S Chong and Mr. P Chong in Humen Town, Dongguan City, the PRC in 2003, to enable us to gain more control over the product development, quality and production cycles. After the establishment of our production facility, we expanded our production lines and sales to supply to customers primarily located in the United States and our clientele at the time included brand apparel companies, trading companies and supply chain management companies. We have also established our own design team to design a wider spectrum of sample dresses and modernised our production facility and operations to increase our production efficiency and capabilities. In order to satisfy the expectations of different customers, our Group currently provides one-stop value-added services to our customers ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management.

BUSINESS MILESTONES

We believe the key milestones of our Group’s development are as follows:

Year	Milestone
1993	Establishment of KNT in Hong Kong marked the commencement of our Group’s business operations
1993	Commencement of sale of bridal gowns
1996	Commencement of sale of special occasion dresses
2002	Commencement of sale of bridesmaid dresses
2003	Establishment of HYG in the PRC to further expand the design team and production lines, improve operation efficiency and quality of products

HISTORY, REORGANISATION AND GROUP STRUCTURE

Year	Milestone
2006	Acquiring our Hong Kong office and setting up our own showroom in Hong Kong
2006	Becoming the sole supplier to one of our largest customers
2012	Sale of our products to Ralph Lauren Corp
2016	Introduction of the computerised pattern design system
2017	Introduction of the laser-cutting machines
2018	Introduction of the garment hanging system

CORPORATE HISTORY

As at the Latest Practicable Date, our Group had incorporated operating subsidiaries in Hong Kong and the PRC to carry out our business. Major corporate development of our principal subsidiaries is set out below:

KNT

KNT was incorporated in Hong Kong with limited liability on 9 February 1993 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each at the time of incorporation. Upon its incorporation, each of Mr. S Chong, Mr. P Chong and Mr. Chong Yu Sang was allotted and issued one share of KNT at par. On 13 December 2001, the authorised share capital of KNT was increased to HK\$600,000 divided into 600,000 shares. On 28 January 2005, the authorised share capital of KNT was further increased to HK\$3,000,000 divided into 3,000,000 shares. On 13 December 2001, each of Mr. S Chong, Mr. P Chong and Mr. Chong Yu Sang was allotted and issued 199,999 shares of KNT for cash at par. On 28 January 2005, each of Mr. S Chong, Mr. P Chong and Mr. Chong Yu Sang was further allotted and issued 800,000 shares of KNT for cash at par. Following the aforesaid allotment of shares, KNT remained owned as to one third by each of Mr. S Chong, Mr. P Chong and Mr. Chong Yu Sang.

On 14 February 2014, as part of a family arrangement, Mr. Chong Yu Sang gifted his entire shareholding in KNT to Mr. S Chong and Mr. P Chong and held on trust for them the 618,000 and 382,000 shares in KNT, respectively. On 29 June 2016, Mr. Chong Yu Sang transferred the legal title of the said 618,000 shares and 382,000 shares of KNT to Mr. S Chong and Mr. P Chong, the beneficiaries of these shares, respectively. On 28 July 2017, Mr. P Chong transferred 290,000 shares in KNT to Mr. S Chong for the consideration of HK\$8,120,000 which was determined with reference to market value of the equity interest in KNT as at 31 December 2016 as valued by an independent third party valuer. Such consideration was fully settled by Mr. S Chong on 28 July 2017. Following the aforesaid transfer of shares, KNT was owned as to 63.6% and 36.4% by Mr. S Chong and Mr. P Chong, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

As part of the Reorganisation, KNT became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed “Reorganisation” in this section.

KNT commenced business in February 1993 and is principally engaged in the trading of bridesmaid dresses, bridal gowns and special occasion dresses.

KNT Int'l

KNT Int'l was incorporated in Hong Kong with limited liability on 19 July 2012 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. The initial founder member's share was transferred to Mr. S Chong in cash at par on 16 August 2012. On the same day, Mr. S Chong subscribed for and was allotted and issued 5,999 shares of KNT Int'l and Mr. Lee Lok Tung (“**Mr. LT Lee**”), an Independent Third Party, subscribed for and was allotted and issued 4,000 shares of KNT Int'l in cash at par. On 12 December 2013, Mr. LT Lee transferred his 4,000 shares of KNT Int'l to Mr. S Chong for cash at par. On 16 April 2015, Mr. P Chong subscribed for and was allotted and issued 10,000 shares of KNT Int'l in cash at par. Following the aforesaid allotment of shares, KNT Int'l was owned as to 50% and 50% by Mr. S Chong and Mr. P Chong, respectively.

As part of the Reorganisation, KNT Int'l became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed “Reorganisation” in this section.

KNT Int'l has been an investment holding company with no business operation since its incorporation.

HYG

HYG was established on 22 January 2003 in the PRC as a limited liability company with an initial registered capital of HK\$10,000,000. As at the date of its establishment, HYG was owned by Mr. S Chong and Mr. P Chong as to 50% and 50%, respectively.

In order to meet the capital requirement for business development, the registered capital of HYG was increased to HK\$10,500,000 by a resolution of the board of directors of HYG passed on 30 November 2004. The newly-increased share capital of HK\$500,000 was to be contributed as to 50% and 50% by Mr. S Chong and Mr. P Chong respectively. Following the aforesaid capital increase, HYG was owned as to 50% and 50% by Mr. S Chong and Mr. P Chong, respectively.

By a resolution of the board of directors of HYG passed on 21 July 2005, the registered capital of HYG was further increased to HK\$13,500,000. The newly-increased share capital of HK\$3,000,000 was to be solely contributed by Mr. S Chong. Following the aforesaid capital increase, HYG was owned as to 61% and 39% by Mr. S Chong and Mr. P Chong, respectively. All of the registered share capital of HYG was fully paid up as at 14 October 2005.

By a resolution of the board of directors of HYG passed on 22 July 2013, the registered capital of HYG was further increased to HK\$16,500,000. The newly-increased registered capital of HK\$3,000,000 was to be solely contributed by Mr. P Chong and was fully paid up on 9 October 2013. Following the aforesaid capital increase, HYG was owned as to 50% and 50% by Mr. S Chong and Mr. P Chong, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

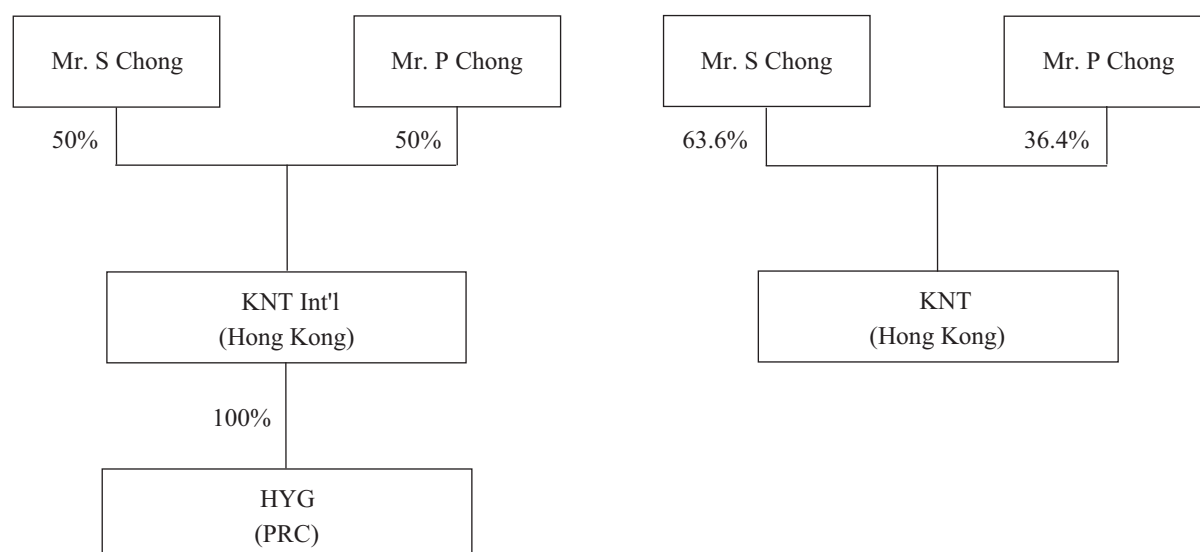
Pursuant to a share transfer agreement dated 10 September 2015 (as amended on 30 March 2018), each of Mr. S Chong and Mr. P Chong transferred their respective entire shareholding in HYG to KNT Int'l at nil consideration. Upon completion of the transfer, HYG was directly wholly-owned by KNT Int'l, which was in turn owned as to 50% and 50% by Mr. S Chong and Mr. P Chong respectively at the relevant time.

As part of the Reorganisation, HYG became an indirect wholly-owned subsidiary of our Company. For further details, please refer to the paragraph headed “Reorganisation” in this section.

HYG commenced business in January 2003 and is principally engaged in the manufacturing and sale of bridesmaid dresses, bridal gowns and special occasion dresses.

REORGANISATION

In preparation for the Listing, our Group has undergone the Reorganisation whereupon our Company became the holding company and the listing vehicle of our Group and our operating subsidiaries were transferred to our Company. The following chart sets forth our corporate and shareholding structure before the Reorganisation:



The principal steps of the Reorganisation are as follows:

Incorporation of our Company

For the purpose of the Listing, our Company was incorporated on 5 July 2016 in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares. Upon its incorporation, one nil-paid initial Share was allotted and issued to the nominee of Conyers Trust Company (Cayman) Limited. On the same day, the said one nil-paid initial Share was transferred to Mr. S Chong at nil

HISTORY, REORGANISATION AND GROUP STRUCTURE

consideration. On 24 August 2017, Mr. S Chong transferred the one nil-paid Share registered in his name to Strategic Elite at nil consideration. On the same day, Total Clarity subscribed for and our Company allotted and issued to Total Clarity one nil-paid Share. Upon completion of the above, our Company was owned as to 50% and 50% by Strategic Elite and Total Clarity, respectively.

Incorporation of offshore holding companies

On 4 January 2017, Strategic Elite was incorporated in the BVI with limited liability in order to act as the holding company for the interest of Mr. S Chong in our Company. Strategic Elite is authorised to issue a maximum of 50,000 no par value shares of a single class. On 18 January 2017, Mr. S Chong subscribed for and Strategic Elite allotted and issued one share in Strategic Elite to him for cash at US\$1.00, following which Strategic Elite became wholly-owned by Mr. S Chong.

On 4 January 2017, Total Clarity was incorporated in the BVI with limited liability in order to act as the holding company for the interest of Mr. P Chong in our Company. Total Clarity is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 18 January 2017, Mr. P Chong subscribed for and Total Clarity allotted and issued one share in Total Clarity to him at par for cash, following which Total Clarity became wholly-owned by Mr. P Chong.

Incorporation of offshore subsidiary

On 29 April 2016, KNTGL was incorporated in the BVI with limited liability. KNTGL is authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.00. On 1 August 2016, Mr. S Chong subscribed for and KNTGL allotted and issued one share in KNTGL to him at par for cash, following which KNTGL became wholly-owned by Mr. S Chong.

Acquisition of subsidiaries

On 24 August 2017, Mr. S Chong transferred the one share in KNTGL to our Company in consideration of our Company crediting as fully paid the one nil-paid Share registered in the name of Strategic Elite, following which KNTGL became wholly-owned by our Company.

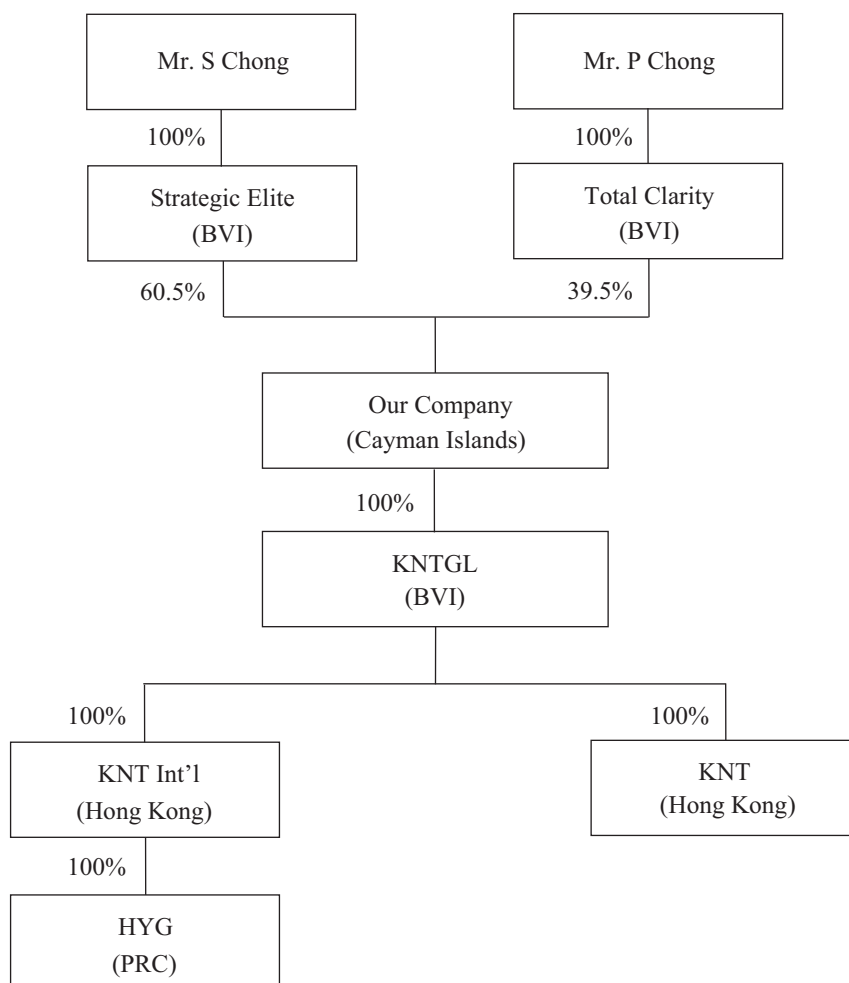
Pursuant to a sale and purchase agreement dated 27 October 2017 entered into among Mr. S Chong, Mr. P Chong and our Company, Mr. S Chong and Mr. P Chong transferred their entire interest in the issued share capital of KNT Int'l (comprising 10,000 shares and 10,000 shares from Mr. S Chong and Mr. P Chong, respectively) to our Company's nominee, KNTGL, in consideration of (i) our Company allotting and issuing 112 and 112 Shares to Strategic Elite (as nominee of Mr. S Chong) and Total Clarity (as nominee of Mr. P Chong), respectively credited as fully-paid; and (ii) crediting as fully paid the one nil-paid Share held by Total Clarity. Upon completion of the aforesaid transfer, KNT Int'l became a direct wholly-owned subsidiary of KNTGL and our Company remained owned as to 50% and 50% by Strategic Elite and Total Clarity, respectively.

Pursuant to a sale and purchase agreement dated 27 October 2017 entered into among Mr. S Chong, Mr. P Chong and our Company, Mr. S Chong and Mr. P Chong transferred their entire interest in the issued share capital of KNT (comprising 1,908,000 shares and 1,092,000 shares from Mr. S Chong and Mr. P Chong, respectively) to our Company's nominee, KNTGL, in consideration of our

HISTORY, REORGANISATION AND GROUP STRUCTURE

Company allotting and issuing 492 and 282 Shares to Strategic Elite (as nominee of Mr. S Chong) and Total Clarity (as nominee of Mr. P Chong), respectively credited as fully-paid. Upon completion of the aforesaid transfer, KNT became a direct wholly-owned subsidiary of KNTGL and our Company became owned as to 60.5% and 39.5% by Strategic Elite and Total Clarity, respectively.

The following chart sets forth the corporate and shareholding structure of our Group immediately after the Reorganisation (but before the Global Offering and the Capitalisation Issue and without taking into account of any Shares which may be allotted and issued under the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme):

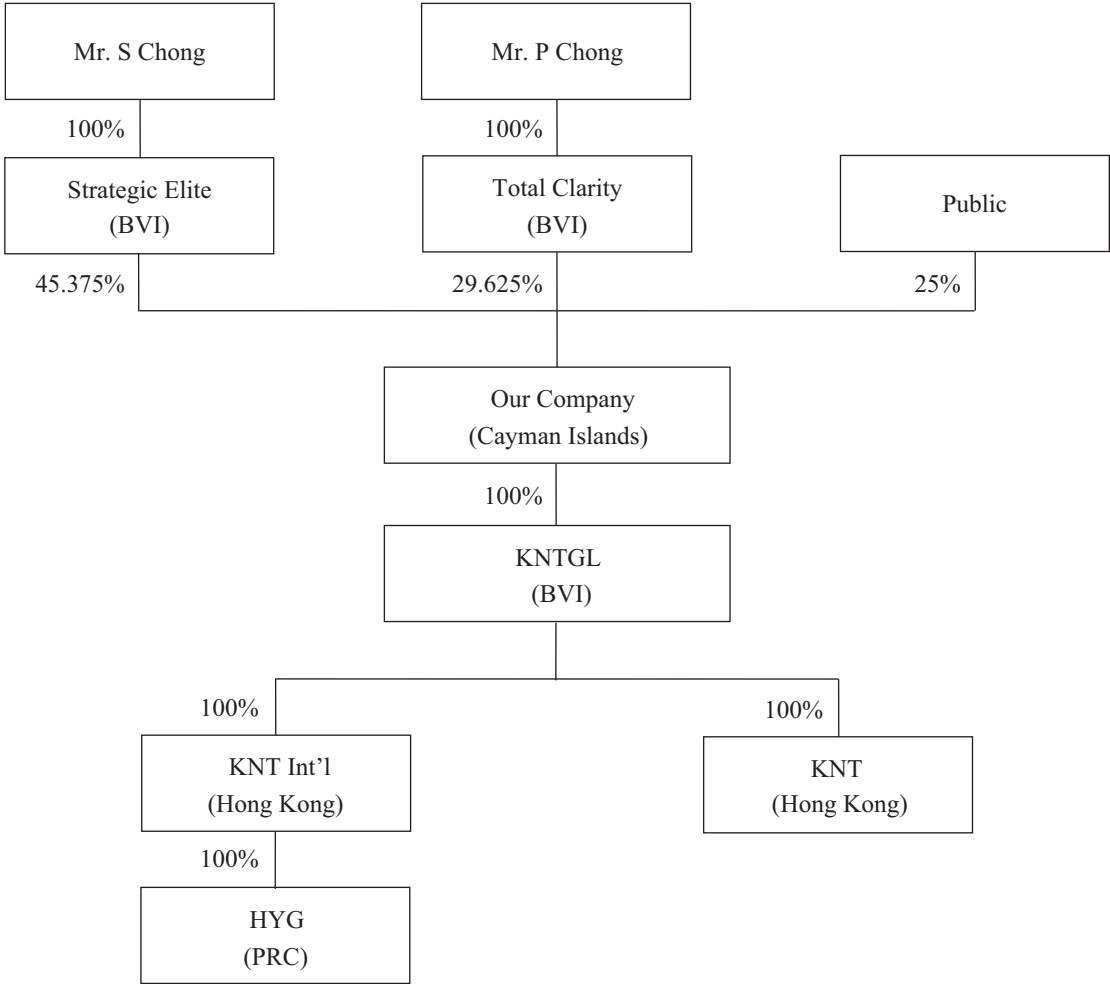


CAPITALISATION ISSUE

Conditional upon the creation of our Company's share premium account as a result of the issue of the new Shares pursuant to the Global Offering, an amount of HK\$4,159,990 standing to the credit of the share premium account of our Company will be capitalised by applying such sum towards paying up in full at par a total of 415,999,000 Shares (including 26,000,000 Sale Shares) for allotting and issue to the then existing Shareholders whose names appear on the register of members of our Company as at the close of business on the business day immediately preceding the Listing Date (or as they may direct) in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The following chart sets forth the corporate and shareholding structure of our Group immediately following completion of the Global Offering and the Capitalisation Issue (but taking no account of any Shares which may be allotted and issued under the Over-allotment Option or upon the exercise of options which may be granted under the Share Option Scheme):



BUSINESS

OVERVIEW

We are a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses and were the largest bridesmaid dresses manufacturer in the PRC in terms of revenue with approximately 2.9% market share in 2017, according to the Ipsos Report. We derived over 95% of our revenue during the Track Record Period from brand apparel companies. Over the years, we have built our reputation and gained customers' recognition from our dedication to provide our customers with one-stop solutions and consistently high quality products, which has increased our customers' reliance on us and in turn enabled us to maintain our market position as one of the leading bridesmaid dresses manufacturers in the PRC. Our customers' reliance on us is demonstrated by us being the sole supplier of certain customers for bridesmaid dresses, three of whom were our five largest customers during the Track Record Period and had maintained an average of over 12 years of relationship with us as at the Latest Practicable Date.

We principally sell our products which include bridesmaid dresses, bridal gowns and special occasion dresses to brand apparel companies based in the U.S.. In addition to manufacturing products for our customers, we strive to become an integral part of our customers' business operations by offering a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management. We actively create designs and provide advice on the selection of materials for our customers' consideration and jointly develop products with them by applying our extensive industry knowledge and market intelligence which we have accumulated over the years. We believe our ability to collaborate with our customers and provide advice to them throughout their supply chain increases our customers' reliance on us and differentiates us from our competitors.

We manufacture our products at our production facility located in Humen Town, Dongguan City, the PRC. Depending on the product and capacity at our production facility, we subcontract part of the production processes of our products to third-party subcontractors in order to supplement our limited production capacity to meet our customers' increasing demand for our products. As product quality is of utmost importance to us, we implement stringent quality control measures at different stages of the production process to ensure that our raw materials, semi-finished products and final products comply with our quality standards in all respects.

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our total revenue was HK\$165.2 million, HK\$169.3 million, HK\$208.4 million and HK\$153.9 million respectively, and our profit for the year/period was HK\$12.1 million, HK\$23.8 million, HK\$23.8 million and HK\$16.7 million, respectively. The increase in our total revenue from the year ended 31 March 2016 to the year ended 31 March 2018 represented a CAGR of approximately 12.3%. For details of discussion and analysis of our results, please refer to the section headed "Financial information" in this prospectus.

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COMPETITIVE STRENGTHS

We believe the following strengths contribute to our position as a leading manufacturer of bridesmaid dresses in the PRC:

Leading position in the bridesmaid dresses industry

We were the largest bridesmaid dresses manufacturer in the PRC in terms of revenue in 2017, according to the Ipsos Report. Our competitive advantages which we believe distinguish us from our competitors include, among other things, our good market reputation and relatively large market share, possession of strong supply chain management skills, and ability to fulfil compliance requirements of leading apparel retailers and provide one-stop solutions for customers. Over the years, we have built our reputation and gained customers' recognition from our dedication to provide our customers with one-stop solutions and consistently high quality products, which has increased our customers' reliance on us and in turn enabled us to maintain our market position as one of the leading bridesmaid dresses manufacturers in the PRC.

According to the Ipsos Report, in the U.S., our major market, the retail sales value of bridesmaid dresses, bridal gowns and special occasion dresses is expected to grow at a CAGR of 1.8%, 3.1% and 1.8%, respectively, from 2018 to 2021. In addition, the total revenue of the bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industries in the PRC is expected to grow at a CAGR of 5.4%, 4.8% and 15.6%, respectively, from 2018 to 2021. We believe that we are well positioned to expand our market share and grow in such market.

One-stop solutions provider of a comprehensive range of bridesmaid dresses, bridal gowns and special occasion dresses

We believe one of the key factors leading to our success is our dedication to become an integral part of our customers' business operations by providing one-stop solutions to our customers. We offer a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management. Our one-stop solutions begin with fashion trend analysis, whereby we forecast fashion trend of the upcoming seasons and initiate product concepts, followed by product design and development with reference to our customers' target customers and budgets. We then commence production planning, identify and source the required raw materials or jointly design and develop raw materials with our suppliers, after which we produce our products at our production facility in the PRC. We implement stringent quality control measures at different stages of the supply chain to ensure that our products are of high quality. We also maintain raw material inventory for some of our bridesmaid dresses and bridal gowns customers at appropriate levels to satisfy their orders. Our Directors consider that our customers value and rely on our one-stop solutions, which is one of the key factors that has contributed to our success and will continue to drive our business.

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We believe that our one-stop solutions enable our customers to operate in a more cost-effective and efficient manner as they are able to obtain the end-products which fit their requirements without having to separately engage different service providers at each stage of the supply chain, allowing our customers to focus their resources on their wholesale or retail businesses. Being a one-stop solutions provider, our Directors believe that we are able to maintain overall control over the production process of our products and ensure the quality and timely delivery of our products to our customers. This results in reliability and consistency of our products and services, which in turn foster our customers' reliance on us to fulfill their needs.

Strong and established product design and development capabilities

We believe our long-term partnerships in product design and development with our customers differentiates us from our competitors. While continuously studying fashion trends and conducting market research to keep abreast of the latest trends of our products, we communicate regularly with our customers to understand their needs and create designs for their consideration with reference to their target customers and budgets. We jointly explore and develop designs with our customers' designers and recommend solutions during their design processes by utilising our extensive industry knowledge and market intelligence which we have accumulated over the years. In addition, we actively make suggestions to our customers as to the types of fabric and other components for manufacturing our products with reference to their target customers and budgets, as well as any other specifications they may have. We also design and work closely with our major raw materials suppliers to develop new fabrics or materials to cater for the unique requirements of our customers.

In terms of product development, we have invested in a sample development team equipped with a comprehensive computerised pattern design system, which allows us to produce samples of our designs efficiently before customers place their orders with us. Our design system enables us to adjust and refine our designs in a flexible manner in accordance with our customers' specifications. We believe that our position as a long-term product design and development partner of our customers and our strong capabilities in this respect has enhanced our customers' loyalty to us and in turn contributed to our success. As at 30 September 2018, we had a team of 10 designers who possess on average approximately nine years of experience in the design and development industry.

Established long-term relationships with our customers

Our customers primarily consist of brand apparel companies based in the U.S.. As at the Latest Practicable Date, we had maintained business relationships with our five largest customers for an average of over nine years. Such long-term relationships are a testament to our customers' reliance on us and their satisfaction with our products and services. For further details on our customers, please refer to the paragraphs headed "Customers" in this section.

Over the years, we believe that we have fostered a strategic partnership with our customers through our provision of one-stop solutions and consistent delivery of high quality products. As a result of years of collaborations and regular communications with our customers, we are able to understand comprehensively their needs and requirements, and provide tailor-made solutions to them. We believe our established long-term relationships with such brand apparel companies have enhanced

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our reputation in the industries that we operate in which in turn strengthens our ability to attract new customers. We also believe such relationships with our customers cannot be easily replicated by our competitors, which has enabled us, and will continue to enable us, to differentiate ourselves from our competitors.

Experienced management team and strong corporate culture of innovation and dedication

We have a stable management team which consists of Mr. S Chong, Mr. P Chong and Mr. Lam Chi Yuen, who had been with us for an average of 20 years as at the Latest Practicable Date. In particular, Mr. S Chong, one of our founders, our chairman, chief executive officer and executive Director, has over 20 years of experience in the bridal wear and special occasion dresses industries and has played a leading role in our overall business growth. Over the years, our management team has accumulated extensive knowledge of the bridesmaid dresses, bridal gowns and special occasion dresses industry and developed strong relationships with key customers and suppliers in the field. Given their vast experience and in-depth industry knowledge, they are able to formulate sound business strategies, anticipate market trends and quickly respond to our customers' evolving needs. Internally, our management team has established a strong corporate culture which promotes innovation, achievement and dedication. Through promotion of innovative thinking and valuing our employees' ideas and contribution, our employees are committed to us on a long-term basis and motivated to deliver quality designs and products. For further details on the background and experience of our management team, please refer to the section headed "Directors and senior management" in this prospectus.

BUSINESS STRATEGIES

We plan to reinforce our position as a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses by adopting the following business strategies:

Expand our production capacity

As at the Latest Practicable Date, we operated one production facility in Dongguan City, the PRC. During the Track Record Period, our production facility in the PRC maintained consistently high utilisation rates. In view of our plan of expansion of sales network and the expected increase in demand for our products, we plan to expand our production capacity by establishing a new production facility in the PRC.

We expect to set up our second production facility in Guangdong Province, the PRC with an aggregate gross floor area of approximately 16,000 sq.m., which is expected to house approximately 500 production staff by the fourth quarter of 2020. The expected annual production capacity of our new production facility will be approximately 0.8 million units of our products. The expected total investment costs for this new production facility which include, among other things, costs of construction, acquisition of land, machinery and equipment is approximately HK\$56.5 million. We expect to finance the establishment of this new production facility with net proceeds from the Global Offering. For further details on our current and new production facility, please refer to the paragraphs headed "Production — Production facility and capacity" and "Production expansion plan" in this section.

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Strengthen and broaden our customer base in the U.S.

We believe our relationships with our customers are vital to the growth of our business. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, majority of our products were sold to customers in the U.S., which accounted for approximately 87.8%, 88.6%, 92.8% and 94.7% of our total revenue for the same periods, respectively. We have been in the U.S. market in respect of bridesmaid dresses, bridal gowns and special occasion dresses for over 15 years and we believe the U.S. will remain an important market for us in the near future. We intend to strengthen our relationships with existing customers based in the U.S. by increasing our collaborations with them and fostering more frequent exchange of ideas, with an aim to become their sole supplier. Leveraging our success and experience in the U.S. market, we also plan to explore opportunities with new customers, targeting international brand apparel companies including top brand apparel companies of bridesmaid dresses based in the U.S. with direct retail channels.

To achieve this business strategy, we plan to set up a sales office in the U.S., recruit further sales and marketing staff with relevant experience to station at the sales office and provide our existing and potential customers with dedicated points of contact. By establishing a close proximity to our existing customers and potential customers, we believe we can facilitate more frequent communications with our existing customers and actively promote our products to potential customers through extensive marketing efforts such as sales visits and distribution of marketing materials. The planned expenditure for strengthening and broadening our customer base in the U.S. is approximately HK\$7.4 million. We expect to finance this strategy with cash generated from operating activities and net proceeds from the Global Offering.

Strengthen our product design and development capabilities

We position ourselves as a long-term product design and development partner of our customers. We analyse and forecast fashion trends, actively create designs for our customers' consideration and collaborate with our customers to design and develop products. We believe our ability to anticipate and effectively respond to the evolving fashion trends and innovate products is crucial to our success and will continue to drive the growth of our business. We plan to continue to strengthen our product design and development capabilities and collaborate frequently with our customers and suppliers to develop more innovative and unique products. To this end, we plan to engage additional design and development staff by using our internal resources to offer greater support to our product design and development team, as well as to create more opportunities for our design and development staff to attend external trainings, international trade fairs, fashion shows and conference to ensure that we keep abreast of the latest market trends and technical expertise.

Expand our raw material portfolio

We keep an inventory of raw materials which primarily consist of fabrics and accessories to cater for the short lead time from customers' order placement to delivery of our bridesmaid dresses and bridal gowns. When determining the types and quantity of raw materials to source, we make reference to, among other things, our historical sales performance analysis and fashion trend analysis. While we currently keep an inventory of raw materials to cater for the production of bridesmaid dresses, we consider that the amount of additional orders for our bridesmaid dresses we are able to undertake so

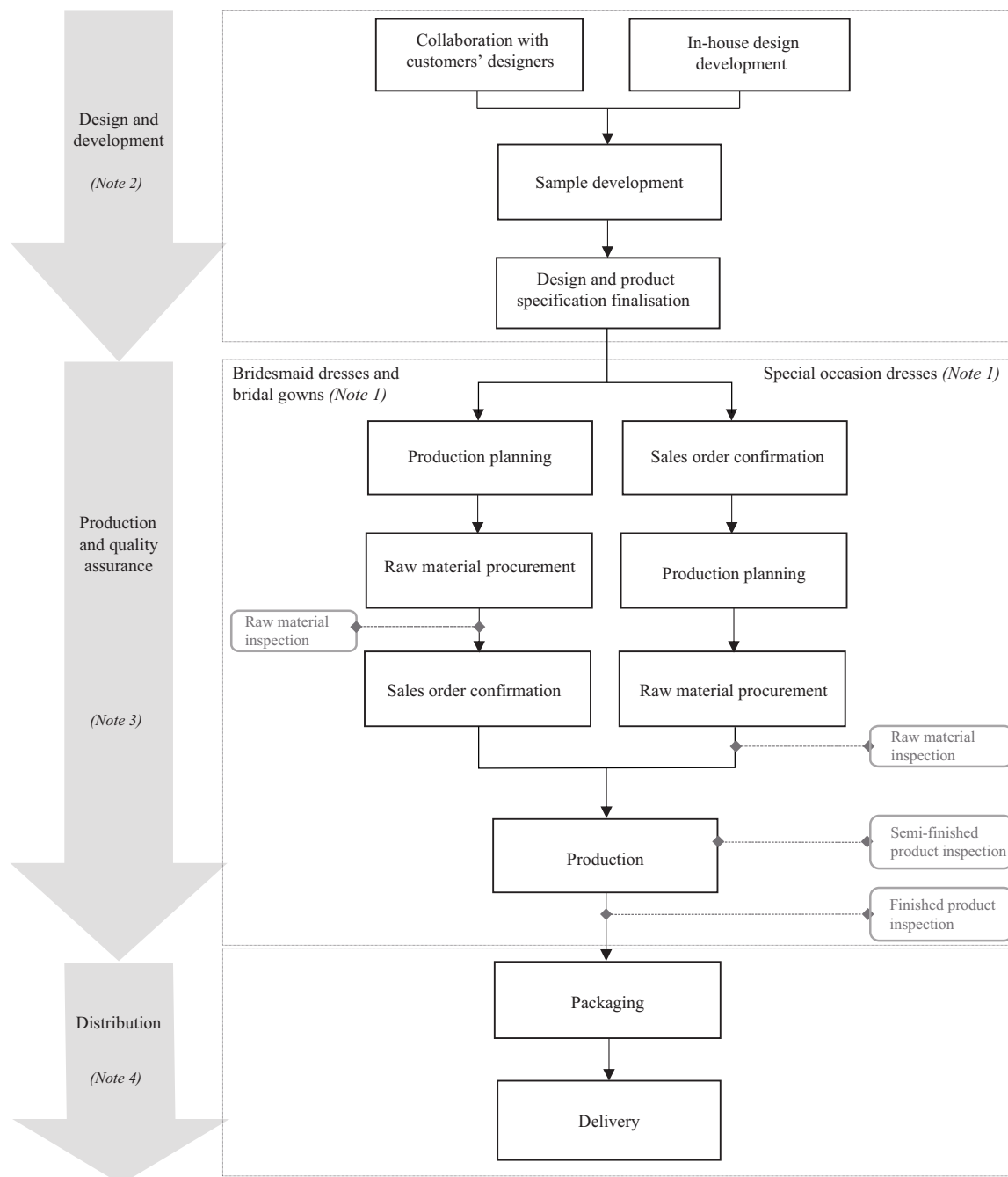
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as to capture further market share in the bridesmaid dress industry in the U.S. and Europe hinges on the availability of raw materials. By further increasing our inventory level of raw materials, we will be able to maintain an optimal level of materials to respond swiftly to our customers' demands and undertake further orders for our bridesmaid dresses. Our Directors consider that the optimal level of raw materials we should maintain for production of bridesmaid dresses and bridal gowns is equivalent to three to five months of the average monthly consumption of our raw materials as calculated based on our historical consumptions. We plan to expand our raw material portfolio by using our internal resources. For details relating to the sourcing of and inventory management of raw materials for production of our bridesmaid dresses and bridal gowns, please refer to the paragraph headed "Procurement — Raw materials" and the paragraph headed "Inventory control" in this section.

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OUR BUSINESS MODEL

The following diagram illustrates our business model:



Notes:

1. For bridesmaid dresses and bridal gowns, we maintain an inventory of raw materials to cater for the short lead time from customers' order placement to delivery. Accordingly, we generally procure raw materials from our suppliers based on a number of factors including but not limited to, our inventory level of raw materials and our historical sales performance analysis, before our customers confirm their orders with us. For special occasion dresses, we generally only procure raw materials from our suppliers after our customers have confirmed their orders with us. For further details, please refer to the paragraphs headed "Procurement — Raw materials" in this section.

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2. The time required for design and development of our bridesmaid dresses, bridal gowns and special occasion dresses is approximately four to six weeks, seven to eight weeks and four to six weeks, respectively.
3. The time required for production and quality assurance of our bridesmaid dresses and bridal gowns is approximately six to seven weeks, and the time required for production and quality assurance of our special occasion dresses is approximately 14 to 16 weeks.
4. The time required for distribution of our bridesmaid dresses, bridal gowns and special occasion dresses is approximately one week.
5. The time required at each stage as set out above is only an approximate and the actual time required at each stage of the production process may differ depending on, among other things, the complexity of the products and the availability of the raw materials.

DESIGN AND DEVELOPMENT

With an aim to become long-term product design and development partners with our customers and to ensure our ability to respond to our customers' evolving demand and the ever-changing market trends, we place great emphasis on our product design and development. We have established our product design and development department with staff at our production facility in the PRC and Hong Kong office, which is primarily responsible for conducting fashion trend analysis and the design and development of our products. As at 30 September 2018, our product design and development department comprised 76 members, of which 10 members were designers who possess on average approximately nine years of experience in the design and development industry and 66 members were workers responsible for executing design works such as pattern making and assembling product samples. Our product design and development department is led by our chief designer, who possesses over 13 years of experience in the design of bridal and evening wear. She was awarded a diploma in graphic and media design in 2002 and a higher diploma in fashion design and product development in 2006 by the Vocational Training Council in Hong Kong. Before joining our Group as a designer in 2008, she was an assistant designer in a bridal designer house in Hong Kong from 2004 to 2008.

During the Track Record Period, our product design and development department collaborated with our customers to develop over 1,000 designs. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our labour costs in relations to our product design and development department amounted to HK\$3.9 million, HK\$4.1 million, HK\$6.0 million and HK\$3.1 million, representing approximately 17.0%, 16.7%, 19.7% and 18.7% of our direct labour costs, respectively.

Our product design and development department conducts market research on a regular basis through various channels, such as fashion magazines, websites, shows and exhibitions, to forecast fashion trend of the upcoming seasons. Meanwhile, our sales and merchandising department communicates regularly with our customers to understand their needs and requirements on products for the upcoming season, such as product concept, design preferences, target customers, budget, quantity and delivery time. We then commence the design process either through collaboration with our customers' designers to produce tailored designs based on their specifications or production of in-house designs for our customers' consideration.

Collaboration with customers' designers

Upon communication with our customers through our sales and merchandising department, our product design and development department will prepare preliminary designs of the products in accordance with our customers' specifications. We then pass on the preliminary designs to our customers' designers for discussion, after which we will modify and refine such designs based on their feedbacks. Some of our customers' designers initiate preliminary design ideas and/or product sketches, and we transform their ideas and sketches into product designs for our customers' consideration. We also actively make suggestions to our customers as to the types of fabrics and other components for manufacturing the products with reference to their target customers and price, as well as any other specifications they may have. After our designs are accepted by our customers, we will prepare an instruction sheet setting out all design specifications for our sample development team to produce product samples for our customers' consideration. We may further modify and refine our designs, and produce samples until our customers approve the final designs.

In-house design development

Based on our fashion trend analysis and customers' brand requirements, our product design and development department creates and develops in-house designs that are tailored to match our customers' brand styles and budgets. Upon development of our in-house designs, our sample development team produces product samples that will be passed to our sales and merchandising department. Our sales and merchandising department then showcases the trend forecast and product samples to our customers mostly through face-to-face presentations. Based on feedbacks from our customers, we modify and refine our designs, and produce final samples for our customers' approval.

Recommendations on and design of raw materials

Apart from creating designs of our products, we also actively make suggestions to our customers as to the types of fabric and other components for manufacturing our products with reference to their target customers and price, as well as any other specifications they may have. Given the uniqueness of our designs, the required raw materials such as lace patterns may not be readily available in the market. In such event, our product design and development department designs and works closely with our major raw materials suppliers to develop new materials in order to create unique products for our customers.

Sample development

Sample development is a key process of our product design and development, whereby we transform our product concepts and designs into actual products. We have invested in a sample development team equipped with a comprehensive computerised pattern design system with 14 staff as at 30 September 2018. Throughout our sample development process, we work with our customers on product specifications and advise our customers on production techniques, such as raw material application and fabric treatment to enhance our products. Our design system also enables us to adjust and refine our designs in a flexible manner in accordance with the specifications of our customers. As

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we communicate with and receive feedbacks from our customers on the preliminary sample, our sample development team works closely with our product design and development department to improve the sample and produce more advanced samples for our customers' consideration and approval.

PRODUCTS

Our products can be divided into four categories, namely bridesmaid dresses, bridal gowns, special occasion dresses and others. For the years ended 31 March 2016, 2017 and 2018, our revenue was mainly derived from the sales of bridesmaid dresses, representing approximately 79.3%, 77.3% and 62.3% of our total revenue for the relevant periods, respectively. For the six months ended 30 September 2018, our revenue was mainly derived from the sales of special occasion dresses, representing approximately 53.0% of our total revenue for the period. The following table sets forth the revenue and percentage of total revenue by product categories during the Track Record Period:

Revenue	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Bridesmaid dresses	130,997	79.3	130,893	77.3	129,827	62.3	73,599	61.5	65,787	42.7
Bridal gowns	14,797	9.0	9,924	5.9	4,842	2.3	2,583	2.2	2,888	1.9
Special occasion dresses	16,412	9.9	25,407	15.0	69,108	33.2	40,161	33.6	81,549	53.0
Others ^(Note)	3,008	1.8	3,060	1.8	4,626	2.2	3,288	2.7	3,682	2.4
Total	165,214	100.0	169,284	100.0	208,403	100.0	119,631	100.0	153,906	100.0

Note: Others primarily include sales of fabrics and accessories.

The following table sets forth our total sales quantities of bridesmaid dresses, bridal gowns and special occasion dresses during the Track Record Period:

Sales quantity	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	Thousand units	Thousand units	Thousand units	Thousand units	Thousand units
Bridesmaid dresses	377.5	414.7	424.9	239.1	207.6
Bridal gowns	10.4	7.3	3.7	2.1	1.9
Special occasion dresses	53.5	132.3	362.0	169.3	563.0
Total	441.4	554.3	790.6	410.5	772.5

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The selling price of each of our products depends on, among other things, product design, quantity of the order, delivery time required by customers and production costs. The following table sets forth the average selling prices of our bridesmaid dresses, bridal gowns and special occasion dresses during the Track Record Period:

Average selling price	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$	HK\$	HK\$	HK\$	HK\$
Bridesmaid dresses	347	317	306	308	317
Bridal gowns	1,423	1,359	1,309	1,230	1,520
Special occasion dresses	307	192	191	237	145

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

Please refer to the section headed “Financial information — Description of certain components of our consolidated statements of profit or loss — Revenue — Revenue by product category” in this prospectus for the changes of average selling price during the Track Record Period.

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Bridesmaid dresses

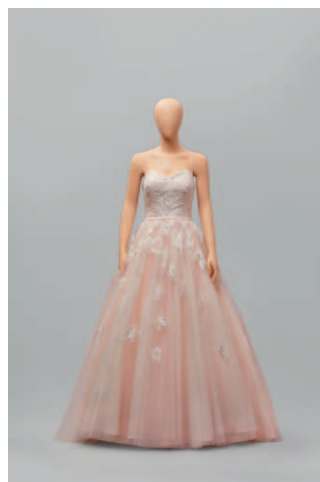
We manufacture a wide range of bridesmaid dresses which comes in different styles, cutting, materials and colour combinations in accordance with our customers' specifications. Our bridesmaid dresses are mainly made of chiffon, tulle, satin, lace and pongee. The following sets forth some of the bridesmaid dresses we produced:



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Bridal gowns

We manufacture a wide range of bridal gowns which come in different styles, cutting and materials in accordance with our customers' specifications. Our bridal gowns are mainly made of chiffon, tulle, satin, lace and pongee. The following sets forth some of the bridal gowns we produced:



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Special occasion dresses

We manufacture a wide range of special occasion dresses which comes in different styles, cutting, materials and colour combinations in accordance with our customers' specifications. Our special occasion dresses are mainly made of chiffon, lace, crepe and jersey. The following sets forth some of the special occasion dresses we produced:



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PROCUREMENT

Our suppliers comprises (i) raw material suppliers whom we purchase raw materials from; and (ii) subcontractors engaged by us to perform parts of the production process of our products.

Raw materials

We source all raw materials and components required for production of our products from our list of approved suppliers or occasionally, suppliers nominated by our customers. For products which we subcontract part of the production process to our subcontractors, it is our practice to provide our subcontractors with the raw materials required in order for us to maintain an overall control of our production cost and ensure that the raw materials used to produce our products meet our required quality standard. Our procurement team is primarily responsible for sourcing the raw materials and other components. As at 30 September 2018, our procurement team comprised 14 staff. The principal raw materials used in our production are fabrics such as chiffon, tulle, satin, lace, crepe, jersey, pongee and accessories such as beads and zippers. We do not rely on a single supplier for the supply of our principal raw materials and normally retain multiple suppliers for each of our major raw materials. Our principal raw materials such as fabrics and accessories are commodities readily available in the PRC as well as from overseas suppliers. Therefore, in the event that any one of our major suppliers ceases to supply us with such raw materials, we believe that we will be able to obtain such raw materials from other sources. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our total raw material costs consumed was HK\$44.6 million, HK\$52.0 million, HK\$61.9 million and HK\$46.2 million, representing approximately 36.6%, 43.1%, 41.2% and 39.5% of our total cost of sales, respectively. During the Track Record Period, we purchased our raw materials mainly from our suppliers based in Hong Kong, the PRC, Korea and Taiwan.

The average market prices of our principal raw materials remained relatively stable during the Track Record Period. For further details of the price trend of cotton chemical lace, chiffon and satin during the Track Record Period, please refer to the section headed “Industry overview — Overview of the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC — Price trend of key raw materials” in this prospectus. We conducted a sensitivity analysis to determine our exposure to changes in the cost of our raw materials. For details, please refer to the section headed “Financial information — Key factors affecting our results of operations — Operational costs and efficiency — Raw material costs” in this prospectus.

During the Track Record Period, we did not undertake any hedging activities to minimise the exposure to the possible price fluctuation of the raw materials as we have implemented a number of cost control measures to mitigate the risk of rising raw material prices. Our cost control measures on raw materials include, among other things, monitoring the market price of raw materials, searching for alternate sources for raw materials of the same quality at a more competitive price and retaining multiple suppliers for each of our major raw materials to ensure the best price and quality. For the risk relating to the fluctuation of prices of our raw materials, please refer to the section headed “Risk factors — Risks relating to our business — We are dependent on a stable and adequate supply of raw materials and do not enter into long-term agreements with our suppliers” in this prospectus.

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Bridesmaid dresses and bridal gowns

For bridesmaid dresses and bridal gowns, we maintain an inventory of raw materials which primarily consist of fabrics and accessories to cater for the short lead time from customers' order placement to delivery of our bridesmaid dresses and bridal gowns. Given the wide variety of styles, colours and sizes of our bridesmaid dresses and bridal gowns, our customers, most of which are brand apparel companies, normally place their orders for our bridesmaid dresses and bridal gowns after their retail customers place orders with them and require us to deliver our products within eight to nine weeks from the confirmed order date. In addition, our customers take rush orders placed by their retail customers in a time frame which falls short of the standard production lead time at additional costs. In such case, the lead time is further shortened to two to five weeks. It is therefore essential for us to maintain an inventory of raw materials in order to meet the short lead time from customers' order placement to delivery of bridesmaid dresses and bridal gowns. When determining the type, colour and quantity of raw materials to be sourced for our bridesmaid dresses and bridal gowns, we consider a number of factors for each raw material including but not limited to, the inventory level and the historical sales performance analysis compiled by our sales and merchandising department on a weekly basis.

We maintain an inventory record of raw materials through our ERP system to facilitate storage, retrieval and order of raw materials. We generally maintain an inventory level of raw materials which is sufficient for production of our bridesmaid dresses and bridal gowns for the upcoming three months. For further details of our inventory management, please refer to the paragraph headed "Inventory control" in this section. We also conduct quality inspection of the raw materials delivered to us by our suppliers to ensure that their quality meets all requisite standards. We reserve the right to return defective materials to our suppliers.

Special occasion dresses

For special occasion dresses, we generally place purchase orders for raw materials after our customers have confirmed their orders.

Arrangements with raw material suppliers

We have established stable and strong relationships with our major suppliers for raw materials and as a result, we had not encountered any material disruption to our business due to a shortage of raw materials during the Track Record Period and up to the Latest Practicable Date. We have not experienced and do not envisage that we will experience any material difficulties in sourcing raw materials. We do not enter into long-term procurement agreements with our raw materials suppliers but place individual purchase orders with them as we believe this enables us to source raw materials at competitive market prices. The credit period of our purchases ranges from 0 to 60 days and we normally settle our purchases in USD, RMB or HK\$ by invoice financing, telegraphic transfer and cheques. Some of our new suppliers require prepayment of 30% of the purchase price for our orders. Our suppliers generally bear the delivery costs and any losses which we may incur due to any delays in delivery or product defects caused by them.

Selection of raw material suppliers

Quality of our raw materials is of utmost importance to us, and hence we carefully select our suppliers based on a set of criteria including purchase price, their services, scale, technical capability, reputation, product quality and their ability to ensure timely delivery of raw materials. We maintain a list of approved suppliers whom we regularly conduct assessments on to ensure that they fulfil our requirements in all respects. In addition, all of our suppliers are generally subject to our annual evaluation, which includes an assessment on their services and product quality.

Subcontracting

During the Track Record Period, we subcontracted part of the production processes of our products to third-party subcontractors, all of which were based in the PRC, in order to supplement our limited production capacity to meet our customers' increasing demand for our products. The types of subcontracting services provided by these subcontractors include mainly embroidery and beading, pleating, sewing and handwork, and we provide the necessary raw materials for our subcontractors to produce into semi-finished products. Our subcontracting charges for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018 amounted to HK\$44.8 million, HK\$33.5 million, HK\$45.6 million and HK\$46.8 million, representing approximately 36.8%, 27.7%, 30.3% and 40.1% of our total cost of sales, respectively.

Arrangements with subcontractors

During the Track Record Period, we engaged subcontractors to carry out parts of the production process of our products by placing individual manufacturing orders with them and did not enter into any long-term agreements with them. The terms of such purchase orders generally include the following:

- *Product specifications and quality standards* — Products that require processing, as well as product specifications, quality standards and other requirements which the subcontractor should adhere to;
- *Delivery time* — The subcontractor should complete the orders on or before the specified delivery time, which ranges from two to seven weeks, subject to the type of order we receive from our customers;
- *Raw materials* — We provide the relevant raw materials to the subcontractor for it to complete the required production process;
- *Subcontracting charges* — Subcontracting charges are generally determined based on, among other things, product specifications, production lead time and labour cost for processing each order and are settled on a monthly basis;

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- *Credit periods* — Credit periods granted by our subcontractors are normally around 25 days from the date of issuance of a monthly statement for all production processes completed in that month; and
- *Compensation* — The subcontractor will compensate us in the event of delay in delivery of products by them.

Selection of subcontractors

We carefully select our subcontractors based on a set of criteria including their fee, technical capability, ability to meet production schedules and quality of their production and services and maintain a list of approved subcontractors with reference to the aforesaid criteria. Prior to approving potential subcontractors, our production material control team conducts site visit of the potential subcontractors. In determining which subcontractor to engage for performing a particular production process, we obtain quotations from at least two approved subcontractors and choose the one which offers a more competitive package. During the Track Record Period, we had staff stationed at our subcontractors' manufacturing facilities to monitor their production process and ensure that their production process meets our required standard. Our staff also performs on-site quality inspection of the semi-finished products produced by our subcontractors at their factories before they are delivered to us. We evaluate the performance of our subcontractors based on the aforesaid criteria on at least an annual basis. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material adverse consequence from any unsatisfactory products produced by our subcontractors.

Suppliers

For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, the purchases from our five largest suppliers accounted for approximately 28.3%, 21.3%, 17.3% and 32.2% of our total cost of sales, respectively, and the purchases from our single largest supplier accounted for approximately 7.7%, 8.5%, 4.9% and 9.3% of our total cost of sales, respectively. The following table sets forth details of our five largest suppliers during the Track Record Period:

Ranking	Supplier	Principal place of business	Principal business	Principal raw materials/ services supplied to us	Approximate years of relationship with us as at the Latest Practicable Date	Percentage of our total cost of sales
<i>For the year ended 31 March 2016</i>						
1	Supplier A	PRC	Engaged in sale and manufacturing of apparel	Production service	3	7.7%
2	Supplier B	Korea	Engaged in sale of fabrics	Chiffon	11	6.2%
3	Supplier C	Hong Kong	Engaged in sale of fabrics	Chiffon	6	5.0%
4	Supplier D	PRC	Engaged in sale and processing of apparel	Production service	4	4.8%
5	Supplier E	Hong Kong	Engaged in sale of fabrics	Silk and crepe	7	4.6%
						28.3%

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Ranking	Supplier	Principal place of business	Principal business	Principal raw materials/ services supplied to us	Approximate years of relationship with us as at the Latest Practicable Date	Percentage of our total cost of sales
<i>For the year ended 31 March 2017</i>						
1	Supplier C	Hong Kong	Engaged in sale of fabrics	Chiffon	6	8.5%
2	Supplier A	PRC	Engaged in sale and manufacturing of apparel	Production service	3	4.5%
3	Supplier D	PRC	Engaged in sale and processing of apparel	Production service	4	2.8%
4	Supplier F	PRC	Engaged in sale of fabrics	Pongee and satin	9	2.8%
5	Supplier G	PRC	Engaged in processing of apparel	Production service	8	2.7%
						21.3%
<i>For the year ended 31 March 2018</i>						
1	Supplier H	PRC	Engaged in sale of fabrics	Chiffon	1	4.9%
2	Supplier I	PRC	Engaged in sale of fabrics	Lace	3	3.3%
3	Supplier J	PRC	Engaged in sale and manufacturing of apparel	Production service	6	3.1%
4	Supplier A	PRC	Engaged in sale and manufacturing of apparel	Production service	3	3.1%
5	Supplier K	Korea	Engaged in sale of fabrics	Chiffon	2	2.9%
						17.3%
<i>For the six months ended 30 September 2018</i>						
1	Supplier L	PRC	Engaged in sale and manufacturing of apparel	Production service	1	9.3%
2	Supplier M	Hong Kong	Engaged in sale of fabrics	Velvet	3	8.2%
3	Supplier I	PRC	Engaged in sale of fabrics	Lace	3	5.2%
4	Supplier N	PRC	Engaged in sale of fabrics	Cotton	1	4.8%
5	Supplier O	PRC	Engaged in sale and manufacturing of apparel	Production service	3	4.7%
						32.2%

To the best knowledge, information and belief of our Directors having made all reasonable enquiries, none of our Directors, their respective close associates or Shareholders owning more than 5% of the number of our Company's issued shares as at the Latest Practicable Date had any interests in any of our five largest suppliers during the Track Record Period.

INVENTORY CONTROL

Our inventory consists of raw materials, work in progress and finished goods. As at 31 March 2016, 2017 and 2018 and 30 September 2018, we had inventories of HK\$21.8 million, HK\$25.4 million, HK\$36.2 million and HK\$31.9 million, respectively. We mainly store our inventories at our production facility in the PRC.

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We maintain an inventory of raw materials to cater for the short lead time from customers' order placement to delivery of our bridesmaid dresses and bridal gowns and we generally order raw materials from our suppliers upon confirmation of order by our customers for our special occasion dresses. For details, please refer to the paragraph headed "Procurement — Raw materials" in this section. We conduct physical stock take of our inventories on a monthly basis and monitor our inventory levels through our ERP system which enables us to obtain information on our inventory levels. Our sales manager and our management maintain close communications on a regular basis to assess the level of raw materials for production of our bridesmaid dresses and bridal gowns and determine the type and quantity of raw materials to be procured.

We believe our raw materials are not obsolete and do not have expiration dates. We carry out inventory review and ageing analysis on a regular basis. In determining whether to make appropriate provision, our management takes into account a number of factors including but not limited to historical and forecast consumption of raw materials. During the Track Record Period, we did not make any provision for inventories.

PRODUCTION

We produce our products at our production facility located in Dongguan City, the PRC. During the Track Record Period, we also subcontracted parts of the production process of our products to third-party manufacturing subcontractors in order to supplement our limited production capacity to meet our customers' increasing demand for our products.

Pre-production preparation

Upon confirmation of sales order by our customers, our sales and merchandising department will pass (i) an information sheet which sets out the graphic images of the products, design and packing specifications and any special requirements requested by our customers; and (ii) the final sample approved by our customers to our production and materials control department.

Our production and materials control department is responsible for carrying out the technical preparation works, which begin with the mapping of the production flow and determining the amount and types of raw materials required. In determining whether to subcontract part of the manufacturing process to our subcontractors, our production and materials control department prepares an analysis taking into account of our actual production capacity at the material time for our management to review and make the final decision. Upon completion of all production planning works, our production department will commence the production process.

Production process

The following diagram illustrates the production process of our products:

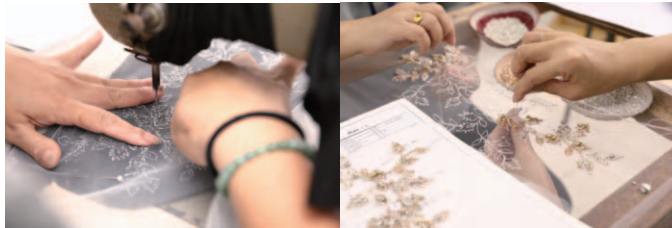
1. Fabric cutting



2. Fusing



3. Embroidery and
beading^(Note)
(optional by style)



4. Pleating^(Note)
(optional by style)



5. Sewing^(Note)



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6. Handwork^(Note)



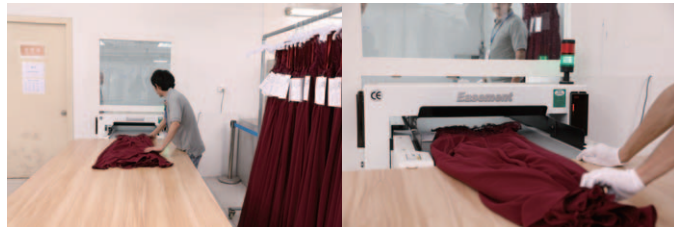
7. Finishing



8. Final quality inspection



9. Needle detection



10. Packaging



Note: We may subcontract these production steps to our subcontractors.

1. Fabric cutting

We begin our fabric cutting process by using our specialised computer software to model the division of our product into various pattern pieces, after which we start grading the pattern pieces into different sizes according to the size ratios. These pattern pieces are printed on paper to be used as cutting markers. We spread our fabric on a long cutting table and the number of layers is determined by the order size, the type and thickness of the fabric. We then place the markers on top of the fabric and commence cutting around the perimeter of the markers with electric fabric cutters to produce the panels of the product, which will later be sewed together.

We use our laser-cutting machines to cut the fabrics for most of our bridesmaid dresses, which is more efficient and cost-effective. Given that our laser-cutting machines cut fabric directly and are monitored by computerised programme, they help us shorten the production lead time and save the costs of paper patterns and markers.

2. Fusing

Fusing is a process of attaching an interlining to the fabric to strengthen, support and add shape to the fabric. It is an important process to keep our final products in shape. The process of fusing interlining to fabric begins with loading the fabric and interlining into our fusing machine, whereby heat and pressure is applied to melt the adhesive coating on the interlining such that the interlining will bond with the fabric.

3. Embroidery and beading

Embroidery and beading is the handicraft of decorating fabric or other materials using a needle to apply thread and may also incorporate other materials such as pearls, beads, sequins, crystal and stones. We either manually embroider or use embroidering machine to embroider on the semi-finished product.

4. Pleating

Pleating is a technique whereby fabric is folded and stitched into place. We pin the pleats on the fabric by machine or manually by hand.

5. Sewing

Sewing is the most fundamental core operation in apparel manufacturing, whereby we sew together our product from its different panels with sewing machines.

6. Handwork

Handwork involves hand-stitch binding, sewing hooks and eyes, bra cups, snaps and buttons, as well as making thread loops.

7. Finishing

Finishing includes activities such as cleaning, stain removal, thread trimming, supplementing beads, ironing and final pressing. We use equipment including electric textile cleaning guns and steam-irons to assist with these finishing activities.

8. Final quality inspection

We carry out final quality inspection of our finished products to spot any defects and check compliance with our customers' specifications.

9. Needle detection

We scan each of our products with our needle detectors as part of our safety inspection before our products are packaged to ensure that no needles have been inadvertently left in them during the production process.

10. Packaging

We pack our products in accordance with the packing specifications provided by our customers. We fold and fit our products in polybags, which are then placed into carton boxes, or hanger pack our products. We perform stress test on these carton boxes to ensure the strength and durability of our packaging and reduce the risk of damage of our products during the delivery process.

Production facility and capacity

As at the Latest Practicable Date, our production site in the PRC comprised two buildings with an aggregate gross floor area of approximately 13,675.12 sq.m., being our production facility and staff dormitories, respectively. We leased such buildings in the PRC from our Controlling Shareholders and executive Directors, Mr. S Chong and Mr. P Chong. For details, please refer to the section headed "Connected transactions" in this prospectus. We commenced production at our production facility in the PRC in 2003. Our production facility in the PRC comprises production lines, warehouses for raw material and finished product storage and an office for our staff. As at 30 September 2018, there were 414 employees at our production facility in the PRC.

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The following table sets forth the designed production capacity and utilisation rate of our production facility in the PRC during the Track Record Period:

Year ended 31 March						Six months ended 30 September	
2016		2017		2018		2018	
Designed production capacity ⁽¹⁾	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Utilisation rate ⁽²⁾	Designed production capacity ⁽¹⁾	Utilisation rate ⁽²⁾
Thousand units	%	Thousand units	%	Thousand units	%	Thousand units	%
490.9	83.0	490.9	92.4	628.6	87.3	368.3	90.8

Notes:

- (1) The designed capacity is determined based on the management's estimate of the number of pieces of dresses that we are capable to cut and produce on an annual basis. The estimate may be affected by factors such as the capacity of equipment to process the fabric, the type and complexity of product produced, the size of orders per style, the variability of raw materials and regular and periodic maintenance of our equipment. The designed capacity is derived from the assumption that we are in production nine hours per day and 303 days per year.
- (2) The utilisation rate is derived by dividing the actual production volume by the designed production capacity.

For the year ended 31 March 2018 and the six months ended 30 September 2018, our designed production capacity increased as we purchased additional machineries and expanded our production team to cater for the increase in demand for our products. We have maintained consistently high utilisation rates during the Track Record Period.

Major machinery and equipment

The principal production machines owned by us and used in our production process include laser cutting machines, sewing machines and automated beading machines, which we mainly source from the PRC. We conduct regular cleaning and maintenance on our machines and equipment. During the Track Record Period and up to the Latest Practicable Date, there had been no major disruptions of our business operations resulting from insufficient machines or equipment failure.

PRODUCTION EXPANSION PLAN

New production facility

Given (i) the high utilisation rate of our existing production facility during the Track Record Period; (ii) the demand for bridesmaid dresses, bridal gowns and special occasion dresses in the U.S. is expected to continue to grow moderately in the coming years as indicated in the Ipsos Report; and (iii) our ability to increase our market share and obtain more orders are dependent on the increase in our production capacity, we plan to expand our production capacity by establishing a new production facility.

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The following sets forth the details of our new production facility:

Location:	Chaozhou, Guangdong Province
Gross floor area:	Approximately 16,000 sq.m., of which approximately 12,000 sq.m. and 4,000 sq.m. will be used as production facility and dormitory, respectively
Expected annual production capacity⁽¹⁾:	Approximately 600,000 to 800,000 units of bridesmaid dresses, bridal gowns and special occasion dresses
Expected number of employees:	Approximately 500 employees
Expected number of machinery and equipment:	Approximately 1,000 units of equipment and machinery, which include sewing machines, laser-cutting machines and mannequins
Expected date of commencement of construction:	Third quarter of 2019
Expected date of completion of construction and commencement of operation:	Fourth quarter of 2020
Estimated total investment cost:	Approximately HK\$56.5 million
Estimated breakeven period⁽²⁾:	Approximately three years
Estimated investment payback period⁽³⁾:	Approximately eight years

Notes:

1. The expected annual production capacity of our new production facility is subject to the complexity of our products and our product mix at the relevant time.
2. Breakeven period refers to the length of time required for our new production facility to generate sufficient revenue to our Group to cover its operating cost during the same financial year on accounting basis for the first time since the date of the initial investment cash outflow, assuming gross profit margins would be similar to our existing production facility for the year ended 31 March 2018.
3. Investment payback period refers to the length of time required to recover the initial investment costs from the accumulated net cash inflow to be generated from our new production facility since the date of the initial investment cash outflow, assuming (i) our revenue will increase in line with the overall business growth; and (ii) there will be no material impact on our sales due to fluctuation in market demand, exchange rates, inflations, increase in raw material costs and labour expenses.

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Planned total investment costs

The following sets out the breakdown of our total investment costs planned to be incurred in connection with the establishment of our new production facility:

Items	Amount (HK\$'000)
Acquisition of land	11,932
Construction fees	35,597
Acquisition of machinery and equipment	7,518
Labour costs and related training costs	1,340
Miscellaneous costs	87
Total	56,474

We plan to finance the establishment of our new production facility with net proceeds from the Global Offering. As at the Latest Practicable Date, we had not incurred any costs in connection with the establishment of our new production facility.

Expected timeframe of our production expansion plan

The expected timeframe of our production expansion plan is as follows:

- (i) the acquisition of land is expected to be completed by April 2019;
- (ii) the relevant government approvals including construction permit and land use certificate are expected to be granted by the Planning Bureau and the Land Bureau, respectively, by July 2019;
- (iii) the construction of the production facility is expected to be completed by May 2020;
- (iv) the project completion certificate is expected to be granted by the Land Bureau by June 2020;
- (v) the purchase, installation and testing of machinery and equipment are expected to be completed by September 2020;
- (vi) trial operation is expected to commence in October 2020; and
- (vii) production is expected to commence in the fourth quarter of 2020.

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Considerations when determining our production expansion plan

Our Directors have determined our production expansion plan based on a number of considerations, including the following:

- (i) the retail sales value of bridesmaid dresses, bridal gowns and special occasion dresses in the U.S is expected to reach approximately US\$1.6 billion, US\$3.2 billion and US\$12.3 billion in 2021, respectively, whereas the retail sales value of bridesmaid dresses, bridal gowns and special occasion dresses in Europe is expected to reach approximately US\$1.4 billion, US\$2.4 billion and US\$9.7 billion in 2021, respectively, according to the Ipsos Report;
- (ii) the increase in our sales by approximately 2.5%, 23.1% and 28.7%, with the increase in sales of our special occasion dresses by approximately 54.8%, 172.0% and 103.1%, as well as the increase in its sales quantities by approximately 147.3%, 174.6% and 232.5% from the year ended 31 March 2016 to the year ended 31 March 2017, from the year ended 31 March 2017 to the year ended 31 March 2018, and from the six months ended 30 September 2017 to the six months ended 30 September 2018, respectively;
- (iii) our limited production capacity demonstrated by the consistently high utilisation rates of our existing production facility throughout the Track Record Period, details of which are set out in the paragraph headed “Production — Production facility and capacity” in this section; and
- (iv) our on-going communications with our key customers involving discussions about their business plans and future demand for our products in the coming years, which we believe will continue to increase in the coming years.

For further details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

Based on the above, our Directors believe that our production expansion plan is feasible and there is sufficient demand for our products which warrant our production expansion plan.

We had been leasing our production facility from our Controlling Shareholders during the Track Record Period and up to the Latest Practicable Date. Our Directors believe that such arrangement ensures stability in our production and enables us to operate in an efficient manner, as our Controlling Shareholders understand our business needs and have incentives to make improvements to the production facility to accommodate such business needs. Given that the interests of us and our Controlling Shareholders are generally aligned, we were and are expected to be able to continue to

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operate our existing production facility without disruption as if it is owned by us. Our Directors consider that acquiring a parcel of land to establish our new production facility is for the purpose of meeting our long-term business needs and is more beneficial to us in the long run as compared to leasing a property from an Independent Third Party due to the following reasons:

- (i) **The importance of demonstrating dedication and financial commitment to our business and financial strength as indications of stability and reliability in the production and delivery of products in the bridal wear industry**

Suppliers' stability and reliability in the production and delivery of products are of higher importance to bridal wear brands, namely our customers, than regular garment and clothing brands. Any delays in the delivery of products or if the products delivered are not of an acceptable quality will adversely affect the wedding arrangements of end-consumers, potentially causing material detrimental and negative impact on the reputation and publicity of the bridal wear brand.

As such, bridal wear brands take into account various factors in selecting and approving their suppliers, in particular their sole supplier, including the supplier's stability and reliability. The owner's dedication and financial commitment to its business and financial strength are attributes of a business' stability and reliability, which can be evidenced by whether the owner of its supplier has invested in its own production facility as opposed to renting it. The ownership of the production facility also allows the supplier to mitigate its risk of relocation of its production facility and hence reduces risks of disruption to its operations.

As at the Latest Practicable Date, we were the sole supplier of certain customers for bridesmaid dresses, three of whom were our five largest customers during the Track Record Period and had maintained an average of over 12 years of relationship with us as at the Latest Practicable Date. These customers had provided us a stable source of revenue during the Track Record Period and contributed approximately 61.9%, 63.9%, 55.1% and 38.4% of our total revenue for the three years ended 31 March 2018 and six months ended 30 September 2018, respectively. These customers are highly reliant on our ability to deliver their products punctually and at an acceptable quality. Thus, our Directors believe that any disruption in our supply of bridal wear may jeopardise our relationship with these customers and cause a material adverse impact on our business. Furthermore, as confirmed by the customers of which we act as their sole supplier (including two independent customers of our five largest customers during the Track Record Period, being Customer A and Customer D. For details relating to our five largest customers during the Track Record Period, please refer to the paragraphs headed "Sales and Marketing — Customers" in this section), the ownership of the production facilities by us or our majority shareholders is one of their key criteria in assessing the qualification of and determining us as their sole suppliers. Our Directors believe that these customers would not have selected us to be their sole suppliers if we nor our shareholders had owned the production facility.

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In addition, our Directors consider that it is an industry norm that bridal wear manufacturers of a similar size construct and own their production facilities. According to the Ipsos Report, the top five bridesmaid dresses manufacturers in the PRC in 2017, including our Group, either directly or their shareholders own their production facilities. Our Directors therefore consider that owning our production facilities is essential for us to maintain our market competitiveness and remain as the market leader in the industry.

Accordingly, our Directors consider that the ownership of our own production facilities is an important trait to show our current customers and potential new customers that our operations are stable and reliable, which will provide confidence to such customers in us and allow us to maintain our competitiveness;

(ii) **Meeting the stringent compliance requirements imposed by our customers and the relevant laws and regulations (the “Requirements”)**

For the three years ended 31 March 2018 and six months ended 30 September 2018, approximately 23.4%, 22.9%, 38.8% and 56.2% of our total revenue, respectively, was derived from international brand apparel companies which have stringent requirements on their suppliers’ qualification. Our customers or third-party audit firms appointed by them inspect our production facility to check if we have complied with these requirements, which must be completed with satisfactory result before the international brand apparel companies can place purchase orders to us. In determining whether potential suppliers are qualified, they assess various aspects of the potential suppliers, including technical, safety and human rights standards. For example, we are required to have a dedicated inspection area which is separate from production with adequate lighting, sufficient ventilation at storage area, acceptable steam pipe infrastructure, sufficient space in aisles within the production facility, sufficient emergency exits, and emergency lighting and fire alarm in our production facility. If defects are identified during the audit, we will be required to rectify the defects, which will cause us to incur time cost and perhaps capital cost. If we do not meet the Requirements, our existing customers may remove us from their list of approved suppliers and cease to place purchase orders with us. In the event that we relocate our production facility, our customers or third-party audit firms must conduct a new inspection on the new production site before any purchase orders can be placed. Our Directors believe that our ability in meeting the Requirements is crucial in maintaining or establishing our relationships with international brand apparel companies.

In establishing a new production facility, we are also required to comply with the relevant PRC laws and regulations in relation to, among others, fire safety and environmental protection. The relevant PRC authorities require fire safety and environmental protection qualification or approval documents to be submitted together with the project completion report for granting the project completion examination certificate. The fire safety and environmental protection departments may also check whether sufficient fire safety and environmental protection facilities are in place from time to time, including but not limited

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to automatic fire extinguishing system, smoke detection system, ventilation system, sufficient number of exhaust pipes for treatment and release of exhaust gas emitted from our laser cutting machines and sewage treatment facilities for treatment of corrosive substance and sewage.

Properties owned by an Independent Third Party may not meet the Requirements, especially those relating to pollution emission, and in order to comply with the Requirements, we may have to obtain consent from the independent landlord to make structural alterations to such properties, who may not provide their consent to such alterations. Even if the independent landlord provides consent to such structural changes, we will have to incur capital and time cost for renovation of the properties. Furthermore, as the independent landlord does not hold any shares in our Company and/or its subsidiaries, the risk of being forced to vacate either by way of termination of lease agreement or a substantial increase in rent is not within our control. In the event that we, having leased the properties from an independent landlord for establishment of our new production facility and incurred capital and time costs in meeting the Requirements, are later forced to vacate the properties by such landlord, we will not be able to recover any of our capital commitment and may be required to reverse the structural alterations by the independent landlord at our own costs. We will then have to find another production facility, renovate it to be suitable for production and ask the international brand apparel companies or third-party audit firms to inspect the new production facility again.

Given that we had been leasing our production facility from our Controlling Shareholders during the Track Record Period and up to the Latest Practicable Date and the interests of our Controlling Shareholders and us are generally aligned, the associated risk of being forced to vacate by our Controlling Shareholders was and will continue to be minimal. Therefore, owning the production facility instead of leasing it from an Independent Third Party can minimise our business risk, such as time cost and capital cost, arising from the Requirements;

(iii) Cost effectiveness of owning a production facility

It is more cost effective for us to own a property than leasing a property as our production facility as illustrated in the cost-benefit analysis below;

(iv) Minimising our exposure to fluctuations in rental expenses

Owning our own production facility can minimise our exposure to fluctuations in rental expenses which is dependent on market conditions and the landlord's own interests which are out of our control;

(v) Strengthening our asset base for obtaining bank facilities

Our Directors believe that owning a property can strengthen our asset base which can help us obtain more preferential terms from banks for financing arrangements for our operation, if required. As at the Latest Practicable Date, we did not own any properties in the PRC; and

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(vi) Demonstrating our willingness to invest in our business

Our Directors believe that owning our own production facility will assist us in maintaining our business relationships with existing customers and establishing business relationships with new customers as our customers visit our production facility from time to time and owning a production facility shows our customers that we are willing to invest in our business, which is a sign of our dedication to the industry in which we operate in.

To illustrate the benefit of owning a property instead of leasing a property (including the Backup Site. For details, please refer to the paragraphs headed “Leased properties — Backup relocation plan of our production facility and staff dormitory” in this section) as our production facility, the following table sets forth a cost-benefit analysis for a ten-year period of owning a production facility versus leasing a production facility:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 1 to Year 10
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(1) Own a property											
Estimated depreciation charges ^(Note 1)	951	951	951	951	951	951	951	951	951	951	9,510
Estimated repair and maintenance costs	480	480	480	480	480	480	480	480	480	480	4,800
	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>1,431</u>	<u>14,310</u>
(2) Lease a property											
Estimated rental costs ^(Note 2)	1,652	1,718	1,787	1,858	1,932	2,010	2,090	2,174	2,261	2,351	19,833
Estimated costs for renewal of lease agreement ^(Note 3)	5	—	—	6	—	—	7	—	—	7	25
Estimated repair and maintenance costs	340	340	340	340	340	340	340	340	340	340	3,400
	<u>1,997</u>	<u>2,058</u>	<u>2,127</u>	<u>2,204</u>	<u>2,272</u>	<u>2,350</u>	<u>2,437</u>	<u>2,514</u>	<u>2,601</u>	<u>2,698</u>	<u>23,258</u>
Cost saving of owning a property ^(Notes 4 & 5)	<u>566</u>	<u>627</u>	<u>696</u>	<u>773</u>	<u>841</u>	<u>919</u>	<u>1,006</u>	<u>1,083</u>	<u>1,170</u>	<u>1,267</u>	<u>8,948</u>

Notes:

- (1) The estimated depreciation charges are determined in accordance with our depreciation policy by depreciating over the land and buildings' estimated useful life of 50 years on a straight-line basis.
- (2) The estimated rental costs are determined with reference to the current rental rate of a similar production facility in Chaozhou and are expected to increase by 4% every year. According to an Independent Third Party valuer, the estimated rental rate is fair and reasonable and consistent with prevailing market rates for similar premises at similar locations and the annual rental growth of 4% per year is considered reasonable.

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- (3) The estimated costs for renewal of lease agreement and stamp duty are expected to be incurred every three years due to renewal of lease agreement.
- (4) In the event that we are forced to vacate or fail to renew the leased property, we will need to find another site and the relocation cost is estimated to be approximately HK\$4.0 million, including logistics expenses and capital expenditure for the site to be leased, which are not reflected in the above cost-benefit analysis. Assuming we are forced to relocate our leased property once during the above 10-year period, our cost-saving amount is estimated to increase to approximately HK\$12.9 million.
- (5) The cost-benefit analysis above is for illustrative purposes only and only estimated the cost-saving amount of owning a property for a period of 10 years, while the term of industrial land use right to be granted is generally 50 years in the PRC. If the analysis above is extended for a longer period of time, the estimated total cost-saving amount for owning a property will increase.

Based on the above comparison, the estimated depreciation charges after acquiring a property is lower than the estimated rental costs together with the estimated costs for renewal of lease agreement. Hence, we believe that it is more cost effective for our Group to acquire and own rather than to lease our new production facility.

Site selection

We plan to acquire a parcel of land in a high-technology industrial development zone (the “**Development Zone**”) in Chaozhou, Guangdong Province for the establishment of our new production facility. As advised by our PRC Legal Advisers, we are qualified to apply for the acquisition of a parcel of land in the Development Zone for the establishment of our new production facility through a local subsidiary according to the relevant government policies and the confirmation of the management committee of the Development Zone (the “**Management Committee**”), the competent PRC authority governing the Development Zone as advised by our PRC Legal Advisers. As confirmed by the Management Committee, (i) the usage of the parcel of land located in the Development Zone we plan to acquire is restricted to industrial use and cannot be changed; and (ii) any transfer or subletting of such parcel of land by us in the future is subject to the written approval of the relevant PRC authorities. Given the restriction in respect of the usage and transfer of such parcel of land located in the Development Zone, our Directors confirm that our plan to acquire such parcel of land is not for speculative investment with a view to achieving capital gain or generating rental income but for our own business need.

The Management Committee has confirmed that we will be entitled to the following supports to be provided by the PRC authorities in connection with such acquisition and the establishment of our production facility in the Development Zone:

- (i) one-off financial assistance of up to approximately RMB1.1 million (representing approximately HK\$1.3 million) from the relevant PRC authorities for the establishment of our new production facility and purchase of machinery and equipment;
- (ii) on-going financial assistance amounting to 50% of the embankment fee collected and retained by Chaozhou government for the purpose of strengthening the river embankment maintenance work and improving the city’s flood control capacity; and

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- (iii) on-going financial assistance amounting to 50% of the increment in our tax payable to the tax authority and retained by Chaozhou government, provided that such increment reaches 20% as compared to the tax payable to the tax authority and retained by Chaozhou government in previous year.

In view of the various supports to be provided by the PRC authorities and the benefits of owning production facility as set out above, our Directors consider that acquiring a parcel of land in the Development Zone for the establishment of our new production facility will enable us to achieve our expansion plan in a cost-effective manner and maximise our interest in the long run.

Interim arrangement

Before the commencement of production at our new production facility in the fourth quarter of 2020, subject to the amount of orders received from our customers and our production capacity, we plan to lease a production facility from Independent Third Parties on a short-term basis to expand our production capacity to cater for the increasing demand for our products (the “**Interim Arrangement**”). Please refer to the section headed “Future plans and use of proceeds — Reasons for the Listing and the Global Offering — (a) Facilitate the implementation of our business strategies — (i) Construct a new production facility” in this prospectus on why our Directors consider that there will be adequate demand for our products to support our expansion plan. Our Directors believe that the Interim Arrangement will enable us to capture business opportunities that arise prior to the commencement of production at the new production facility and prevent us from having to reject orders from existing or new customers due to capacity constraints of our existing production facility, and thereby allowing our business to continue to grow before the commencement of production at the new production facility. During the Interim Arrangement, we will use the leased premises for the production of products for (i) customers whom we are not sole suppliers for and have no strict requirements on our production facilities, which contributed approximately 18.0%, 16.1%, 9.1% and 5.9% of our total revenue for the three years ended 31 March 2018 and the six months ended 30 September 2018, respectively; and (ii) new potential customers. After the completion of the new production facility in the fourth quarter of 2020, we will shift the production at the leased premises to the new production facility.

QUALITY CONTROL

Our quality control department is responsible for performing our quality control measures. As at 30 September 2018, our quality control department comprised 11 staff. We believe delivery of quality products to our customers is critical to our success. Accordingly, we have implemented stringent quality control measures throughout our production process, from the purchase of raw materials to packaging:

- *Selection of raw material suppliers* — We maintain a list of approved raw material suppliers which are subject to our evaluation from time to time. For details, please refer to the paragraph headed “Procurement — Raw materials — Selection of raw material suppliers” in this section.
- *Purchase of raw materials* — We obtain samples of raw materials prior to confirmation of purchase orders. When the raw materials are delivered to us, we perform screening on these raw materials to ensure that their quality meets our required standard. In particular, we perform inspection on fabric by touch and visual inspection, as well as comparison with the samples approved by us.

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- *Production* — At each stage of our production process, we perform quality check on the semi-finished and finished products to ensure that our customers' specifications are adhered to.
- *Selection of subcontractors* — We maintain a list of approved subcontractors which are subject to our evaluation from time to time. We also arrange for our staff to station at the factories of our subcontractors to monitor their entire production process and perform on-site quality check. For details, please refer to the paragraph headed "Procurement — Subcontracting — Selection of subcontractors" in this section.
- *Packaging* — After our products are packed in cartons for delivery, we perform stress test on these cartons to ensure the strength and durability of our packaging and reduce the risk of damage of our products during the delivery process. For details, please refer to the paragraph headed "Production — Production process — 10. Packaging" in this section.

During the Track Record Period, the defect rate of our finished products was minimal. We believe our commitment to producing high quality products is demonstrated through our implementation of comprehensive quality control measures, which help establish and strengthen our customers' trust in us.

SALES AND MARKETING

Our sales and merchandising department is primarily based in Hong Kong and led by Mr. Lam Chi Yuen, our executive Director and chief operating officer. As at 30 September 2018, our sales and merchandising department consisted of approximately 36 staff. Our sales and merchandising department is principally responsible for maintaining frequent and personalised contact with our existing and potential customers, handling customers' inquiries and following up on orders, production process and shipments. Our sales personnel also regularly visits our customers' offices to foster exchange of ideas and better understand their needs and requirements.

In addition, our sales and merchandising department assists in the design front by working closely with our product design and development department to develop designs for our customers' consideration. After communication with our customers, our sales and merchandising department conveys our customers' needs and requirements to our product design and development department to formulate initial design direction. Upon development of our initial designs and samples, they present them to our customers and maintain communication with them until finalisation of design specifications and entering into of purchase orders. For further details on our design and development process, please refer to the paragraph headed "Product design and development" in this section.

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Customers

Most of our customers are brand apparel companies, from whom we derived over 95% of our revenue during the Track Record Period. Our other customers are trading companies and supply chain management companies, from whom we derived our remaining revenue during the Track Record Period. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, the revenue generated from our five largest customers accounted for approximately 83.7%, 79.6%, 86.3% and 93.4% of our total revenue, respectively, and the revenue generated from our single largest customer accounted for approximately 52.9%, 44.4%, 35.0% and 52.0% of our total revenue, respectively. The following table sets forth details of our five largest customers during the Track Record Period:

Ranking	Customer	Principal place of business	Principal business	Principal products purchased from us	Approximate years of relationship with us as at the Latest Practicable Date	Percentage of our total revenue
<i>For the year ended 31 March 2016</i>						
1	Customer A	United States	a brand apparel company	bridesmaid dresses and bridal gowns	16	52.9%
2	Customer B	United States	an international brand apparel company	bridesmaid dresses and bridal gowns	6	12.5%
3	Ralph Lauren Corp	United States	an international brand apparel company	special occasion dresses	6	7.2%
4	Veromia	United Kingdom	a brand apparel company	bridesmaid dresses, bridal gowns and special occasion dresses	17	5.6%
5	Customer C	United States	a brand apparel company	bridesmaid dresses and bridal gowns	15	5.5%
						83.7%
<i>For the year ended 31 March 2017</i>						
1	Customer A	United States	a brand apparel company	bridesmaid dresses and bridal gowns	16	44.4%
2	Customer B	United States	an international brand apparel company	bridesmaid dresses, bridal gowns and special occasion dresses	6	13.5%
3	Customer C	United States	a brand apparel company	bridesmaid dresses and bridal gowns	15	11.7%
4	Ralph Lauren Corp	United States	an international brand apparel company	special occasion dresses	6	5.8%
5	Customer D	United States	a brand apparel company	bridesmaid dresses	3	4.2%
						79.6%
<i>For the year ended 31 March 2018</i>						
1	Customer A	United States	a brand apparel company	bridesmaid dresses	16	35.0%
2	Customer B	United States	an international brand apparel company	special occasion dresses	6	29.4%
3	Customer D	United States	a brand apparel company	bridesmaid dresses	3	8.1%
4	Customer C	United States	a brand apparel company	bridesmaid dresses and bridal gowns	15	7.9%
5	Customer E	United States	an international brand apparel company	bridesmaid dresses	1	5.9%
						86.3%
<i>For the six months ended 30 September 2018</i>						
1	Customer B	United States	an international brand apparel company	special occasion dresses	6	52.0%
2	Customer A	United States	a brand apparel company	bridesmaid dresses	16	26.2%
3	Customer D	United States	a brand apparel company	bridesmaid dresses and bridal gowns	3	6.6%
4	Customer C	United States	a brand apparel company	bridesmaid dresses and bridal gowns	15	4.8%
5	Customer E	United States	an international brand apparel company	bridesmaid dresses	1	3.8%
						93.4%

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Notes:

1. During the Track Record Period, we also sourced samples from Veromia amounting to approximately nil, HK\$14,000, HK\$34,000 and nil for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively.
2. During the Track Record Period, we also sourced fabric and accessories from Customer C, who ranked the third largest customer during the year ended 31 March 2017, amounting to approximately HK\$196,000, HK\$31,000, HK\$34,000 and HK\$6,000 for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively.
3. During the Track Record Period, we also sourced fabric and accessories from Customer D, who ranked the fifth largest customer during the year ended 31 March 2017, amounting to approximately nil, HK\$186,000, HK\$34,000 and HK\$29,000 for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively.

The following sets forth the background information of our five largest customers during the Track Record Period:

Customer A	Customer A is a brand apparel company based in the United States principally engaged in the wholesale of bridesmaid dresses. According to its website, it commenced business operation in late 1940s and has established a network of retailers throughout the United States and Canada.
Customer B	Customer B is an international brand apparel company based in the United States offering women's and men's apparel and accessories, including outerwear, suiting, casual attire, swimwear, shops, handbags, belts, socks and jewelry. Based on the annual report of its parent company, its parent company commenced business operation in 1983 and operated over 500 retail and outlet stores throughout the United States, Canada, the United Kingdom, Hong Kong and France as at January 2017.
Customer C	Customer C is a brand apparel company based in the United States principally engaged in the design of bridal gowns and bridesmaid dresses. According to its website, it was founded in 1980s and sells its products through authorised retailers located in the United States, Canada, Mexico, Europe, Australia, Malaysia and Hong Kong.
Customer D	Customer D is a brand apparel company based in the United States engaged in the design and manufacture of bridal wear and related accessories, including bridesmaid dresses. According to its annual report, it sells their products to specialty bridal shops located in the United States and Europe.
Customer E	Customer E is an international brand apparel company based in the United States and listed on the New York Stock Exchange. According to its website, it opened its first store in 1969 and offers apparel, accessories and personal care products for men, women and children under five brands in 90 countries through 3,300 company-operated stores, almost 400 franchise stores and e-commerce sites at present.

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Ralph Lauren Corp

Ralph Lauren Corp is an international brand apparel company based in the United States and listed on the New York Stock Exchange. Based on its annual report, Ralph Lauren Corp was founded in 1967 and sells its products to over 13,000 wholesale distribution channels worldwide and directly to retail customers worldwide through 466 retail stores and 619 concession-based shop-within-shops, as well as its various e-commerce sites at present. In addition to its directly-operated stores and shops, its international licensing partners operate over 200 stores and concession shops around the world.

Veromia

Veromia is a brand apparel company based in the United Kingdom principally engaged in the design and wholesale of bridal gowns, bridesmaid dresses and special occasion dresses. It was founded in September 2000 and has over 350 wholesale distribution channels in the United Kingdom and Europe at present.

Veromia is a company wholly-owned by Mr. S Chong, our executive Director and one of our Controlling Shareholders, and was one of our five largest customers for the year ended 31 March 2016. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our revenue generated from Veromia amounted to HK\$9.3 million, HK\$6.9 million, HK\$4.5 million and HK\$1.9 million, representing approximately 5.6%, 4.1%, 2.2% and 1.2% of our total revenue, respectively. During the Track Record Period, Veromia primarily purchased from us bridal gowns and bridesmaid dresses. The decrease in revenue contribution of Veromia to us during the Track Record Period was primarily attributable to the decrease in revenue generated from our sales of bridal gowns to Veromia as a result of our strategy to allocate more of our limited production capacity and resources at our current production facility from bridal gowns with more complex designs to those with simpler designs and to special occasion dresses, both of which generally have lower average selling prices and shorter production lead time. For further details, please refer to the section headed “Connected transactions — Non-exempt continuing connected transactions — Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia” in this prospectus. Save as disclosed herein, to the best knowledge, information and belief of our Directors having made all reasonable enquiries, none of our Directors, their respective close associates or Shareholders owning more than 5% of the number of our Company’s issued shares as at the Latest Practicable Date had any interests in any of our five largest customers during the Track Record Period.

For the risks relating to our relatively concentrated customer base, please refer to the section headed “Risk factors — We rely on several major customers and generally do not enter into long-term agreements with our customers.” in this prospectus. Although a majority of our revenue was derived from a limited number of customers during the Track Record Period, over the years, we have fostered mutually beneficial and complementary relationships with our customers and become their long-term product design and development partner. As we have continuously focused on providing one-stop solutions to our customers and collaborating with them to develop innovative and unique products for them, we believe we have been able to boost our customers’ sales, thereby further strengthening our mutually beneficial and complementary relationships.

As at the Latest Practicable Date, we had an average of over nine years of business relationship with our five largest customers during the Track Record Period and 16 years of relationship with our largest customer during the Track Record Period. We particularly benefit from our 16-year relationship with our largest customer during the Track Record Period, for whom we are also the sole bridesmaid

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dress supplier. We closely partner with them on product design and development and provide them with one-stop solutions including manufacturing of the products and final delivery of high-quality products. As part of our collaborative process, we also design and develop raw materials for them to meet their specific needs.

In view of our relatively concentrated customer base, one of our business strategies is to strengthen and broaden our customer base in the U.S.. For details, please refer to the paragraph headed “Business strategies — Strengthen and broaden our customer base in the U.S.” in this section. Supported by our comprehensive product design and development capabilities, we began to increase our sales of special occasion dresses products in 2017 which we believe can continue to grow our business and broaden our customer base through diversified product portfolio.

Customers with a dual role as our suppliers

During the Track Record Period, we sourced fabric, beads, accessories and samples from some of our customers, which amounted to HK\$218,000, HK\$726,000, HK\$108,000 and HK\$35,000, respectively, representing approximately 0.2%, 0.6%, 0.1% and 0.03% of our total cost of sales, respectively, for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018.

Revenue by geographic location

We categorise our revenue based on the country in which the customer is headquartered. The following table sets forth a breakdown of our revenue by geographic location for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
United States	145,145	87.8	149,966	88.6	193,426	92.8	111,255	93.0	145,759	94.7
Europe	14,832	9.0	13,859	8.2	10,521	5.0	5,006	4.2	3,783	2.5
Australia	3,560	2.2	3,503	2.1	2,503	1.2	1,461	1.2	1,422	0.9
Others ⁽¹⁾	1,677	1.0	1,956	1.1	1,953	1.0	1,909	1.6	2,942	1.9
Total	<u>165,214</u>	<u>100.0</u>	<u>169,284</u>	<u>100.0</u>	<u>208,403</u>	<u>100.0</u>	<u>119,631</u>	<u>100.0</u>	<u>153,906</u>	<u>100.0</u>

Note:

(1) Others primarily include Hong Kong, the PRC, Macau and Japan.

Pricing policy

We generally adopt a cost-plus pricing model which takes into account a range of factors when determining the price of our products. Such factors include the quantity of an order, design specifications, technical requirements of our products, production costs, the production lead time required by our customers, and prices of raw materials. Accordingly, the prices of our products vary significantly.

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Sales orders

Upon finalisation of the design specifications of our products, we enter into individual sales orders with our customers for sales of our products. Terms of these sales orders usually include specifications of the product, unit price, volume, delivery and payment terms. We typically require new customers to make deposit before we commence production. We generally grant our customers credit period of 0 to 90 days. Our sales orders usually provide for mutually agreed selling price (which we determine on a cost-plus basis) and do not provide for price adjustment mechanisms. During the Track Record Period, we were not subject to material seasonality fluctuations.

Delivery arrangements

We are responsible for the delivery of our products, as well as cost of transportation incurred from the delivery of our products to our customers' designated ports of shipment or designated forwarders which are usually in Hong Kong. Most of our products are delivered to our customers on free on board terms as stipulated in our customers' purchase orders, meaning the passing of title and transfer of risks of our products take place when our products are delivered to our customers' designated ports or designated forwarders. We outsource delivery to third-party logistics service providers and engage such providers on an individual basis. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our transportation costs amounted to HK\$3.3 million, HK\$4.3 million, HK\$3.8 million and HK\$2.3 million, respectively. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disruption to our delivery arrangements and we did not suffer any material losses or pay any compensation as a result of delays in delivery of our products by the logistics companies engaged by us.

After-sale services, product returns and warranty

Our sales and merchandising department maintains close communications with our customers after the delivery of our products to ensure that we can respond promptly to any problems or concerns our customers may have. While we generally do not provide warranty for our products, we will accept any product returns made due to defects caused by us and bear the costs of such products returned to us after conducting investigation to ascertain the cause of the defect. Upon receipt of a defective product complaint from a customer, we will conduct an investigation and may seek compensation from any third party supplier or subcontractor if they are at fault. Depending on the circumstances of each case, we may repair or replace the defective products or may sometimes refund to our customer if the default is caused by us. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, our sales returns amounted to approximately HK\$72,000, HK\$1,000, HK\$27,000 and HK\$3,000, respectively.

During the Track Record Period and up to the Latest Practicable Date, there was no actual or threatened material product liability claim against us, and we had not received any material complaints and claims from our customers in relation to the quality of our products. For the risk of potential product liability to which we may be exposed, please refer to the section headed "Risk factors — Risks relating to our business — Our business and reputation may be affected by product liability claims, litigation, complaints or adverse publicity" in this prospectus.

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MARKET AND COMPETITION

The bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industry in the PRC is highly fragmented with a large number of players. According to the Ipsos Report, in 2017, there were approximately 6,000 bridesmaid dresses, bridal gowns and special occasion dresses manufacturers in the PRC, and the top five bridesmaid dresses manufacturers in aggregate occupied only approximately 5.8% of the market share. We were the largest bridesmaid dresses manufacturer in the PRC in terms of revenue with approximately 2.9% market share in 2017. We mainly compete with domestic and international bridesmaid dresses, bridal gowns and special occasion dresses manufacturers based on one-stop solution services, strong design and development capability, reliable product quality, timely delivery, customer recognition and industry reputation. We position ourselves as a one-stop solutions provider for bridesmaid dresses, bridal gowns and special occasion dresses. As we have established stable and long-term relationships with our customers, most of which are brand apparel companies, through years of collaboration, we believe that it is difficult for other manufacturers or providers to replicate such relationships and compete with us. For further details on the competitive landscape of our industry, please refer to the section headed “Industry overview” in this prospectus.

INSURANCE

We maintain insurance policies against loss or damage to our office and business interruption in Hong Kong and travel insurance for its staff in Hong Kong. We also maintain insurance coverage for the risk of loss or damage to the assets including our raw material inventory, semi-finished products and finished products, machinery and equipment stored and installed at our production facility in the PRC. During the Track Record Period and up to the Latest Practicable Date, we had not made, or been the subject of, any material insurance claim.

INFORMATION TECHNOLOGY SYSTEM

Our ERP system integrates various information in relation to, among others, our procurement, production, sales and inventory under one system. The centralisation of such data enables us to obtain information on our purchases orders, sales orders and inventory level.

INTELLECTUAL PROPERTY

For details of our intellectual property rights which we consider material to our business operation, please refer to the section headed “Statutory and General Information — B. Further information about our Company’s business — 2. Intellectual property rights of our Group” in Appendix IV to this prospectus.

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Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not been involved in any material proceedings in respect of, and we are not aware of any claims of infringement of any intellectual property rights that may be threatened or pending, in which we may either be involved as a claimant or respondent.

LAND AND PROPERTY INTERESTS

Owned properties

As at the Latest Practicable Date, we owned a property located in Tsuen Wan, Hong Kong with a total saleable area of approximately 469.34 sq.m. and a roof area of approximately of 324.88 sq.m., which was primarily used as our headquarters in Hong Kong.

As at 30 September 2018, we had no single property interest with a carrying amount of 15% or more of our total assets. Therefore, according to Chapter 5 of the Listing Rules and section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Cap. 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance which requires a valuation report with respect to all our Group's interests in land or buildings.

Leased properties

As at the Latest Practicable Date, we leased two properties with a total gross floor area of approximately 13,675.12 sq.m. located in Humen Town, Dongguan City, the PRC (the “**Leased Properties**”), which were primarily used as our production facility and staff dormitory, from our Controlling Shareholders and executive Directors, Mr. S Chong and Mr. P Chong. On 21 December 2017, we as tenant and Mr. S Chong and Mr. P Chong as landlords entered into two lease agreements for the leasing of our production facility and staff dormitory in the PRC for a term of three years commencing from 1 April 2018 at an annual rent of RMB1.66 million, RMB1.99 million and RMB2.16 million, respectively, which constitutes a continuing connected transaction of our Company. For details of such lease agreements, please refer to the section headed “Connected transactions” in this prospectus.

Title defect in relation to the Leased Properties

As at the Latest Practicable Date, the Leased Properties were located on collectively-owned land (集體建設用地) in Humen Town, Dongguan City, the PRC (the “**Dongguan Land**”). According to a collectively-owned land certificate (集體土地使用證) dated 13 September 2001, the Dongguan Land is held by the Villagers' Committee of Jiumen Village of Humen Town, Dongguan City (東莞市虎門鎮九門寨村村民委員會) (the “**Villagers' Committee**”) and the permitted usage is industrial. Pursuant to a land use agreement dated 4 June 1997 entered into by KNT and the Villagers' Committee and as supplemented by a supplemental agreement dated 13 July 2016 entered into by KNT, Mr. S Chong, Mr. P Chong and the Villagers' Committee (together referred to as the “**Land Use Agreement**”), Mr. S Chong and Mr. P Chong shall have the right to use the Dongguan Land for 50 years.

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As advised by our PRC Legal Advisers, according to the Administrative Measures of the Dongguan City for the Circulation of the Right to Use Collectively-owned Land (《東莞市集體建設用地使用權流轉管理辦法》) (the “**Measures**”) which took effect on 1 October 2005, the lease of collectively-owned land use rights must be approved by at least two-thirds of the members of the villagers’ committee at a general meeting or two-thirds of the villagers’ representatives by writing. As confirmed by Mr. S Chong and Mr. P Chong, they had used their best endeavour to request the Villagers’ Committee, the landlord of the Dongguan Land, to obtain the written consent for the Land Use Agreement in accordance with the Measures as mentioned above. As at the Latest Practicable Date, the Land Use Agreement had yet to obtain such written consent.

Potential risks with respect to our production facility and staff dormitory

Given that the Land Use Agreement has not obtained the relevant written consent in accordance with the Measures, as advised by our PRC Legal Advisers, there is a potential risk that we may be forced to vacate our production facility and staff dormitory from the Dongguan Land.

Based on the interviews with the Land and Resources Bureau of Humen Town (東莞市國土資源局虎門分局) (the “**Humen Lands Bureau**”), which our PRC Legal Advisers have confirmed is the competent authority, conducted by our PRC Legal Advisers on 13 December 2017 and 28 March 2018, the Humen Lands Bureau confirmed that (i) we can continue to use the Leased Properties and there is no need for us to vacate or demolish the buildings on the Leased Properties; and (ii) Mr. S Chong, Mr. P Chong and us will not be subject to any administrative penalty. Based on the above, our PRC Legal Advisers are of the view that the risk of us being forced to vacate our production facility and staff dormitory from the Dongguan Land is remote.

Backup relocation plan of our production facility and staff dormitory

In the unlikely event that we are forced to vacate our production facility and staff dormitory from the Dongguan Land by the relevant PRC authority, we will relocate to a site in Tianliao Community, Gongming Sub-District, Baoan District, Shenzhen City, the PRC (the “**Backup Site**”). We have entered into a legally binding memorandum of understanding (the “**MOU**”) with Mr. Tam Chun Kit (the “**New Landlord**”), an Independent Third Party and the spouse of Ms. Ng Suk Fan, a cornerstone investor in our Company, on 10 April 2018, pursuant to which we shall have the right

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to lease the Backup Site upon our request. The material terms of the MOU are summarised as follows:

Major terms	Description
Location	Tianliao Community, Gongming Sub-District, Baoan District, Shenzhen City, the PRC
Area to lease	Total area of approximately 13,336.38 sq.m., which comprises gross floor area of approximately 9,432.45 sq.m. for production facility, 2,802.28 sq.m. for staff dormitory and 1,101.65 sq.m. for ancillary facilities
Right to lease	We have the right, but not the obligation, to (i) lease the Backup Site from the date of the MOU and until 31 December 2020 (the “ Term ”); (ii) determine the time of entering into the formal lease agreement with the New Landlord during the Term; and (iii) request the New Landlord to deliver vacant possession of the Backup Site to us within 30 days from the signing of the formal lease agreement. We have an option to extend the Term for one year at our sole discretion
Lease term	Three years
Monthly rent	RMB173,372.94
Deposit	Upon signing of the MOU, we paid RMB173,372.94 (the “ Deposit ”), representing one month of monthly rent, to the New Landlord as consideration for our right to lease the Backup Site during the Term pursuant to the MOU. In the event that the MOU is terminated, the Deposit will not be returned to us
Warranty by the New Landlord	The New Landlord warrants that (i) he is the legal and beneficial owner of the Backup Site and has obtained all the required certificates in respect of the Backup Site in accordance with the relevant laws and regulations in the PRC; (ii) the Backup Site is free from all encumbrances and the leasing of the Backup Site to us does not require any third-party consent; and (iii) the construction of the Backup Site complies with all relevant standards and safety laws and regulations in the PRC

Relocation cost

We estimate the costs of the relocation will be approximately HK\$4.0 million, including the logistics expenses and capital expenditure for the Backup Site, which will be funded by our internal resources.

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Relocation time frame

In the unlikely event that we are forced to vacate our production facility and staff dormitory from the Dongguan Land by the relevant PRC authority, we will implement our relocation plan. Given that (i) the Backup Site is only approximately 40 km away from our existing production facility; (ii) most of our machinery and equipment are relatively light in weight; and (iii) each round of transportation of the machinery and equipment by vehicle from our existing production facility to the Backup Site can be completed within an hour, it is estimated that the relocation of the equipment in each phase requires approximately seven business days (the “**Relocation Period**”) for the disassembly and transfer of equipment in our existing production facility to the Backup Site and for installation, testing and calibration for the production lines. Therefore, we expect our production facility at the Backup Site can be fully ramped up for production within seven business days from the date we commence the actual physical relocation.

Estimated loss of revenue resulting from stoppage in production

Our PRC Legal Advisers advised that, as a matter of administrative practice of the government authorities, a reasonable period of time of approximately 60 days will possibly be granted to us for the arrangement of relocation in the event that we are required to vacate our existing production facility. As such, we believe that we have sufficient time to devise the requisite preparations and execute our relocation plan without sustaining material disruptions to our production.

We estimate our loss of revenue resulting from the stoppage in production due to relocation to be approximately HK\$4.8 million. The average daily revenue of our existing production facility is approximately HK\$0.7 million, which is based on our existing production facility’s total revenue for the year ended 31 March 2018 of HK\$208.4 million divided by 303 working days. In this scenario, the potential loss of revenue would amount to approximately 2.3% of our total revenue for the year ended 31 March 2018 and our Directors believe such loss of revenue will not have material and adverse impact on our Group’s financial performance.

Indemnity by our Controlling Shareholders

To mitigate our loss as a result of being forced to vacate our production facility and staff dormitory from the Dongguan Land by the relevant PRC authority, our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Group whereby, among other things, they have undertaken to indemnify our Group from and against all claims, damages, losses, costs, expenses, actions and proceedings (if any) arising out of or in connection with any non-compliance or alleged non-compliance by any member company of our Group or Mr. S Chong and Mr. P Chong, the owner and lessor of the Dongguan Land and the Buildings thereon where our existing production facility and staff dormitory are located, with any applicable PRC rules, regulations and laws in relation to the Dongguan Land, including but not limited to, (i) the penalties that may be imposed on our Group in relation to such non-compliance or alleged non-compliance; (ii) the costs, expenses and losses that may arise from our Group being forced to move out of the Dongguan Land and the Buildings thereon

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as a result of such non-compliance including but without limitation, (a) the losses and damages that may be incurred and suffered by our Group due to the cessation of production during the period of relocation or loss of customers due to relocation; and (b) the costs and expenses that may arise from and be sustained by our Group in connection with the relocation of the production lines and equipment and personnel to a new site.

EMPLOYEES

As at 30 September 2018, we had a total of 430 employees, of whom 16 were located in Hong Kong and 414 were located in the PRC.

The following table sets forth a breakdown of the number of our employees by departments as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively:

Department	As at 31 March			As at 30 September
	2016	2017	2018	2018
Directors	2	2	2	2
Sales and merchandising	37	38	32	36
Production and materials control	35	38	37	37
Production	154	178	169	175
Product design and development	61	64	83	76
Warehouse	35	40	48	51
Quality control	10	10	10	11
Information technology	2	2	2	2
Shipping	7	7	8	8
Administration	22	20	20	21
Finance and accounting	10	9	11	11
Total	375	408	422	430

We believe our strong corporate culture of innovation and dedication, working environment, employee development opportunities and employee benefits have contributed to the good relationships between us and our employees. We recruit our employees taking into account of a number of factors such as their working experience, educational background and the required skills for the position.

Remuneration package

Our standard remuneration package includes base salary, discretionary bonuses and medical allowance. Each of our employee's remuneration package is determined in light of his/her qualification, position and seniority. To ensure our remuneration package remains competitive, we conduct annual assessment on each employee's remuneration package. Our total staff costs for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018 amounted to HK\$32.9 million, HK\$33.4 million, HK\$41.9 million and HK\$23.3 million.

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In accordance with the applicable laws and regulations in Hong Kong and the PRC, we contribute to mandatory provident fund, social insurance and/or housing funds for our employees.

Staff training

We provide induction programmes for our new employees to equip them with the requisite skills and knowledge for their positions, as well as continuous regular trainings to our employees to enhance their industry and product knowledge. These programmes and trainings also aim to introduce and reinforce our employees' familiarity with work safety standards.

Labour disputes

During the Track Record Period and up to the Latest Practicable Date, we did not experience any labour disputes with our employees that resulted in any material disruptions to our business and results of operations.

HEALTH AND OCCUPATIONAL SAFETY

We place great emphasis on occupational health and safety. We have implemented measures at our production facility to promote occupational health and safety and to ensure compliance with applicable laws and regulations. We have established a series of safety guidelines, rules and procedures for different aspects of our production activities, including fire safety, factory safety, work-related injuries and emergency and evacuation procedures.

During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major workplace accident in the course of their employment, and we had not been subject to disciplinary actions with respect to labour issues, nor had we experienced any claims for personal or property damage that, individually or in aggregate, have had a material effect on our financial condition and results of operations. During the Track Record Period and up to the Latest Practicable Date, we complied with all applicable labour and safety laws and regulations in all material respects.

ENVIRONMENTAL PROTECTION

We are subject to applicable environmental protection laws and regulations, which include the Environmental Protection Law of the PRC (中華人民共和國環境保護法). For details, please refer to the section headed "Regulatory overview — PRC regulatory overview — Environmental protection" in this prospectus.

We are committed to operating in compliance with applicable environmental protection laws and regulations. While our Directors believe that the insignificant amount of waste we produce is not hazardous and has minimal impact on the environment, we have taken steps to ensure that any waste and by-products produced as a result of our operations are properly treated and discharged so as to minimise adverse effects on the environment. To ensure employee awareness of the importance of

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compliance with such requirements, we have established guidelines that set out the relevant pollutant emission and discharge limits and our internal environmental protection management procedures. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material penalty or fines imposed by the relevant environmental protection authorities.

LEGAL COMPLIANCE, LICENCES AND PERMITS

Our business operations are subject to various laws and regulations in Hong Kong and the PRC. For further details, please refer to the section headed “Regulatory overview” in this prospectus. As confirmed by our Directors, save as disclosed herein, we have complied with all applicable laws and regulations in Hong Kong and the PRC in all material aspects and have obtained all material requisite licenses, approvals and permits from the relevant government authorities for our business operations in Hong Kong and the PRC during the Track Record Period and up to the Latest Practicable Date.

During the Track Record Period and up to the Latest Practicable Date, we had not been involved in any material legal proceedings, investigations and claims and we had not been aware of any pending or threatened litigation or arbitration proceedings against any member and Directors of our Group.

INTERNAL CONTROL MEASURES

Enhanced internal control measures to prevent the recurrence of occupying properties with defective titles

To prevent future recurrence of occupying properties with defective titles, we have established a policy regarding selection and approval of leasing and purchasing of properties, details of which are set out as follow:

- (i) we have implemented an approval procedure for the leasing and purchasing of properties;
- (ii) we will involve external legal expert to perform due diligence on the relevant landlord and property to confirm the title of the property, and assist us to confirm the validity of the documents obtained from the landlord; and
- (iii) Ms. Kwok Ping, our financial controller, will be responsible for handling all matters in relation to the leasing and purchasing of properties and implementing the measures as set out above, and report to Mr. S Chong, our chairman, chief executive officer and executive Director. Mr. S Chong will report to the Board on a regular basis.

Independent review of internal control system

In preparation for the Listing, we engaged an independent internal control consultant (the “**Internal Control Consultant**”) to conduct an internal control review on our Group between 21 September 2017 and 12 October 2017 and a follow-up review between 1 March 2018 and 28 March 2018. Upon completion of such reviews, the Internal Control Consultant provided us with a number of findings and the relevant recommendations, which we have adopted in full. The major findings identified in the reviews and the recommendations from the Internal Control Consultant are set out as follows:

Major Findings	Recommendations and action plans
1. We did not establish an internal audit function in monitoring material controls including financial, operational and compliance as well as risk management system. Without an internal audit function, there is a risk that internal controls breakdowns may not be timely detected and remedied.	We will establish an internal audit function upon Listing, which will be independent and will report directly to the audit committee.
2. We did not establish a formal risk assessment and management mechanism to identify and analyse the exposures of internal and external risks factors we face.	We will adopt the policies and procedures in relation to formal risk assessment and management mechanism upon Listing.
3. We did not establish formal mechanisms and policies to deal with the relevant requirements under the Listing Rules in relation to, among others, our Directors’ dealing in our Shares, compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and handling and monitoring of inside information.	We will adopt the policies and procedures in relation to the compliance with the relevant requirements under the Listing Rules upon Listing.
4. We did not establish written or comprehensive policies and procedures for the key areas of financial reporting and operational processes including but not limited to revenue management, expenditure management, human resources and payroll management.	We have approved and adopted the policies and procedures in relation to financial reporting and operational processes and provided appropriate training to our relevant employees.

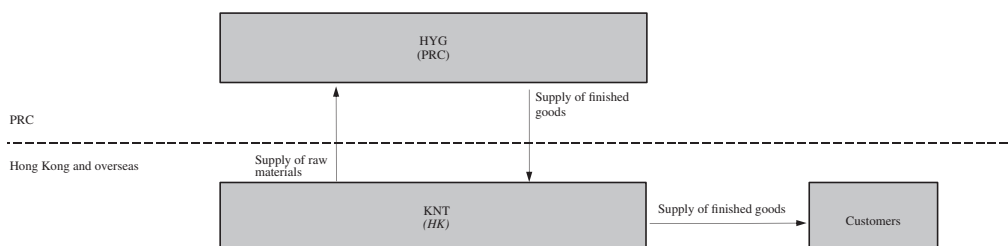
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In addition, we will adopt the following internal control measures to ensure our Group's compliance with all applicable laws and regulations:

- (i) on 23 April 2018, our Directors attended a training session conducted by our legal advisers as to Hong Kong laws on the on-going obligations and duties of a director of a company whose shares are listed on the Stock Exchange;
- (ii) Mr. Lam Chi Yuen, our chief operating officer and executive Director, will be responsible for monitoring day-to-day compliance-related matters. Mr. Lam Chi Yuen will report to Mr. S Chong, our chairman, chief executive officer and executive Director. Mr. S Chong will report to the Board on compliance related matters and is authorised to seek advice from external professional advisors when appropriate;
- (iii) we have established an audit committee which comprises all independent non-executive Directors with written terms of reference in accordance with Appendix 14 to the Listing Rules. The primary duties of the audit committee include, among other things, overseeing our financial reporting, internal control and risk management systems, and ensuring the compliance of our Group's financial reporting with the Listing Rules and the relevant legal requirements; and
- (iv) we have appointed Innovax Capital Limited as our compliance adviser with effect from the date of the Listing to advise on ongoing compliance with the Listing Rules and other applicable securities laws and regulations in Hong Kong.

TRANSFER PRICING ARRANGEMENT

During the Track Record Period, our operations were mainly in Hong Kong and the PRC, and we had conducted business with customers worldwide. Production of our Group's products was carried out by HYG, our wholly-owned subsidiary established in the PRC, in our production facility located in Humen Town, Dongguan City, the PRC. HYG purchased raw materials from, third party suppliers as well as from KNT, our wholly-owned subsidiary incorporated in Hong Kong for production. All products manufactured by HYG were sold to KNT, for its onward sales to customers. The diagram below illustrates the business and logistic flow of our products within our Group during the Track Record Period:



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As illustrated above, the following transactions were regarded as our intra-group transactions relating to our transfer pricing arrangement during the Track Record Period (the “**Covered Transactions**”):

- sales of raw materials by KNT to HYG; and
- sales of finished goods by HYG to KNT.

In respect of the Covered Transactions, our Group has engaged an independent tax adviser to conduct a transfer pricing study on the Covered Transactions during the Track Record Period based on, among other things, the applicable regulations and guidance on transfer pricing in the PRC and Hong Kong. Based on the transfer pricing study:

- (i) for the years ended 31 March 2017 and 2018, the net cost plus margin (i.e. the ratio of operating profit to total operating costs) of HYG was within the arm’s length range as established by companies considered as comparable to HYG and above the median. For the six months ended 30 September 2018, the net cost plus margin of HYG was above the arm’s length range as established by companies considered as comparable to HYG. As such, HYG is considered to have complied with the arm’s length standard in accordance with the PRC transfer pricing regulations for the years ended 31 March 2017 and 2018. For the six months ended 30 September 2018, HYG was not at a disadvantaged position in the Covered Transactions from PRC transfer pricing perspective. In case there is any transfer pricing adjustment made to KNT by Hong Kong tax authority, a corresponding adjustment could be made to HYG according to Comprehensive Double Tax Arrangement between Hong Kong and the PRC, and double tax relief can likely be mitigated by claiming tax refund in the PRC; and
- (ii) for the year ended 31 March 2016, the net cost plus margins of HYG were within the arm’s length range established by companies considered as comparable to HYG, but below the median point. According to PRC current transfer pricing regulations, if there is a transfer pricing audit on an enterprise by using the quartile method, in principle, the enterprise’s profit should be adjusted up to a level not lower than the median of the range established by the comparable companies. In the event that HYG is challenged by the PRC tax authorities in relation to its transfer pricing for the year ended 31 March 2016 on the basis that its net cost plus margins are below the median of the interquartile range, additional enterprise income tax of approximately HK\$404,139.20 will be payable. As advised by the independent tax advisers, in accordance with the PRC transfer pricing regulations, HYG is subject to an interest charge on the additional enterprise income tax amount mentioned above instead of other penalty when there is a transfer pricing adjustment implemented by the PRC tax authorities. Such interest charge amounted to approximately HK\$45,000 up to 30 September 2018.

As at the Latest Practicable Date, our Directors were not aware of any outstanding enquiry, audit or investigation by any tax authorities in Hong Kong and the PRC with respect to our transfer pricing arrangements.

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In the Internal Control Consultant's internal control review on our Group, it has reviewed tax-related matters and identified certain major findings and provided us with recommendations as follows:

Major Findings	Recommendations and action plans
1. We did not establish policies and procedures for the taxation processes.	<p>We have established policies and procedures for all key taxation processes including but not limited to the following areas:</p> <ul style="list-style-type: none">(i) tax filing and payment;(ii) tax disputes handling procedures;(iii) maintenance of tax-related documentations; and(iv) controls over tax compliance. <p>We have also communicated the policies and procedures to the relevant staff.</p>
2. We did not establish internal review procedure on tax filing and maintain tax filing record.	<p>We have established internal review procedure on tax filing. In accordance such procedure, we will document all tax filings and approval record.</p>

In addition to the above measures, we will adopt the following measures to ensure our compliance with the relevant transfer pricing laws and regulations in jurisdictions where we operate:

- (i) we will identify updates on transfer pricing laws and regulations and assessment of related risks on our Group and regularly review our transfer pricing policy and exposure; and
- (ii) Ms. Chan Nga Chun, our chief financial officer, will regularly monitor our pricing policy of intra-group transactions to ensure that such transactions are made on arm's length principle.

TRADE WAR

Recently, a trade war was initiated by the U.S. against the PRC, and certain products exported from the PRC to the U.S. are or will be subject to a new tariff. According to the Ipsos Report, in December 2018, the U.S. and the PRC have entered into a 90-day truce and agreed to delay an increase in the third round of tariffs on approximately US\$200 billion worth of Chinese-imported goods which were the targets of the second round of tariffs from 10% to 25%, which was originally set to take place on 1 January 2019, and agreed not to impose any additional tariffs after 1 January 2019. In January 2019, a vice-ministerial level meeting on trade agreements and future implementation of consensus between the U.S. and the PRC was held for discussions between the trade representatives from both countries coming into positive agreements through negotiations. The trade talks will continue in February 2019, according to the White House announcement, with an aim to reaching an agreement before the 90-day tariff truce expires on 1 March 2019. As at the Latest Practicable Date, the trade

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war did not have any material adverse impact on our business given that the U.S. government had not imposed or proposed to impose new tariffs on bridesmaid dresses, bridal gowns and special occasion dresses, and the new tariffs imposed or proposed to be imposed by the U.S. against the PRC are mainly targeted at Chinese technical products. However, given the uncertainties in the development of the trade war and its effects on the global economy, we cannot assure you that the trade war will not materially and adversely affect our business, financial condition and operations. For further details, please refer to the section headed “Risk factors — Our financial performance and results of operations could be adversely affected by import restrictions imposed by global trade policies, trade protection measures and trade war” in this prospectus. In the event that the U.S. imposes new tariff on our principal products, i.e. bridesmaid dresses, bridal gowns and special occasion dresses, our Directors believe that, subject to our negotiations with our customers, (i) in respect of bridesmaid dresses and bridal gowns, our customers may bear the new tariff due to our relatively stronger bargaining power over these customers who are heavily reliant on us given that (a) it may be difficult for them to immediately switch to suppliers located in countries that are not subject to tariffs and have similar or lower prices than suppliers in the PRC, such as Vietnam and Philippines, since the design and manufacturing of bridesmaid dresses and bridal gowns require skilled labour, which we believe such developing countries have yet to accumulate; and (b) we are the sole supplier of certain customers for bridesmaid dresses; and (ii) in respect of special occasion dresses, we and our customers may share the burden of the new tariff.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

On 23 April 2018, in preparation for the Listing, Mr. S Chong and Mr. P Chong entered into the Acting in Concert Deed, whereby, among other things, they confirmed that since they became interested in and possessed voting rights in the shareholders' meetings and board of directors of each member of our Group and up until the date of the Acting in Concert Deed:

- (i) they had been acting in concert with each other in exercising and implementing the management and operation of such member of our Group (and our Group as a whole following the Reorganisation) as a single business venture;
- (ii) they have, whether by themselves or via any viable corporate vehicles, been cooperating and acting in concert with each other in respect of all material management matters, voting decision and/or business decision required to be approved by shareholders and/or the directors under the articles of association of such member of our Group (including but not limited to financial and operation policy, declaration of dividends, annual budget of such member of our Group, execution of material contracts and investment and appointment of directors and senior management);
- (iii) they had first communicated, discussed and come to an unanimous decision in all shareholders' meetings and/or board meetings and had reached unanimous decision and resolution in accordance with the consensus achieved between them;
- (iv) they had cooperated with each other to obtain and maintain the control and the management of such member of our Group (and our Group as a whole following the Reorganisation); and
- (v) they had been enjoying the economic benefits generated from the business and projects of such member of our Group (and our Group as a whole following the Reorganisation) in proportion to their respective shareholdings.

Each of Mr. S Chong and Mr. P Chong further agreed, confirmed and undertook that, from the date of the Acting in Concert Deed until the termination thereof, among other things:

- (i) when exercising their respective voting rights at the shareholders' meetings and/or board meetings of our Company and our subsidiaries (to the extent applicable), they shall vote, or procure any entities which were entitled to vote at such shareholders' meetings and/or board meetings to vote, as the case may be, unanimously in accordance with the consensus achieved among themselves;
- (ii) prior to voting on any resolutions in shareholders' meetings and/or board meetings of our Company and our subsidiaries (to the extent applicable), each of them will discuss the relevant matters with the other with a view to reaching consensus and an unanimous vote;
- (iii) to manage and control our Group on a collective basis and make collective decisions in respect of the financial and operating policies of our Group;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (iv) to centralise the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of each member of our Group;
- (v) to operate our Group as a single business venture;
- (vi) continue to enjoy the economic benefits generated, including but not limited to dividends declared, from the business and projects of our Group; and
- (vii) he will not do any act or exercise any of his voting power (which may be available to him from time to time) in contravention of his obligations under the Acting in Concert Deed or in violation of any consensus reached in accordance with the Acting in Concert Deed.

Pursuant to the Acting in Concert Deed, Mr. S Chong and Mr. P Chong will, through Strategic Elite and Total Clarity, collectively be entitled to exercise or control the exercise of voting rights of 75.0% of our Shares eligible to vote in the general meeting of our Company immediately after completion of the Global Offering and the Capitalisation Issue (without taking into account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option(s) which may be granted under the Share Option Scheme). As such, upon Listing, each of Mr. S Chong, Mr. P Chong, Strategic Elite and Total Clarity will be our Controlling Shareholders under the Listing Rules.

INTEREST OF ONE OF OUR CONTROLLING SHAREHOLDERS IN OTHER BUSINESS

Interest of Mr. S Chong in Veromia

Mr. S Chong, an executive Director and one of our Controlling Shareholders, is the sole shareholder and the sole director of Veromia, a limited liability company incorporated in the United Kingdom, which is not a member of our Group.

Veromia was one of our customers during the Track Record Period. The principal business of Veromia is import and wholesale of bridal, bridesmaid and occasion wear. Our Directors confirm that they are not aware of any material non-compliance with the laws and regulations of the United Kingdom on the part of Veromia or any material litigation relating to Veromia during the Track Record Period and up to the Latest Practicable Date. For each of the three years ended 31 March 2018 and the six months ended 30 September 2018, Veromia generated revenues of GBP2.7 million, GBP2.5 million, GBP2.2 million and GBP1.0 million (representing approximately HK\$28.4 million, HK\$26.5 million, HK\$23.0 million and HK\$10.4 million), respectively, and recorded losses of GBP0.2 million, GBP0.1 million, GBP0.2 million and GBP0.1 million (representing approximately HK\$1.8 million, HK\$1.3 million, HK\$2.1 million and HK\$0.7 million), respectively. During the Track Record Period, we generated revenues of approximately HK\$9.3 million, HK\$6.9 million, HK\$4.5 million and HK\$1.9 million, respectively, from the sale of bridesmaid dresses, bridal gowns and special occasion dresses to Veromia, representing approximately 5.6%, 4.1%, 2.2% and 1.2% of the total revenues of our Group for the relevant periods. Please refer to the section headed “Connected transactions — Non-exempt continuing connected transactions — Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia” in this prospectus for further details. During the Track Record Period, we also sourced samples from Veromia amounting to approximately nil, HK\$14,000, HK\$34,000 and nil,

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

respectively. Save for the abovementioned supply of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia and the source of samples from Veromia, we did not have any other business dealings with Veromia during the Track Record Period and up to the Latest Practicable Date. The following table sets forth the key differences between our business and Veromia's business:

	Our Group	Veromia
Business model	<ul style="list-style-type: none"> Design, development, manufacturing and sale of bridesmaid dresses, bridal gowns and special occasion dresses 	<ul style="list-style-type: none"> Import and wholesale of bridal, bridesmaid and occasion wear
Manufacturing capacity	<ul style="list-style-type: none"> Our Group manufactures bridesmaid dresses, bridal gowns and special occasion dresses at our production facility located in Dongguan City, the PRC 	<ul style="list-style-type: none"> Not applicable
Source of revenues	<ul style="list-style-type: none"> Our Group generates almost all of our revenue from the sale of bridesmaid dresses, bridal gowns and special occasion dresses manufactured at our production facility 	<ul style="list-style-type: none"> Veromia generates almost all of its revenue from its wholesale business
Principal target clientele	<ul style="list-style-type: none"> Brand apparel companies, trading companies and supply chain management companies 	<ul style="list-style-type: none"> Retail shops
Principal location of clientele	<ul style="list-style-type: none"> Approximately 90% of our Group's clients are based in the United States during the Track Record Period 	<ul style="list-style-type: none"> Most of Veromia's customers are based in the United Kingdom

Given the above, (i) our Directors are of the view that there is a clear delineation between the business operated by our Group and that operated by Veromia; and (ii) each of our Directors and our Controlling Shareholders confirm that there is no competition between our Group and Veromia in respect of the businesses respectively operated by them.

Reasons for not including Veromia in our Group

Our Directors consider that it is not in the best interest of our Group to include Veromia in our Group for the following reasons:

- (i) the business model, principal target clientele and location of clientele are different. Our Group occupies the upper stream of the supply chain by focusing on design, development

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

and manufacturing of bridesmaid dresses, bridal gowns and special occasion dresses, while Veromia occupies the downstream of the supply chain by focusing on import and wholesale of bridal, bridesmaid and occasion wear. In terms of the target clientele, our Group's principal clients are brand apparel companies, trading companies and supply chain management companies, most of which are based in the United States, while Veromia's principal clients are retail shops, most of which are based in the United Kingdom. To the best of our Directors' knowledge, Veromia has no present plan, intention or capacity to expand its business beyond its current scope. Based on the aforementioned, our Directors are of the view that there is no direct competition between our Group and Veromia; and

- (ii) as our Group's strategic plan focuses on the design, development and manufacturing of bridesmaid dresses, bridal gowns and special occasion dresses, our Directors are of the view that our Group's resources should be concentrated on effective implementation of its focused strategy, and not the import and wholesale of bridal, bridesmaid and occasion wear as a wholesaler.

Interests of Mr. S Chong and Mr. P Chong in KNT 3-D Lenticular Manufacturer Limited

As at the Latest Practicable Date, each of Mr. S Chong and Mr. P Chong, being our executive Directors and our Controlling Shareholders, held 50% of the total number of issued shares in KNT 3-D Lenticular Manufacturer Limited ("**KNT 3-D**"), a limited liability company incorporated in Hong Kong in May 1996, and was a director of KNT 3-D. KNT 3-D is principally engaged in 3-dimensional products trading business, which is entirely different from the scope of business of our Group, and therefore does not compete with our Group's business. For each of the three years ended 31 March 2018 and six months ended 30 September 2018, KNT 3-D generated revenues of approximately HK\$0.9 million, HK\$2.3 million, HK\$1.0 million and HK\$0.2 million, respectively. Our Directors confirm that they are not aware of any material non-compliance with the laws and regulations of Hong Kong on the part of KNT 3-D or any material litigation relating to KNT 3-D during the Track Record Period.

Interest of Mr. S Chong in JFMC Limited

As at the Latest Practicable Date, Mr. Chong Yu Sang (father of Mr. S Chong and Mr. P Chong) was the sole shareholder and director of JFMC Limited ("**JFMC**"), a limited liability company incorporated in Hong Kong. JFMC had no business operations throughout the Track Record Period, and therefore does not compete with our Group's business. Our Directors confirm that they are not aware of any material non-compliance with the laws and regulations of Hong Kong on the part of JFMC or any material litigation relating to JFMC during the Track Record Period.

Our Directors, to the best of their knowledge, information and belief, further confirm that, none of our Controlling Shareholders or our Directors or any of their respective close associates is interested in any business, other than our Group's business, which competes or is likely to compete, either directly or indirectly, with the business of our Company. In addition, each of our Controlling Shareholders has given a non-competition undertaking in favour of our Company. For details, please refer to the paragraph headed "Non-competition undertaking" in this section.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Management independence

Our Board and members of our senior management have functions that are independent from our Controlling Shareholders and their respective associates. Our Board consists of eight Directors comprising three executive Directors, one non-executive Director and four independent non-executive Directors, hence there will be a sufficiently robust and independent voice within our Board to protect the interests of our minority Shareholders.

Each of our Directors is aware of his fiduciary duties as a Director which require, among other things, that he acts for the benefit of and in the best interests of our Company and do not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective close associates, the interested Director(s) will abstain from voting at the relevant board meetings of our Company in respect of such transactions and will not be counted in the quorum. In addition, our Company has an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Global Offering.

Operational independence

Our Group has established our own organisational structure comprising individual departments, each with specific areas of responsibilities. Save that we provided our Hong Kong office as the registered office of KNT 3-D, a company owned as to 50% by Mr. S Chong and 50% by Mr. P Chong, for a fee of approximately HK\$0.2 million for the year ended 31 March 2016, we did not share any operational resources, such as premises, sales and marketing, general administration resources and facilities and equipment with our Controlling Shareholders or their respective close associates during the Track Record Period. We have also established a set of internal controls to facilitate the effective operation of our business. We also have our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, human resources and information technology. Save that we sourced samples of limited worth from Veromia during the Track Record Period, our suppliers are all independent from our Controlling Shareholders. We do not rely on our Controlling Shareholders or their close associates and have our independent access to our suppliers for the provision of services and materials.

During the Track Record Period, we, through HYG, rented certain premises in the PRC as our production facility and staff dormitory from Mr. S Chong and Mr. P Chong, being our Controlling Shareholders and also connected persons of our Company. We have further entered into the Leases with Mr. S Chong and Mr. P Chong for a period of three years commencing from 1 April 2018. Please refer to the section headed “Connected transactions — Fully-exempt continuing connected

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

transactions — Lease of premises from Mr. S Chong and Mr. P Chong” in this prospectus for further details. Our Directors are of the view that our Group does not rely on the relevant Controlling Shareholders because the Leases were entered into on normal commercial terms at prevailing market rates after arm’s length negotiation between our Group and the relevant Controlling Shareholders.

During the Track Record Period, we also sold bridal gowns, bridesmaid dresses and special occasion dresses to Veromia, and we have entered into the Sales Framework Agreement with Veromia for the continued supply of bridal gowns, bridesmaid dresses and special occasion dresses, which would constitute continuing connected transaction for our Company after the Listing. Please refer to the section headed “Connected transactions — Non-exempt continuing connected transactions — Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia” in this prospectus for further details. Our Directors are of the view that our Group does not rely on Veromia because (i) the relevant sales to Veromia are conducted on normal commercial terms after arm’s length negotiations between our Group and Veromia having regard to the quality, quantity and delivery timeline of the dresses supplied; and (ii) while Veromia is based in the United Kingdom, we principally sell our dresses to brand apparel companies, trading companies and supply chain management companies based in the United States and generate approximately 90% of our revenue from independent customers based in the United States during the Track Record Period.

In view of the above, our Directors are satisfied that we have been operating independently from our Controlling Shareholders during the Track Record Period and will continue to operate independently.

Financial independence

All personal guarantees and securities over personal properties of our Controlling Shareholders and their respective close associates on our Group’s borrowing will be fully released upon Listing. Save for the trade balance due from Veromia, all loans, advances and balances due from/to our Controlling Shareholders and their respective close associates had been fully settled as at the Latest Practicable Date. For further details of the trade balance due from Veromia, please refer to the section headed “Financial information — Net current assets — Amounts due from related companies” and “Accountants’ Report — Notes to the historical financial information — 19. Amounts due from related companies and directors/amount due to a related party/amount due to a subsidiary” in Appendix I to this prospectus.

Our Group has our own finance and accounting department and independent financial system and makes financial decisions according to our own business needs. We also have our own treasury function and independent access to third party financing. In view of our Group’s internal resources and estimated net proceeds from the Global Offering, our Directors believe that our Group will have sufficient capital for its financial needs without dependence on our Controlling Shareholders. Our Directors further believe that upon Listing, our Group is capable of obtaining financing from external resources independently without the support of our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION UNDERTAKING

Our Controlling Shareholders (each a “**Covenantor**” and collectively, the “**Covenantors**”) have entered into the Deed of Non-competition in favour of our Company, under which each of the Covenantors has irrevocably and unconditionally, jointly and severally, warranted and undertook to our Company (for ourselves and as trustee for each of our subsidiaries) that:

- (a) he/it will not, and will procure any Covenantor and his/its close associates (each a “**Controlled Person**” and collectively, the “**Controlled Persons**”) and any company directly or indirectly controlled by the Covenantor (which for the purpose of the Deed of Non-Competition, shall not include any member of our Group) (the “**Controlled Company**”) not to, except through any member of our Group, directly or indirectly (whether on its own account or with each other or in conjunction with or on behalf of any person or company, or as principal or agent, through any body corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise), carry on, engage in, invest or acquire or hold any rights or be interested or otherwise involved in any business that is similar to or in competition directly or indirectly (in each case whether as a shareholder, director, partner, agent or otherwise and whether for profit, reward or otherwise) with any business currently and from time to time engaged by our Group in Hong Kong, the PRC and any other country or jurisdiction to which our Group carries on our business from time to time (the “**Restricted Business**”);
- (b) if any of the Covenantors is offered or becomes aware of any project or any new business opportunity relating to the Restricted Business (the “**New Business Opportunity**”), whether directly or indirectly, he/it (i) shall promptly, and in any event not later than seven days thereafter, notify our Company of such New Business Opportunity in writing, such written notice shall include all information and the relevant documents possessed by him/it or his/its close associates in respect of the New Business Opportunity to enable our Company to evaluate the merit of the New Business Opportunity and all reasonable assistance as required by our Company to make an informed assessment of such New Business Opportunity; and (ii) shall not, and shall procure that the Controlled Persons and/or Controlled Company shall not, invest or participate in any such New Business Opportunity unless such New Business Opportunity shall have been declined by our Company and the principal terms of which he/it and/or his/its close associates invest or participate in are no more favourable than those made available to our Company.

The Deed of Non-competition does not apply to the holding of or interests in shares or other securities by any of the Covenantors and/or his/its close associates in any company which conducts or is engaged in any Restricted Business, provided that, in the case of such shares, they are listed on a recognised stock exchange as specified under the SFO and either:

- (a) the relevant Restricted Business (and assets relating thereto) accounts for less than 10% of the relevant consolidated turnover or consolidated assets of the company in question, as shown in the latest audited accounts of the company in question; or
- (b) the total number of the shares held by any of the Covenantors and his/its close associates or in which they are together interested does not amount to more than 5% of the

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

issued shares of that class of the company in question, provided that any of the Covenantors and his/its close associates, whether acting singly or jointly, are not entitled to appoint a majority of the directors of that company and that at all times there is a holder of such shares holding (together, where appropriate, with his/its close associates) a larger percentage of the shares in question than the Covenantors and his/its close associates together hold.

The Deed of Non-competition will take effect from the date on which dealings in the Shares first commence on the Stock Exchange and will cease to have any effect upon the earliest of the date on which (i) such Covenantor, being a Controlling Shareholder, individually or collectively with any other Covenantor(s) ceases to be interested, directly or indirectly, in 30% or more of the issued Shares, or otherwise ceases to be regarded as controlling shareholder (as defined under the Listing Rules from time to time) of our Company; or (ii) the Shares cease to be listed and traded on the Stock Exchange or other recognised stock exchange.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to strengthen its corporate governance practice and to safeguard the interests of our Shareholders:

- (a) the Articles provide that a Director shall absent himself/herself from participating in Board meetings (nor shall he/she be counted in the quorum) and voting on any resolution of the Board approving any contract or arrangement or other proposal in which he/she or any of his/her close associates is materially interested unless a majority of our independent non-executive Directors expressly requested him/her to attend;
- (b) our independent non-executive Directors will review and will disclose decisions with basis, on an annual basis, the compliance with the Deed of Non-competition by our Controlling Shareholders;
- (c) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (d) our Company will disclose decisions with basis on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the Deed of Non-competition of our Controlling Shareholders in the annual reports of our Company;
- (e) our Controlling Shareholders will make an annual declaration on compliance with the Deed of Non-competition in the annual report of our Company;
- (f) our Company has appointed Innovax Capital Limited as our compliance adviser to advise on compliance matters in accordance with the Listing Rules;
- (g) our independent non-executive Directors will be responsible for deciding whether or not to allow our Controlling Shareholders and/or their respective close associates to involve or participate in a Restricted Business and if so, any condition to be imposed; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (h) our independent non-executive Directors may appoint independent financial adviser and other professional advisers as they consider appropriate to advise them on any matter relating to the Deed of Non-competition or connected transaction(s) at the cost of our Company.

Any transaction that is proposed between our Group and our Controlling Shareholders and their respective close associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

None of the members of our Group has experienced any dispute with its shareholders or among its shareholders themselves and our Directors believe that each member of our Group has maintained positive relationship with its shareholders. With the corporate governance measures including the measures set out above, our Directors believe that the interest of our Shareholders will be protected.

CONNECTED TRANSACTIONS

OVERVIEW

Our Group has entered into certain transactions with our Company's connected persons during the Track Record Period. These transactions will continue after Listing and constitute continuing connected transactions (as defined under the Listing Rules) of our Group. Details of these transactions are as follows:

FULLY-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Leases of premises from Mr. S Chong and Mr. P Chong

On 21 December 2017, HYG as tenant entered into tenancy agreements with Mr. S Chong and Mr. P Chong as landlords (collectively the “**Leases**”), pursuant to which Mr. S Chong and Mr. P Chong agreed to lease and HYG agreed to take the factory and staff dormitory situated at No.2 Industrial Area, Jiu Men Zhai, Humen Town, Dongguan City, Guangdong Province, the PRC* (中國廣東省東莞市虎門鎮九門寨第二工業區) (the “**Leased Site**”) for a term of three years commencing from 1 April 2018 and expiring on 31 March 2021 at the monthly rent of RMB97,600 for the first year, RMB117,120 for the second year and RMB126,880 for the third year for the lease of the factory and RMB41,108.76 for the first year, RMB48,939 for the second year and RMB52,854.12 for the third year for the lease of the staff dormitory. It is expected that the rents payable by HYG under the Leases for each of the three years ending 31 March 2021 will be RMB1,664,505.12, RMB1,992,708.00 and RMB2,156,809.44, respectively.

For the two years ended 31 March 2017, HYG rented the first and second floor of the factory of the Leased Site from Mr. S Chong and Mr. P Chong for a monthly rent of RMB37,500 for an area of approximately 4,880 sq.m.. Due to the expansion of our production facility as a result of purchase of new machineries and an increase in the number of employees, HYG rented the whole factory and the newly renovated staff dormitory of the Leased Site from Mr. S Chong and Mr. P Chong for a monthly rent of RMB138,708.76 for an aggregate area of approximately 13,675.12 sq.m. (comprising approximately 9,760 sq.m. for the factory and 3,915.12 sq.m. for the staff dormitory) from 1 April 2017 to 30 September 2018.

The rents paid/payable under the Leases and the rents paid by HYG for the abovementioned leases of premises from Mr. S Chong and Mr. P Chong for the three years ended 31 March 2018 and six months ended 30 September 2018 (the “**Previous Leases**”) were negotiated on an arm's length basis and determined with reference to the market rent of the premises in similar location as at the commencement date of such leases. According to the fair rent opinion issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited, an independent firm of professional surveyor, the rents paid/payable under the Leases and the rents paid for the Previous Leases are fair, reasonable and consistent with the market rent for similar premises in similar location in the PRC as at the date of commencement of such leases. Our Directors (including our independent non-executive Directors) are also of the view that the Leases are fair and reasonable, on normal commercial terms and in the interests of our Group and Shareholders as a whole.

CONNECTED TRANSACTIONS

Each of Mr. S Chong and Mr. P Chong is our executive Director and Controlling Shareholder and is a connected person of our Company. Accordingly, the transactions contemplated under the Leases will constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

As the total amount of rents payable by HYG under the Leases for each of the three years ending 31 March 2021 will be less than HK\$3 million per annum and each of the applicable percentage ratios mentioned in Rule 14.07 of the Listing Rules (other than the profits ratio) for the Leases will be less than 5%, the Leases are fully exempt from the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.76(1) of the Listing Rules.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia

During the Track Record Period, our Group sold bridal gowns, bridesmaid dresses and special occasion dresses to Veromia. On 31 January 2019, KNT and Veromia entered into a sales framework agreement (the **"Sales Framework Agreement"**), pursuant to which our Group agreed to sell and Veromia agreed to purchase bridal gowns, bridesmaid dresses and special occasion dresses from our Group for the period commencing from the Listing Date and expiring on 31 March 2021 (the **"Veromia Sales Transactions"**).

For the three years ended 31 March 2018 and six months ended 30 September 2018, our sales to Veromia amounted to approximately HK\$9.3 million, HK\$6.9 million, HK\$4.5 million and HK\$1.9 million, respectively.

The price charged by KNT for the sale of bridal gowns, bridesmaid dresses and special occasion dresses to Veromia was determined on an arm's length basis between KNT and Veromia having regards to the quality, quantity and delivery timeline of the bridal gowns, bridesmaid dresses and special occasion dresses supplied. The gross profit margins of the sales to Veromia for the three years ended 31 March 2018 and the six months ended 30 September 2018 were approximately 29.3%, 28.9%, 26.2% and 25.5%, respectively, which were comparable to the gross profit margins of our Group's overall sales for the respective periods. Since our Directors believe that the sales to Veromia will be a stable source of income in the future and the transactions contemplated under the Sales Framework Agreement will be on an arm's length basis, we believe the entering into of the Sales Framework Agreement is commercially sound and is fair and reasonable and in the interests of our Company and our Shareholders as a whole.

The proposed annual caps of sales (the **"Sales Annual Caps"**) under the Sales Framework Agreement for each of the three years ending 31 March 2019, 31 March 2020 and 31 March 2021 are HK\$6.0 million, HK\$6.0 million and HK\$6.0 million, respectively. Our Directors (including our independent non-executive Directors) confirmed that the Sale Annual Caps are determined on normal

CONNECTED TRANSACTIONS

commercial terms after taking into account (i) the terms of the Sales Framework Agreement; (ii) the relevant historical transaction amounts; and (iii) the future business needs and expected growth of Veromia ascertained through discussion with the management of Veromia, and are therefore fair and reasonable and in the interest of us and our Shareholders as a whole.

Veromia is a limited company incorporated in the United Kingdom and wholly-owned by Mr. S Chong. As Mr. S Chong is our executive Director and a Controlling Shareholder, Veromia is an associate of his and is therefore a connected person of our Company. Accordingly, the transactions contemplated under the Sales Framework Agreement will constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Since all the applicable percentage ratios as defined in Rule 14.07 of the Listing Rules are less than 25% and each of the Sales Annual Caps is less than HK\$10.0 million, the transactions contemplated under the Sales Framework Agreement are subject to the reporting, annual review and announcement but are exempted from circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A.76(2) of the Listing Rules.

Application for waiver of the non-exempt continuing connected transactions

Pursuant to Chapter 14A of the Listing Rules, the Stock Exchange may consider granting a waiver from the announcement requirement set out in Chapter 14A of the Listing Rules in relation to the Veromia Sales Transactions. Since the details of the Veromia Sales Transactions have been included in this prospectus, our Directors consider that strict compliance with the announcement requirement would incur additional and unnecessary costs to our Group. We have therefore applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in connection with the Veromia Sales Transactions, provided that the annual transaction amounts in respect of the Veromia Sales Transactions do not exceed the Sales Annual Caps.

Our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules, including the Sales Annual Caps, and will comply with the relevant rules of Chapter 14A of the Listing Rules if the waiver from the Stock Exchange expires or any of the Sales Annual Caps are exceeded, or when the Sales Framework Agreement is renewed or when there is a material change to the terms of the Sales Framework Agreement.

Directors' view

Our Directors (including our independent non-executive Directors) consider that (i) the Sales Framework Agreement has been entered into in the ordinary and usual course of our business on normal commercial terms, and are fair and reasonable and in our interests and that of our Shareholders as a whole; and (ii) the Sales Annual Caps are fair and reasonable and in our interests and that of our Shareholders as a whole.

CONNECTED TRANSACTIONS

Sole Sponsor's view

Having reviewed the terms of the Sales Framework Agreement, the Sole Sponsor concurs with the view of our Directors that (i) the Sales Framework Agreement has been entered into in our ordinary course of business on normal commercial terms, and are fair and reasonable and in our interests and that of our Shareholders as a whole; and (ii) the Sales Annual Caps are fair and reasonable and in our interest and that of our Shareholders as a whole.

Save as disclosed in this section, our Directors currently do not expect that immediately following the Listing, there will be any other transaction which will constitute a continuing connected transaction of our Company under the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Our Board is responsible and has general power for the management and conduct of our business. Our Board consists of three executive Directors, one non-executive Director and four independent non-executive Directors. Our senior management is responsible for the day-to-day management of our business. The following table sets forth the information concerning our Directors and senior management:

Our Directors

Name	Age	Position	Date of appointment as Director	Date of joining our Group	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Mr. Chong Sik (莊碩)	51	Chairman, chief executive officer and executive Director	5 July 2016	February 1993	Responsible for our Group's overall strategic planning, corporate management and business development	Brother of Mr. P Chong
Mr. Chong Pun (莊斌)	54	Executive Director	9 August 2016	February 1993	Responsible for the overall management of our Group's operations, general administration and compliance matters in China	Brother of Mr. S Chong
Mr. Lam Chi Yuen (林志遠)	45	Chief operating officer and executive Director	23 April 2018	July 1996	Responsible for the daily operation of our Group	N/A
Mr. Ting Chi Wai Roy (丁志威)	37	Non-executive Director	23 April 2018	23 April 2018	Responsible for participating in the formulation of corporate and business strategies	N/A
Mr. Leung Martin Oh Man (梁傲文)	38	Independent non-executive Director	31 January 2019	31 January 2019	Responsible for overseeing the management independently	N/A
Mr. Lau Koong Yep (劉冠業)	42	Independent non-executive Director	31 January 2019	31 January 2019	Responsible for overseeing the management independently	N/A
Mr. Yuen King Sum (袁景森)	55	Independent non-executive Director	31 January 2019	31 January 2019	Responsible for overseeing the management independently	N/A
Mr. Lau Kwok Fan (劉國勳)	37	Independent non-executive Director	31 January 2019	31 January 2019	Responsible for overseeing the management independently	N/A

DIRECTORS AND SENIOR MANAGEMENT

Members of our senior management

Name	Age	Position	Date of joining our Group	Role and responsibilities in our Group
Ms. Chan Nga Chun (陳雅珍)	40	Chief financial officer and company secretary	June 2017	Responsible for the overall accounting, financial management and reporting, and company secretarial matters of our Group
Ms. Kwok Ping (郭平)	60	Financial controller	March 1999	Responsible for overseeing the daily accounting operations of KNT

Executive Directors

Mr. Chong Sik (莊碩先生), aged 51, is one of the co-founders of our Group and incorporated KNT in February 1993. Mr. S Chong is currently our chairman, chief executive officer and executive Director. He is also a director of KNTGL, KNT Int'l and KNT. He was appointed as our Director on 5 July 2016 and re-designated as our executive Director on 23 April 2018. He is the younger brother of Mr. P Chong. He is primarily responsible for our Group's overall strategic planning, corporate management and business development.

Mr. S Chong was awarded the Professional Diploma in Diagnostic Radiography from the Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1991. He commenced his start-up business in 1993 by incorporating KNT together with Mr. P Chong and since then has accumulated over 20 years of experience in bridal wear and special occasion dresses business. In January 2003, he further established HYG together with Mr. P Chong to meet the business expansion needs and develop a design and manufacturing capacity with a view to provide one-stop solutions to our customers. For details of KNT and HYG, please refer to the section headed "History, Reorganisation and group structure" in this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

Mr. S Chong has served/is serving in the following social organisations:

Name of organisation	Place of organisation	Position	Period of service
Lions Clubs International District 303 — Hong Kong and Macau, China (國際獅子總會中國港澳303區)	Hong Kong	Chairperson of Zone VII	2012 to 2013
Lions College (獅子會中學)	Hong Kong	School manager	September 2012 to August 2015
		Vice supervisor	September 2015 to August 2017
		Supervisor	September 2017 to present
Chinese People's Political Consultative Conference Yunfu Committee (中國人民政治協商會議雲浮市委員會)	PRC	Member	January 2013 to present
		Member of standing committee	January 2017 to present
The Friendship Liaison Association of the CPPCC Hong Kong Members of Yunfu City Limited (雲浮市政協歷屆香港委員聯誼會有限公司)	Hong Kong	Executive vice president	2016 to 2017
		President	January 2018 to present
Yunfu Public Diplomacy Association (雲浮公共外交協會)	PRC	Council member	June 2018 to present

Mr. Chong Pun (莊斌先生), aged 54, is an executive Director and one of the co-founders of our Group. He was appointed as our Director on 9 August 2016 and re-designated as our executive Director on 23 April 2018. Mr. P Chong is the elder brother of Mr. S Chong. He is also a director of KNTGL, KNT Int'l and KNT and the legal representative of HYG. He is responsible for the overall management of our Group's operations, general administration and compliance matters in China.

Mr. P Chong received secondary school education in China and graduated in 1978. During the period from 1983 to 1992, he worked as a factory manager in Florist Trading Company (H.K.) Limited, of which the principal business is manufacturing of festival decorative products. He set up KNT together with Mr. S Chong in February 1993 and has been a director of KNT since April 1993. In January 2003, Mr. P Chong, together with Mr. S Chong, established HYG to meet the business

DIRECTORS AND SENIOR MANAGEMENT

expansion needs and since then has been the legal representative of HYG. For details of KNT and HYG, please refer to the section headed “History, Reorganisation and group structure” in this prospectus. He possesses over 20 years of experience in the bridal wear and special occasion dresses business.

Mr. Lam Chi Yuen (林志遠先生), aged 45, is an executive Director and the chief operating officer of our Group. He was appointed as an executive Director on 23 April 2018. He is responsible for overseeing the daily operation of our Group, including but not limited to procurement, production, shipping and marketing.

Mr. Lam was awarded a Bachelor of Arts degree with second class honours in Clothing Studies from the Hong Kong Polytechnic University in November 1996. He joined our Group in July 1996 as junior merchandiser. He was promoted as senior merchandiser in April 2003 and was further promoted as merchandising manager in July 2007. He was subsequently promoted as our chief operating officer in April 2017. Mr. Lam possesses over 20 years of experience in the bridal wear and special occasion dresses business.

Non-executive Director

Mr. Ting Chi Wai Roy (丁志威先生), aged 37, was appointed as a non-executive Director on 23 April 2018. He is primarily responsible for participating in the formulation of corporate and business strategies.

Mr. Ting was awarded a Bachelor of Business Administration degree in China business from the City University of Hong Kong in November 2004. He is one of the founders of Wine’s Link International Holdings Limited (“**Wine’s Link**”, a company listed on the GEM of the Stock Exchange, stock code: 8509.HK), which has been engaging in the wholesale and retail trading of wine products and other alcoholic beverages in Hong Kong since 2008. He acted as a director of Wine’s Link Limited, an indirect wholly-owned subsidiary of Wine’s Link, from March 2008 to January 2017, and has been the senior vice president of public relations of Wine’s Link since January 2017, responsible for overseeing the investor and public relations of the Wine’s Link’s group. Since December 2006, he has also been a director of Dynasty International Group Holdings Limited, a company principally engaging in trading of premium gifts.

Mr. Ting is an active participant in public and social services and has an extensive network in business community. He has been the elected councilor of the Wong Tai Sin District Council since January 2012, where he is primarily responsible for advising the Hong Kong Government on all matters in relation to the well-being of the residents in the Wong Tai Sin District. He has been a member and a standing committee member of Zhuhai Committee of Chinese People’s Political Consultative Conference since November 2011 and January 2013, respectively, and he was also a committee member of Henan Committee of Chinese People’s Political Consultative Conference from January 2013 to January 2018.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Mr. Leung Martin Oh Man (梁傲文先生), aged 38, was appointed as an independent non-executive Director on 31 January 2019. Mr. Leung graduated from the University of Toronto with a Bachelor of Commerce degree in November 2002. He was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants (“HKICPA”) in July 2006 and a member of the Hong Kong Institute of Surveyors in January 2014. He is currently registered as a certified public accountant (practising) of HKICPA effective from 1 January 2018 to 31 December 2018.

Mr. Leung has over 15 years of experience in the field of financing, financial management, accounting, auditing and valuation. He worked with Deloitte Touche Tohmatsu from March 2003 to March 2011, where he was principally responsible for audit related matters and was also engaged with accounting and taxation related matters. He is currently serving as the general manager of TL Property Consultants International Limited responsible for making and execution of the company’s strategy and management of human resources and daily operation.

Mr. Leung has been serving as an independent non-executive director of Global Strategic Group Limited (a company listed on the GEM of the Stock Exchange, stock code: 8007) since October 2014. He also served / is serving various social responsibilities, including member of the Chinese People’s Political Consultative Conference of Xuhui District of Shanghai, fellow member of the professionals committee of Shanghai Chinese Overseas Friendship Association, member of the investment specialist committee of the Hong Kong Housing Society, founding member of the Hong Kong Professionals and Senior Executives Association and director of the International Nature Loving Association Limited.

Mr. Lau Koong Yep (劉冠業先生), aged 42, was appointed as an independent non-executive Director on 31 January 2019. Mr. Lau was awarded a Bachelor of Business Administration degree in Quantitative Analysis for Business Student (minoring Finance) from the City University of Hong Kong in July 1999. He was in the direct selling and social commerce industry for over 16 years. Mr. Lau currently works with Jason Pharmaceuticals Inc., a wholly owned subsidiary of Medifast, Inc. (a company listed in the New York Stock Exchange with stock code: MED) and serves as the Market Vice President of Business Development for Asia Pacific. He worked with WeMedia Shopping Network Technology Co. Limited (“WeMedia”) from February 2017 to October 2017 with his last position as the Chief Operating Officer. Before Mr. Lau joined WeMedia, he worked with NU SKIN Enterprises Hong Kong, LLC from June 2012 to December 2016 with his last position as a Vice President, Executive Partners Greater China. He also worked with USANA Hong Kong Limited from 2011 to 2012, Market Hong Kong Limited from 2007 to 2010 and Herbalife International of Hong Kong Limited from 2001 to 2004.

Mr. Lau is also dedicated to various social responsibilities. He served as a council member and the chairman of the convocation of City University of Hong Kong from January 2014 to December 2017. He is currently a member of the National Committee of the Chinese People’s Political Consultative Conference of Guilin and a director of the Hong Kong Shangxi Chamber of Commerce.

Mr. Yuen King Sum (袁景森先生), aged 55, was appointed as an independent non-executive Director on 31 January 2019. Mr. Yuen graduated from Hang Seng School of Commerce (now known as Hang Seng Management College) with a Diploma in Business Studies in July 1984. He was admitted as a Fellow of Life Management Institute in 1987.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuen has over 30 years of experience in the operation, marketing and management of insurance companies. He worked with Hong Kong Family Insurance Co., Ltd as an administrative assistant from August 1984 to July 1987, and subsequently worked with the American International Underwriters, Limited (now known as AIG Insurance Hong Kong Limited) from November 1987 to March 2010 as an insurance agent. Since July 2010, Mr. Yuen has been working with Finexis Advisory (HK) Limited and is presently holding the position as Alternate Chief Executive.

Mr. Yuen has been serving as an Adjunct Lecturer of Executive Development Centre of Hang Sang Management College since September 2017.

Mr. Lau Kwok Fan (劉國勳先生), aged 37, was appointed as an independent non-executive Director on 31 January 2019. Mr. Lau was awarded a Bachelor of Arts degree in Public Administration and Management from De Montfort University in June 2006 and a Master of Arts degree in Sociology from the Chinese University of Hong Kong in December 2010.

Mr. Lau is currently a member of the Legislative Council of Hong Kong and a member of the North District Council. In February 2018 he was appointed by the Chief Executive of Hong Kong as a member of the Betting and Lotteries Commission. In November 2016, he was elected by the members of the Legislative Council to serve as a member of the university council of the Chinese University of Hong Kong. He was appointed as a member of the Commission On Youth of the Hong Kong government for the three terms commencing on 1 April 2010, 1 April 2013 and 1 April 2015, respectively, and was appointed as a member of the Council for Sustainable Development of the Hong Kong government for the two years' term commencing on 1 March 2015. In February 2014, he was registered by the Education Bureau of Hong Kong as a manager of Fung Kai Innovative School for the term from February 2014 to December 2015, which was subsequently extended to the end of December 2017. Mr. Lau is also a member of the Beijing Committee of the Chinese People's Political Consultative Conference ("CPPCC") and a member of the Jiangmen Committee of the CPPCC.

Save as disclosed in this section and the section headed "Substantial shareholders" in this prospectus, each of our Directors (i) had no other relationship with any of our Directors, senior management or substantial shareholders or Controlling Shareholders as at the Latest Practicable Date; (ii) did not hold other positions in our Group as at the Latest Practicable Date; and (iii) did not hold any other directorships in public listed companies in the three years prior to the Latest Practicable Date. As at the Latest Practicable Date, save as disclosed in the section headed "Substantial shareholders" in this prospectus and in the section headed "Statutory and General Information — C. Further information about our Directors and substantial shareholders" in Appendix IV to this prospectus, each of our Directors did not have any interest in the Shares within the meaning of XV of the SFO.

Senior management

Ms. Chan Nga Chun (陳雅珍女士), aged 40, is our chief financial officer and company secretary. Ms. Chan joined our Group in June 2017 as the chief financial officer and was further appointed as our Company's company secretary on 23 April 2018, and is responsible for the overall accounting, financial management and reporting, and company secretarial matters of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Chan obtained a bachelor's degree in accountancy from The Hong Kong Polytechnic University in November 2001. She is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan has about 15 years of experience in accounting and auditing. Prior to joining our Group, Ms. Chan worked at Yau & Leung Certified Public Accountants, a Hong Kong accounting firm, as an accountant from August 2001 to February 2004. She then worked at RSM Nelson Wheeler (currently known as RSM Hong Kong) from September 2004 to December 2004 as a senior in the audit department. From January 2005 to August 2008, Ms. Chan worked at Deloitte Touche Tohmatsu and her last position was a senior in the audit department. From January 2009 to May 2013 and January 2014 to December 2016, Ms. Chan worked at SHINEWING (HK) CPA Limited and her last position was a senior audit manager.

Ms. Kwok Ping (郭平女士), aged 60, is our financial controller. Ms. Kwok joined our Group in March 1999 as an accountant and was promoted to the current position on 1 April 2017. She is responsible for overseeing the daily accounting operations of KNT.

Ms. Kwok received high school education in Hong Kong and graduated in 1976. She was awarded the Higher Stage Certificate in Accounting by The London Chamber of Commerce and Industry in 1977. Ms. Kwok had over 35 years of experience in the secretarial, finance and accounting sector. She worked with W.S. Sum & Co, a firm of certified public accountants in Hong Kong, from June 1977 to May 1987 with her last position as a manager in secretarial and book-keeping section. Ms. Kwok then worked in Jemme Industrial Limited as an accountant from August 1992 to January 1999 before she joined our Group in March 1999.

COMPANY SECRETARY

Ms. Chan Nga Chun was appointed as the company secretary of our Company on 23 April 2018. Please refer to the paragraph headed "Senior management" in this section for details of Ms. Chan's qualifications and experience.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Our Company will comply with the Corporate Governance Code in Appendix 14 to the Listing Rules (the "Corporate Governance Code") with the exception of code provision A.2.1, which requires the roles of chairman and chief executive be held by different individuals.

Under code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. S Chong currently holds both positions. Throughout our business history, Mr. S Chong has been leading the business development and operations of our Group in all material aspects, including the establishment of KNT and our production facility in China as well as overseas sales. The Board considers that Mr. S Chong is the suitable candidate to hold both positions and such arrangement will be beneficial to our Group.

Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code each financial year and comply with the "comply or explain" principle in our corporate governance report which will be included in our annual reports upon Listing.

DIRECTORS AND SENIOR MANAGEMENT

Our Directors have attended training conducted by our legal advisers as to Hong Kong law regarding the on-going obligations and duties of a director of a listed company and fully understand such obligations and duties, and such training will be held on an annual basis after Listing or as required.

We have adopted a board diversity policy which sets out the approach to achieve and maintain an appropriate balance of diversity perspectives of our Board that are relevant to our business growth. Pursuant to our board diversity policy, selection of Board candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge, and industry experience. The ultimate decision will be based on merit and contribution that the selected candidates will bring to our Board.

Our Board comprises eight members, including three executive Directors, one non-executive Director and four independent non-executive Directors. Our Directors have a balanced mix of experiences, including business management, strategic development, direct selling and social commerce, public administration and management, finance, auditing and accounting experiences. Furthermore, the ages of our Directors range from 37 years old to 55 years old. We have also taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at the Board and senior management levels. In particular, both of the existing senior management of our Company are female and upon Listing, our company secretary is a female. While we recognise that gender diversity at the Board level can be improved given its current composition of all-male Directors, we will continue to apply the principle of appointments based on merits with reference to our board diversity policy as a whole.

We are also committed to adopting similar approach to promote diversity of the management (including but not limited to the senior management) of the Company to enhance the effectiveness of our corporate governance.

Our Nomination Committee is responsible for ensuring the diversity of our Board. After the Listing, our Nomination Committee will review the board diversity policy from time to time to ensure its continued effectiveness and we will disclose the implementation of the board diversity policy in our corporate governance report on an annual basis.

BOARD COMMITTEES

Audit Committee

Our Group established the Audit Committee on 31 January 2019 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of four members, Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan, all being independent non-executive Directors. Mr. Leung Martin Oh Man is the chairman of the Audit Committee.

DIRECTORS AND SENIOR MANAGEMENT

The primary duties of the Audit Committee are to assist the Board in providing an independent view of the effectiveness of our Group's financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board.

Remuneration Committee

Our Group established the Remuneration Committee on 31 January 2019 with written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of four members, Mr. Lau Koong Yep, Mr. Leung Martin Oh Man, Mr. Yuen King Sum and Mr. Lau Kwok Fan, all being independent non-executive Directors. Mr. Lau Koong Yep is the chairman of the Remuneration Committee.

The primary duties of the Remuneration Committee include (but without limitation): (i) making recommendations to our Directors on the policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies on such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; and (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

Nomination Committee

Our Group also established the Nomination Committee on 31 January 2019 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of five members, one of whom is an executive Director, being Mr. S Chong, and four of whom are independent non-executive Directors, being Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan. Mr. S Chong is the chairman of the Nomination Committee.

The primary function of the Nomination Committee is to make recommendations to the Board to fill vacancies on the same.

COMPLIANCE ADVISER

In compliance with Rule 3A.19 of the Listing Rules, we have appointed Innovax Capital Limited as our compliance adviser to provide advisory services to our Company. It is expected that the compliance adviser will, amongst other things, advise our Company with due care and skill on the following matters:

- before the publication of any announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated including shares issues and share repurchases;

DIRECTORS AND SENIOR MANAGEMENT

- where we propose to use the proceeds from the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme):

Authorised:	Nominal value HK\$
<u>10,000,000,000</u> Shares	<u>100,000,000</u>

Shares issued and to be issued, and fully paid or credited as fully paid:

1,000	Shares in issue as at the date of this prospectus	10
415,999,000	Shares to be issued under the Capitalisation Issue ⁽¹⁾	4,159,990
91,000,000	New Shares to be issued under the International Offering	910,000
<u>13,000,000</u>	<u>New Shares to be issued under the Hong Kong Public Offering</u>	<u>130,000</u>
<u>520,000,000</u>	<u>Shares in total</u>	<u>5,200,000</u>

Note:

- (1) Pursuant to the written resolutions of all the Shareholders passed on 31 January 2019, conditional upon the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise the amount of HK\$4,159,990 from the amount standing to the credit of the share premium account of our Company and to appropriate such amount as to pay up in full at par 415,999,000 Shares for allotment and issue to our Shareholders whose names appear on the register of members of our Company, of which 26,000,000 Shares are Sale Shares.

Assumptions

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and Global Offering is made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

Rankings

The Offer Shares will be ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all our Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the Listing Date other than the entitlement under the Capitalisation Issue.

SHARE CAPITAL

Minimum public float

Pursuant to Rule 8.08(1) of the Listing Rules, at the time of Listing and at all time thereafter, our Company must maintain the minimum prescribed percentage of 25% of our issued share capital in the hands of the public (as defined in the Listing Rules).

General mandate to allot and issue Shares

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares in the share capital of our Company with a total number of issued Shares of not more than the sum of:

- (1) 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme); and
- (2) the total number of Shares repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred below.

Our Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement or on the exercise of any option which may be granted under the Share Option Scheme.

This general mandate will remain in effect until the earliest of:

- (i) the conclusion of our Company's next annual general meeting;
- (ii) the expiration of the period within which our Company is required by any applicable law or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to "Statutory and general information — A. Further information about our Company and its subsidiaries — 4. Written resolutions of all the Shareholders passed on 31 January 2019" in Appendix IV to this prospectus.

General mandate to repurchase Shares

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares in the share capital of the Company with a total number of issued Shares not more than 10% of the total number of Shares in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

SHARE CAPITAL

This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and general information — A. Further information about our Company and its subsidiaries — 6. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

The general mandate to issue and repurchase Shares will remain in effect until the earliest of:

- (i) the conclusion of our Company’s next annual general meeting;
- (ii) the expiration of the period within which our Company is required by any applicable law of the Cayman Islands or our Articles of Association to hold our next annual general meeting; or
- (iii) when varied, revoked or renewed by an ordinary resolution of our Shareholders in general meeting.

For further details of this general mandate, please refer to “Statutory and general information — A. Further information about our Company and its subsidiaries — 4. Written resolutions of all the Shareholders passed on 31 January 2019” and “Statutory and general information — A. Further information about our Company and its subsidiaries — 6. Repurchase by our Company of its own securities” in Appendix IV to this prospectus.

Share Option Scheme

Pursuant to the resolutions in writing of our Shareholders passed on 31 January 2019, we have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in ‘Statutory and general information — D. Share Option Scheme’ in Appendix IV to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account of the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme), the following persons/entities will have an interest or a short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group:

Name	Capacity/Nature of interest	Shares held immediately prior to the Capitalisation Issue and the Global Offering		Shares held immediately following the Capitalisation Issue and the Global Offering	
		Number of Shares ^(Note 1)	Percentage	Number of Shares ^(Note 1)	Percentage
Mr. S Chong	Interest in controlled corporation ^(Note 2)	605 (L)	60.5%	235,950,000 (L)	45.375%
Mr. P Chong	Interest in controlled corporation ^(Note 3)	395 (L)	39.5%	154,050,000 (L)	29.625%
Strategic Elite	Beneficial owner	605 (L)	60.5%	235,950,000 (L)	45.375%
Total Clarity	Beneficial owner	395 (L)	39.5%	154,050,000 (L)	29.625%
Ms. Lok Pui Yee, Fanny (駱佩宜)	Interest of spouse ^(Note 4)	605 (L)	60.5%	235,950,000 (L)	45.375%
Ms. Tsang Kit Fong (曾潔芳)	Interest of spouse ^(Note 5)	395 (L)	39.5%	154,050,000 (L)	29.625%

Notes:

- (1) The letter “L” denotes the person’s long position in the relevant Shares.
- (2) Strategic Elite is beneficially and wholly-owned by Mr. S Chong. Accordingly, Mr. S Chong is deemed to be interested in all the Shares held by Strategic Elite by virtue of the SFO.
- (3) Total Clarity is beneficially and wholly-owned by Mr. P Chong. Accordingly, Mr. P Chong is deemed to be interested in all the Shares held by Total Clarity by virtue of the SFO.
- (4) Ms. Lok Pui Yee, Fanny (駱佩宜女士), being the spouse of Mr. S Chong, is deemed to be interested in all the Shares which Mr. S Chong is interested in pursuant to the SFO.
- (5) Ms. Tsang Kit Fong (曾潔芳女士), being the spouse of Mr. P Chong, is deemed to be interested in all the Shares which Mr. P Chong is interested in pursuant to the SFO.

SUBSTANTIAL SHAREHOLDERS

If the Over-allotment Option is fully exercised, the beneficial interests of each of Mr. S Chong, Mr. P Chong, Strategic Elite and Total Clarity will be approximately 43.7%, 28.6%, 43.7% and 28.6%, respectively.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or underlying Shares which would be required to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our consolidated financial statements for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, including the notes thereto as set out in our Accountants' Report in Appendix I to this prospectus. Our consolidated financial statements were prepared in accordance with the HKFRS, which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

The following discussions contain forward-looking statements which involve risks and uncertainties. These forward-looking statements are based on assumptions and analysis we made in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under the section headed "Risk factors" and elsewhere in this prospectus.

OVERVIEW

We are a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses and were the largest bridesmaid dresses manufacturer in the PRC in terms of revenue with approximately 2.9% market share in 2017, according to the Ipsos Report. We derived over 95% of our revenue during the Track Record Period from brand apparel companies. Over the years, we have built our reputation and gained customers' recognition from our dedication to provide our customers with one-stop solutions and consistently high quality products, which has increased our customers' reliance on us and in turn enabled us to maintain our market position as one of the leading bridesmaid dresses manufacturers in the PRC. Our customers' reliance on us is demonstrated by us being the sole supplier of certain customers for bridesmaid dresses, three of whom were our five largest customers during the Track Record Period and had maintained an average of over 12 years of relationship with us as at the Latest Practicable Date.

We principally sell our products which include bridesmaid dresses, bridal gowns and special occasion dresses to brand apparel companies based in the U.S.. In addition to manufacturing products for our customers, we strive to become an integral part of our customers' business operations by offering a wide range of value-added services ranging from fashion trend analysis, product design and development, raw material procurement, design and development, production, quality assurance to inventory management. We actively create designs and provide advice on the selection of materials for our customers' consideration and jointly develop products with them by applying our extensive industry knowledge and market intelligence which we have accumulated over the years. We believe our ability to collaborate with our customers and provide advice to them throughout their supply chain increases our customers' reliance on us and differentiates us from our competitors.

We manufacture our products at our production facility located in Humen Town, Dongguan City, the PRC. Depending on the product and capacity at our production facility, we subcontract part of the production processes of our products to third-party subcontractors given our limited production capacity to meet our customers' demand for our products. As product quality is of utmost importance to us, we implement stringent quality control measures at different stages of the production process to ensure that our raw materials, semi-finished products and final products comply with our quality standards in all respects.

FINANCIAL INFORMATION

BASIS OF PRESENTATION OF OUR CONSOLIDATED FINANCIAL INFORMATION

Our Company was incorporated in the Cayman Islands on 5 July 2016 as an exempted company with limited liability. Upon completion of the Reorganisation before the Listing, our Company will become the holding company of the companies comprising our Group. For further details of our Reorganisation, please refer to the section headed “History, Reorganisation and group structure” in this prospectus.

The consolidated statements of profit or loss, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the Track Record Period were prepared as if our Company had always been the holding company of our Group and the current group structure had been in existence throughout the Track Record Period, taking into account the respective dates of the incorporation of our subsidiaries. The consolidated statements of financial position as at 31 March 2016, 2017 and 2018 and 30 September 2018 were prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure had been in existence at those dates, taking into account the respective dates of the incorporation of our subsidiaries.

Our consolidated financial statements were prepared on a historical cost basis except for certain financial instruments that were measured at fair value at the end of each reporting period, as appropriate, and in accordance with the HKFRS issued by the HKICPA. In addition, our consolidated financial statements have included the applicable disclosures requirements under the Listing Rules and the Companies Ordinance. For more information on the basis of presentation of the financial information included in this section, please refer to “Accountants’ Report — Notes to the historical financial information — 1. General, group reorganisation and basis of preparation and presentation of historical financial information” in Appendix I to this prospectus.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, some of which are beyond our control, including those factors set out in the section headed “Risk factors” in this prospectus and those set out below. Accordingly, our historical financial results may not be indicative of our future performance and our management’s assessment of the prospects of our Group. The key factors affecting our results of operations include, among other factors, the following:

Relationship with our customers

Our ongoing growth and profitability are significantly dependent on our ability to maintain close and mutually beneficial relationships with our key customers and expand our customer portfolio to increase the demand for our products. It is important for us to maintain good relationships with our customers as we only enter into individual purchase orders but do not enter into any long-term agreements with our customers. Any adverse changes in relationships with our key customers may materially affect our results of operations and financial condition. In addition to our relationships with our existing customers, our financial results will also depend on our ability to expand our customer base and generate additional sales.

FINANCIAL INFORMATION

Operational costs and efficiency

Our cost of sales, including raw material costs, subcontracting charges and labour costs, constitutes a majority of our operational costs and has a direct impact on our gross profit margin. As such, our ability to control these costs may materially affect our results of operations.

Raw material costs

Our raw material costs accounted for approximately 36.6%, 43.1%, 41.2% and 39.5% of our total cost of sales for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively. Our raw material costs consist primarily of costs of fabrics and accessories. The prices of raw materials are determined principally by market condition and our bargaining power with our raw material suppliers. We enter into individual purchase orders and do not enter into any long-term agreements with our raw material suppliers. Consequently, any significant changes in the price of raw materials may directly and significantly affect our profit margins and results of operations.

FINANCIAL INFORMATION

The following sensitivity analysis is for reference only and illustrates the impact of hypothetical fluctuations in our raw material costs on our profit before taxation during the Track Record Period. Fluctuations are assumed to be 4.0%, 8.0% and 12.0% for each of the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively, while all other things being held constant.

Hypothetical fluctuations in raw material costs

	-12%	-8%	-4%	4%	8%	12%
Year ended 31 March 2016						
Change in raw material costs (HK\$'000)	(5,355)	(3,570)	(1,785)	1,785	3,570	5,355
Effect on profit before taxation (HK\$'000)	5,355	3,570	1,785	(1,785)	(3,570)	(5,355)
Year ended 31 March 2017						
Change in raw material costs (HK\$'000)	(6,239)	(4,159)	(2,080)	2,080	4,159	6,239
Effect on profit before taxation (HK\$'000)	6,239	4,159	2,080	(2,080)	(4,159)	(6,239)
Year ended 31 March 2018						
Change in raw material costs (HK\$'000)	(7,424)	(4,949)	(2,475)	2,475	4,949	7,424
Effect on profit before taxation (HK\$'000)	7,424	4,949	2,475	(2,475)	(4,949)	(7,424)
Six months ended 30 September 2018						
Change in raw material costs (HK\$'000)	(5,542)	(3,694)	(1,847)	1,847	3,694	5,542
Effect on profit before taxation (HK\$'000)	5,542	3,694	1,847	(1,847)	(3,694)	(5,542)

Subcontracting charges

Our subcontracting charges accounted for approximately 36.8%, 27.7%, 30.3% and 40.1% of our total cost of sales for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively. In view of our limited production capacity to meet our customers' demand for our products, we engaged subcontractors for certain production processes of our products, including embroidery and beading, pleating, sewing and handwork during the Track Record Period. Subcontracting charges are determined based on, among other things, product specifications, production lead time and labour cost for processing each order. We place individual purchase orders with our subcontractors and do not enter into any long-term agreements with our subcontractors. Any significant changes in the subcontracting charges may directly and significantly affect our profit margins and results of operations.

FINANCIAL INFORMATION

The following sensitivity analysis is for reference only and illustrates the impact of hypothetical fluctuations in our subcontracting charges on our profit before taxation during the Track Record Period. Fluctuations are assumed to be 4.0%, 8.0% and 12.0% for each of the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively, while all other things being held constant.

Hypothetical fluctuations in subcontracting charges

-12% -8% -4% 4% 8% 12%

Year ended 31 March 2016

Change in subcontracting charges (HK\$'000)	(5,381)	(3,587)	(1,794)	1,794	3,587	5,381
Effect on profit before taxation (HK\$'000)	5,381	3,587	1,794	(1,794)	(3,587)	(5,381)

Year ended 31 March 2017

Change in subcontracting charges (HK\$'000)	(4,015)	(2,677)	(1,338)	1,338	2,677	4,015
Effect on profit before taxation (HK\$'000)	4,015	2,677	1,338	(1,338)	(2,677)	(4,015)

Year ended 31 March 2018

Change in subcontracting charges (HK\$'000)	(5,477)	(3,651)	(1,826)	1,826	3,651	5,477
Effect on profit before taxation (HK\$'000)	5,477	3,651	1,826	(1,826)	(3,651)	(5,477)

Six months ended 30 September 2018

Change in subcontracting charges (HK\$'000)	(5,618)	(3,745)	(1,873)	1,873	3,745	5,618
Effect on profit before taxation (HK\$'000)	5,618	3,745	1,873	(1,873)	(3,745)	(5,618)

Labour costs

Our labour costs accounted for approximately 18.8%, 20.4%, 20.2% and 14.2% of our total cost of sales for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively. Our production process is labour intensive and the supply of skilled workers in the market is limited. Competition in the labour market for workers with related expertise and experience may increase the salary level and correspondingly, our costs associated with hiring and retaining workers, which may in turn adversely affect our results of operations.

FINANCIAL INFORMATION

The following sensitivity analysis is for reference only and illustrates the impact of hypothetical fluctuations in our labour costs on our profit before taxation during the Track Record Period. Fluctuations are assumed to be 4.0%, 8.0% and 12.0% for each of the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively, while all other things being held constant.

Hypothetical fluctuations in labour costs

	-12%	-8%	-4%	4%	8%	12%
Year ended 31 March 2016						
Change in labour costs (HK\$'000)	(2,751)	(1,834)	(917)	917	1,834	2,751
Effect on profit before taxation (HK\$'000)	2,751	1,834	917	(917)	(1,834)	(2,751)
Year ended 31 March 2017						
Change in labour costs (HK\$'000)	(2,947)	(1,965)	(982)	982	1,965	2,947
Effect on profit before taxation (HK\$'000)	2,947	1,965	982	(982)	(1,965)	(2,947)
Year ended 31 March 2018						
Change in labour costs (HK\$'000)	(3,643)	(2,428)	(1,214)	1,214	2,428	3,643
Effect on profit before taxation (HK\$'000)	3,643	2,428	1,214	(1,214)	(2,428)	(3,643)
Six months ended 30 September 2018						
Change in labour costs (HK\$'000)	(1,987)	(1,325)	(662)	662	1,325	1,987
Effect on profit before taxation (HK\$'000)	1,987	1,325	662	(662)	(1,325)	(1,987)

Competition

The bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industry in the PRC is highly fragmented. According to the Ipsos Report, there were about 6,000 bridesmaid dresses, bridal gowns and special occasion dresses manufacturers in the PRC in 2017. In addition, the increasing competition from Southeast Asian countries with lower labour and production costs poses a threat to the bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industry in the PRC and may undermine our business opportunities. If we fail to compete effectively against our competitors or maintain and expand our market share, our financial condition and results of operations could be materially and adversely affected. Please refer to the section headed “Industry overview — Competitive analysis of the bridal gowns, bridesmaid dresses and special occasion dresses manufacturing industries in the PRC” in this prospectus for further details on the competitive landscape of the bridesmaid dresses, bridal gowns and special occasion dresses manufacturing industry.

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Economic conditions and consumer spending

The majority of our revenue was generated from sales of our products to the U.S. and Europe during the Track Record Period. Economic conditions in these regions, and in particular, the level of per capita disposable income of urban households would have a direct impact on the level of demand of our products. According to the Ipsos Report, the disposable income per capita in the U.S. had increased from US\$39,455 in 2012 to US\$44,114 in 2017, representing a CAGR of 2.3%. The higher disposable income, together with the economic recovery, had contributed to the increase in wedding budget and actual spending in recent years. The average total wedding cost in the U.S. increased from US\$28,427 in 2012 to US\$33,391 in 2017, according to the Ipsos Report. The changes in the overall economic conditions in the U.S., and in our other major markets likewise, may affect consumer spending and in turn may materially and adversely affect our financial conditions and results of operations. Please refer to the section headed “Industry overview — Overview of the macroeconomic information of the U.S. and Europe” in this prospectus for details.

Foreign currency exchange rates

Our production activities are primarily in the PRC and a significant portion of our operating costs are denominated in Renminbi. Our sales are principally made to the United States and Europe and most of our sales are denominated in U.S. dollars and British Pound. As a result, fluctuations in exchange rates between Renminbi and U.S. dollars could materially impact our profit margins and overall results of operation.

Our consolidated financial information is presented in HK dollar. Our PRC and other overseas subsidiaries prepare financial statements in Renminbi or their respective local currencies as their presentation currencies. As a result, any changes in the value of HK dollar relative to the presentation currencies of those subsidiaries give rise to translation gains and losses in our consolidated statements of profit or loss and other comprehensive income upon consolidation.

In order to mitigate our risks arising from foreign currency fluctuations, our management continuously monitors our Group’s exposure to foreign currencies and take appropriate measures to minimise such risk. For further details, please refer to the paragraph headed “Quantitative and qualitative disclosures about financial risks — Foreign currency risk” in this section.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies which we consider are significant in the preparation of our financial statements. We have summarised some of these accounting policies below. For further details, please refer to “Accountants’ Report — Notes to the historical financial information — 3. Significant accounting policies” in Appendix I to this prospectus.

For the adoption of HKFRS 9 and HKFRS 15, our Group has assessed the effects of (i) adopting HKFRS 9 as compared to the adoption of HKAS 39; and (ii) adopting HKFRS 15 as compared to the adoption of HKAS 18. Save for the change in classification of certain liabilities in the consolidated statements of financial position of our Group, our Directors considered that the adoption of HKFRS 9 and HKFRS 15 would not have a significant impact on our financial position and performance.

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Revenue recognition

Our revenue is recognised to depict the transfer of promised goods or services to our customers in an amount that reflects the consideration to which our Group expects to be entitled in exchange for those goods or services. Our Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when the control of the goods or services underlying the particular performance obligation is transferred to our customers.

Sales of garment products

We recognise our revenue mainly from the sales of garment products including bridesmaid dresses, bridal gowns and special occasion dresses. Our revenue from the sales of garment products are recognised at a point in time when the control of goods has transferred, being when the goods have been shipped to our customers' specific location. Transportation and other related activities that occur before our customers obtaining control of the related products are considered as fulfilment activities.

A receivable is recognised by our Group when the goods are delivered to our customers as this represents the point in time at which our right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Property, plant and equipment

Our property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment loss on tangible assets

At the end of each reporting period, we review the carrying amounts of our tangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating

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unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on weighted-average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial Instruments (before application of HKFRS 9 on 1 April 2018)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amounts due from related companies and Directors, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

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Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables and accruals, amount due to a related party and bank borrowings) are measured at amortised cost, using the effective interest method.

Derivative financial instrument

Derivative is initially recognised at fair value at the date when derivative contract is entered into and is subsequently remeasured to its fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Financial instruments (after application of HKFRS 9 on 1 April 2018)

Financial assets and financial liabilities are recognised on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Trade receivables arising from contracts with our customers are initially measured in accordance with HKFRS 15. All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of financial asset within the timeframe established by the market concerned, and are initially measured at fair value and transaction costs.

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of our Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on a specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured at fair value.

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Impairment of financial assets

Our Group recognises a loss allowance for expected credit losses on financial assets which are subject to impairment under HKFRS 9 since 1 April 2018, including trade receivables, deposits and other receivables, amounts due from related companies and Directors and bank balances and cash. The amount of expected credit losses is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities at amortised cost

Our Group's financial liabilities including trade payables, other payables and accruals and bank borrowings are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of our Group's accounting policies as disclosed in note 3 to the Accountants' Report in Appendix I to this prospectus, we are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Our Directors have confirmed that we did not experience any material deviations between our accounting estimates and actual results and did not materially change our accounting estimates during the Track Record Period.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Our Directors do not expect any material changes in our accounting estimates in the foreseeable future.

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The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months:

- **Net realisable value of inventories.** Net realisable value of inventories is the estimated selling price of our products in our ordinary course of business less estimated selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of similar nature. Our management re-assesses the estimations on a product-by-product basis at the end of the relevant reporting period. We write down obsolete inventories when necessary. As at 31 March 2016, 2017 and 2018 and 30 September 2018, the carrying amounts of inventories were HK\$21.8 million, HK\$25.4 million, HK\$36.2 million and HK\$31.9 million, respectively. We did not write down our inventories during the Track Record Period.
- **Allowance for bad and doubtful debts.** During the three years ended 31 March 2018 before the initial application of HKFRS 9, the allowance for bad and doubtful debts of our Group is estimated based on the evaluation of collectability and ageing analysis of individual trade receivable performed by our management. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and past collection history of each customer. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Upon the application of HKFRS 9 on 1 April 2018, our Group recognised lifetime expected credit losses on trade receivables and amount due from Veromia on individual basis. The estimation on expected credit losses is required in assessing probability-weighted estimate of the credit loss within the relevant time band which is based on our Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast direction of conditions at the end of each reporting period. If there is a significant increase in credit risk on our customers since initial recognition, additional expected credit losses may be required. There was no impairment on trade receivables and amount due from Veromia during the three years ended 31 March 2018 before the application of HKFRS 9. Upon the application of HKFRS 9 on 1 April 2018, our management considered the expected credit losses for trade receivables and amount due from Veromia were insignificant as at 1 April 2018 and 30 September 2018. As at 31 March 2016, 2017 and 2018 and 30 September 2018, the carrying amounts of trade receivables were HK\$9.3 million, HK\$21.1 million, HK\$20.8 million and HK\$55.5 million, respectively and amount due from Veromia, which was of trade nature, were HK\$11.0 million, HK\$11.0 million, HK\$1.3 million and HK\$0.6 million, respectively.

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RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Revenue	165,214	169,284	208,403	119,631	153,906
Cost of sales	(121,849)	(120,576)	(150,408)	(89,044)	(116,885)
Gross profit	43,365	48,708	57,995	30,587	37,021
Other income	307	33	68	27	95
Other (losses) and gains	(8,787)	(4,698)	1,020	1,459	(145)
Administrative expenses	(19,071)	(13,439)	(18,685)	(8,880)	(10,499)
Listing expense	—	—	(8,080)	(1,129)	(4,014)
Finance costs	(1,011)	(1,227)	(1,806)	(875)	(1,317)
Profit before taxation	14,803	29,377	30,512	21,189	21,141
Income tax expense	(2,714)	(5,545)	(6,695)	(3,848)	(4,465)
Profit for the year/period	<u>12,089</u>	<u>23,832</u>	<u>23,817</u>	<u>17,341</u>	<u>16,676</u>

Non-HKFRS measures

We recognised non-recurring item during the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted profits as non-HKFRS measures.

We present these additional financial measures as they were used by our management to evaluate our financial performance by eliminating the impact of listing expense. As we consider listing expense is non-recurring in nature, listing expense is not indicative for evaluating the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

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The following table sets forth the reconciliation between the profit for the year/period and the adjusted profit for the year/period for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit for the year/period	12,089	23,832	23,817	17,341	16,676
Adjusted for:					
Listing expense	—	—	8,080	1,129	4,014
Adjusted profit for the year/period⁽¹⁾	<u>12,089</u>	<u>23,832</u>	<u>31,897</u>	<u>18,470</u>	<u>20,690</u>

Note:

- (1) Adjusted profit for the year/period refers to profit for the year/period excluding non-recurring listing expense. This non-HKFRS financial data is a supplemental financial measure that is not required by, or presented in accordance with, the HKFRS and is therefore referred to as a “non-HKFRS” financial measure. It is not a measurement of our financial performance under the HKFRS and should not be considered as an alternative measure to profit from operations or any other performance measures derived in accordance with the HKFRS, or as an alternative measure to cash flows from operating activities or as a measure of our liquidity.

DESCRIPTION OF CERTAIN COMPONENTS OF OUR CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

Revenue

We derived most of our revenue from the sales of our bridesmaid dresses, bridal gowns and special occasion dresses during the Track Record Period. Our revenue represents the consideration received or receivable for the sales of our products. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2017 and 2018, our revenue amounted to HK\$165.2 million, HK\$169.3 million, HK\$208.4 million, HK\$119.6 million and HK\$153.9 million, respectively. The increase in our total revenue from the year ended 31 March 2016 to the year ended 31 March 2018 represented a CAGR of approximately 12.3%. The overall increase in revenue during the Track Record Period was primarily attributable to the increase in revenue generated from the sales of our special occasion dresses.

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Revenue by product category

We divide our products into four categories, namely bridesmaid dresses, bridal gowns, special occasion dresses and others. The following table sets forth the breakdown of our revenue by product category for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Bridesmaid dresses	130,997	79.3	130,893	77.3	129,827	62.3	73,599	61.5	65,787	42.7
Bridal gowns	14,797	9.0	9,924	5.9	4,842	2.3	2,583	2.2	2,888	1.9
Special occasion dresses	16,412	9.9	25,407	15.0	69,108	33.2	40,161	33.6	81,549	53.0
Others ⁽¹⁾	3,008	1.8	3,060	1.8	4,626	2.2	3,288	2.7	3,682	2.4
Total	165,214	100.0	169,284	100.0	208,403	100.0	119,631	100.0	153,906	100.0

Note:

(1) Others primarily include sales of fabrics and accessories.

The following table sets forth the sales quantity and average selling price of our bridesmaid dresses, bridal gowns and special occasion dresses for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price	Sales quantity	Average selling price
	Thousand units	HK\$	Thousand units	HK\$	Thousand units	HK\$	Thousand units	HK\$	Thousand units	HK\$
Bridesmaid dresses	377.5	347	414.7	317	424.9	306	239.1	308	207.6	317
Bridal gowns	10.4	1,423	7.3	1,359	3.7	1,309	2.1	1,230	1.9	1,520
Special occasion dresses	53.5	307	132.3	192	362.0	191	169.3	237	563.0	145
Total	441.4		554.3		790.6		410.5		772.5	

We provide one-stop solutions to our customers from design and development to manufacturing and delivery of our products. We do not have a standard selling price for our products. We generally take a cost-plus approach in setting a reference point for our selling price of our products, which is then subject to change depending on factors including but not limited to, our negotiation with our customers, the sales quantity per order and the complexity of the designs of our products. Furthermore,

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we do not have minimum purchase quantity for our customers and our sales quantity is dependent on our customers' demands. As such, during the Track Record Period, we experienced fluctuations in our sales quantity and average selling price as we sold different products with diverse designs to different customers.

Bridesmaid dresses

Revenue generated from the sales of bridesmaid dresses remained stable at HK\$131.0 million for the year ended 31 March 2016 and at HK\$130.9 million for the year ended 31 March 2017 primarily as a result of (i) the increase in sales quantity of our bridesmaid dresses from 377.5 thousand units for the year ended 31 March 2016 to 414.7 thousand units for the year ended 31 March 2017 due to the increase in sales quantity of two of our bridesmaid dresses customers as (a) one of the customers became our new customer in September 2015 and our sales quantity to such customer increased from nil for the year ended 31 March 2016 to 22.4 thousand units for the year ended 31 March 2017; and (b) the number of styles we sold to these two customers in aggregate increased from 46 for the year ended 31 March 2016 to 237 for the year ended 31 March 2017, which led to the increase in our aggregate sales quantity to these two customers from 7.2 thousand units for the year ended 31 March 2016 to 66.8 thousand units for the year ended 31 March 2017; partially offset by (ii) the decrease in average selling price of our bridesmaid dresses from HK\$347 for the year ended 31 March 2016 to HK\$317 for the year ended 31 March 2017 due to the decrease in average selling price of our bridesmaid dresses for one of our top customers driven by the change in product mix. During the year ended 31 March 2016, we primarily sold silk dresses, which had higher selling prices, to this top customer while we primarily sold dresses made of synthetic fibres, which had lower selling prices, during the year ended 31 March 2017.

Revenue generated from the sales of bridesmaid dresses remained stable at HK\$130.9 million for the year ended 31 March 2017 and HK\$129.8 million for the year ended 31 March 2018 primarily as a result of the combined effect of (i) the increase in sales quantity of our bridesmaid dresses from 414.7 thousand units for the year ended 31 March 2017 to 424.9 thousand units for the year ended 31 March 2018 due to (a) the increase in sales quantity of our bridesmaid dresses to two of our customers, one of whom became our new customer in February 2017 and our sales quantity to such customer increased from less than 50 units for the year ended 31 March 2017 to 40.7 thousand units for the year ended 31 March 2018. The number of styles of bridesmaid dresses we sold to the other customer increased from 75 for the year ended 31 March 2017 to 142 for the year ended 31 March 2018 which led to the increase in our sales quantity to our customers from 22.4 thousand units in the year ended 31 March 2017 to 50.6 thousand units for the year ended 31 March 2018; partially offset by (b) the decrease in sales quantity of our bridesmaid dresses for two of our customers, one of whom was one of our top five customers for the three years ended 31 March 2018 and ceased its bridesmaid dresses line in 2016. The other customer was not one of our top five customers during the Track Record Period and discontinued its license to trade bridesmaid dresses under a well-known luxury wedding brand in 2017; and (ii) the decrease in average selling prices of our bridesmaid dresses from HK\$317 for the year ended 31 March 2017 to HK\$306 for the year ended 31 March 2018 due to (a) the decrease in average selling price of our bridesmaid dresses to one of our top customers who purchased from us dresses with simpler designs that had lower selling prices during the year ended 31 March 2018; and (b) the lower selling prices of products sold to the aforementioned new customer acquainted in February 2017 as part of our strategy to establish business relationships with them.

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Revenue generated from the sales of bridesmaid dresses decreased from HK\$73.6 million for the six months ended 30 September 2017 to HK\$65.8 million for the six months ended 30 September 2018 primarily as a result of the decrease in sales quantity of our bridesmaid dresses from 239.1 thousand units for the six months ended 30 September 2017 to 207.6 thousand units for the six months ended 30 September 2018 due to the decrease in sales quantity of our bridesmaid dresses as (i) one of our top five customers during the Track Record Period ceased its bridesmaid dresses business in April 2018; and (ii) for the purpose of enhancing the overall utilisation of our limited production capacity for the year ending 31 March 2019, we allocated more of our limited production capacity and resources to the production of special occasion dresses during the six months ended 30 September 2018.

Bridal gowns

Revenue generated from the sales of bridal gowns decreased from HK\$14.8 million for the year ended 31 March 2016 to HK\$9.9 million for the year ended 31 March 2017 primarily as a result of (i) the decrease in sales quantity of our bridal gowns from 10.4 thousand units for the year ended 31 March 2016 to 7.3 thousand units for the year ended 31 March 2017; and (ii) the decrease in the average selling price of bridal gowns from HK\$1,423 for the year ended 31 March 2016 to HK\$1,359 for the year ended 31 March 2017. The decrease of the sales quantity and average selling price of bridal gowns was primarily attributable to our strategy to allocate more of our limited production capacity and resources at our current production facility from bridal gowns with more complex designs to those with simpler designs and to special occasion dresses, both of which generally have lower average selling prices and shorter production lead time. Our Directors believe such strategy can generate more revenue and profit for our Group in the long run from our current production facility.

Revenue generated from the sales of bridal gowns decreased from HK\$9.9 million for the year ended 31 March 2017 to HK\$4.8 million for the year ended 31 March 2018 primarily as result of (i) the decrease in sales quantity of our bridal gowns from 7.3 thousand units for the year ended 31 March 2017 to 3.7 thousand units for the year ended 31 March 2018; and (ii) the decrease in the average selling price of bridal gowns from HK\$1,359 for the year ended 31 March 2017 to HK\$1,309 for the year ended 31 March 2018 as we further reduced the sales of bridal gowns with more complex designs.

Revenue generated from the sales of bridal gowns increased from HK\$2.6 million for the six months ended 30 September 2017 to HK\$2.9 million for the six months ended 30 September 2018 primarily as a result of the combined effect of (i) the increase in average selling prices of our bridal gowns from HK\$1,230 for the six months ended 30 September 2017 to HK\$1,520 for the six months ended 30 September 2018 primarily attributable to the sales of bridal gowns, which were produced with materials that were more expensive and thus had higher average selling prices, to one of our key existing bridesmaid dresses customers to further strengthen our business relationship with; partially offset by (ii) the decrease in sales quantity of our bridal gowns from 2.1 thousand units for the six months ended 30 September 2017 to 1.9 thousand units for the six months ended 30 September 2018 as we allocated our limited production capacity to serve the aforementioned key customers whose orders required a longer production lead time.

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Special occasion dresses

Revenue generated from the sales of special occasion dresses increased from HK\$16.4 million for the year ended 31 March 2016 to HK\$25.4 million for the year ended 31 March 2017 primarily as a result of (i) the increase in sales quantity of our special occasion dresses from 53.5 thousand units for the year ended 31 March 2016 to 132.3 thousand units for the year ended 31 March 2017 as (a) two of our existing bridesmaid dresses and bridal gowns customers began to purchase special occasion dresses from us during the year, accounting in total for approximately 47.5 thousand units of special occasion dresses for the year ended 31 March 2017; and (b) the increase in sales quantity of one of our existing special occasion dresses customers from approximately 39.7 thousand units for the year ended 31 March 2016 to 57.9 thousand units for the year ended 31 March 2017 as we developed a series of new dresses for this customer during the year ended 31 March 2018; and (ii) partially offset by the decrease in the average selling price of special occasion dresses from HK\$307 for the year ended 31 March 2016 to HK\$192 for the year ended 31 March 2017 as our new products for the two customers mentioned above were ordered in large quantities and were with less complex designs which had lower average selling prices.

Revenue generated from the sales of special occasion dresses increased from HK\$25.4 million for the year ended 31 March 2017 to HK\$69.1 million for the year ended 31 March 2018 primarily as a result of the increase in sales quantity of our special occasion dresses from 132.3 thousand units for the year ended 31 March 2017 to 362.0 thousand units for the year ended 31 March 2018 as two of our existing bridesmaid dresses and bridal gowns customers began to purchase special occasion dresses from us during the period, accounting in total for approximately 340.7 thousand units of special occasion dresses for the year ended 31 March 2018. We believe that our existing bridesmaid dresses and bridal gowns customers began to purchase special occasion dresses from us primarily due to (i) our capability to design and develop raw materials and products; and (ii) our product quality.

Revenue generated from the sales of special occasion dresses increased from HK\$40.2 million for the six months ended 30 September 2017 to HK\$81.5 million for the six months ended 30 September 2018 primarily as a result of the combined effect of (i) the increase in sales quantity from 169.3 thousand units for the six months ended 30 September 2017 to 563.0 thousand units for the six months ended 30 September 2018 primarily attributable to the increase in sales to one of our special occasion dresses customers, who was one of our top five customers during the Track Record Period, partially offset by (ii) the decrease in average selling prices of our special occasion dresses from HK\$237 for the six months ended 30 September 2017 to HK\$145 for the six months ended 30 September 2018 as the products we sold to the aforementioned customer were ordered in large quantities and made with materials with lower costs which had lower average selling prices.

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Revenue by geographic location

We categorise our revenue based on the country in which the customer is headquartered. The following table sets forth a breakdown of our revenue by geographic location for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
United States	145,145	87.8	149,966	88.6	193,426	92.8	111,255	93.0	145,759	94.7
Europe	14,832	9.0	13,859	8.2	10,521	5.0	5,006	4.2	3,783	2.5
Australia	3,560	2.2	3,503	2.1	2,503	1.2	1,461	1.2	1,422	0.9
Others ⁽¹⁾	1,677	1.0	1,956	1.1	1,953	1.0	1,909	1.6	2,942	1.9
Total	165,214	100.0	169,284	100.0	208,403	100.0	119,631	100.0	153,906	100.0

Note:

(1) Others primarily include Hong Kong, the PRC, Macau and Japan.

During the Track Record Period, the United States was our largest market and our customers who are headquartered in the United States contributed approximately 87.8%, 88.6%, 92.8%, 93.0% and 94.7% of our total revenue for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2017 and 2018, respectively. The revenue generated from our customers who are headquartered in the United States as a percentage of our total revenue remained relatively stable during the years ended 31 March 2016 and 2017 and increased to approximately 92.8% for the year ended 31 March 2018. This increase was primarily attributable to the increase in revenue generated from the sales of special occasion dresses to our customers who are headquartered in the United States. The revenue generated from our customers who are headquartered in the United States as a percentage of our total revenue remained stable at 93.0% and 94.7% for the six months ended 30 September 2017 and 2018, respectively.

During the Track Record Period, Europe was our second largest market and our customers who are headquartered in Europe contributed approximately 9.0%, 8.2%, 5.0%, 4.2% and 2.5% of our total revenue for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2017 and 2018, respectively. The revenue generated from our customers who are headquartered in Europe remained relatively stable at HK\$14.8 million and HK\$13.9 million for years ended 31 March 2016 and 2017, respectively and decreased to approximately HK\$10.5 million for the year ended 31 March 2018. This decrease was primarily attributable to decrease in revenue generated from sales of bridesmaid dresses and bridal gowns to our customer who is headquartered in the United Kingdom. The revenue generated from our customers who are headquartered in Europe as a percentage of our total revenue decreased from 4.2% for the six months ended 30 September 2017 to 2.5% for the six months ended 30 September 2018. This decrease was primarily attributable to the decrease in revenue generated from one of our customers headquartered in Germany, which was not one of our top five customers during the Track Record Period, as this customer experienced a decrease in sales leading to the decrease in purchases from us.

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Cost of sales

Our cost of sales primarily consists of raw material costs, subcontracting charges, labour costs for personnel directly involved in our production activities and others. The following table sets forth a breakdown of our cost of sales for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Raw material costs	44,622	36.6	51,993	43.1	61,868	41.2	38,753	43.5	46,180	39.5
Subcontracting charges	44,843	36.8	33,459	27.7	45,638	30.3	28,820	32.4	46,815	40.1
Labour costs	22,923	18.8	24,562	20.4	30,356	20.2	14,710	16.5	16,557	14.2
Others ⁽¹⁾	9,461	7.8	10,562	8.8	12,546	8.3	6,761	7.6	7,333	6.2
Total	121,849	100.0	120,576	100.0	150,408	100.0	89,044	100.0	116,885	100.0

Note:

(1) Others primarily include operating lease rental of land and production plant and costs of utilities and transportation.

For the years ended 31 March 2016 and 2017, our cost of sales remained relatively stable and amounted to HK\$121.8 million and HK\$120.6 million, respectively. Our cost of sales increased to HK\$150.4 million for the year ended 31 March 2018, which was in line with the increase in our revenue. Our cost of sales increased from HK\$89.0 million for the six months ended 30 September 2017 to HK\$116.9 million for the six months ended 30 September 2018, which was in line with the increase in our revenue.

Raw material costs

Our raw material costs primarily consist of the costs of fabrics, accessories and other materials consumed in our production process. We purchased our raw materials mainly from third-party suppliers based in Hong Kong, the PRC, Korea and Taiwan.

Our raw material costs increased from HK\$44.6 million for the year ended 31 March 2016 to HK\$52.0 million for the year ended 31 March 2017 primarily as a result of the increase in our total sales quantity from 441.4 thousand units for the year ended 31 March 2016 to 554.3 thousand units for the year ended 31 March 2017 and offset by the decrease in raw material costs as we sourced more raw materials from the PRC which have lower unit costs and less raw materials from Korea which have higher unit costs.

Our raw material costs increased from HK\$52.0 million for the year ended 31 March 2017 to HK\$61.9 million for the year ended 31 March 2018 primarily as a result of the increase in our total sales quantity from 554.3 thousand units for the year ended 31 March 2017 to 790.6 thousand units for the year ended 31 March 2018.

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Our raw material costs increased from HK\$38.8 million for the six months ended 30 September 2017 to HK\$46.2 million for the six months ended 30 September 2018 primarily as a result of (i) the increase in sales quantity from 410.5 thousand units for the six months ended 30 September 2017 to 772.5 thousand units for the six months ended 30 September 2018, partially offset by (ii) the decrease in raw material costs per unit attributable to our special occasion dresses sold, which were made with materials with lower cost, during the six months ended 30 September 2018.

Subcontracting charges

Our subcontracting charges represent the cost for engaging subcontractors for the provision of certain production process of our products, including embroidery and beading, pleating, sewing and handwork. All of our subcontractors were Independent Third Parties and based in the PRC.

Our subcontracting charges decreased from HK\$44.8 million for the year ended 31 March 2016 to HK\$33.5 million for the year ended 31 March 2017 primarily as (i) we received more orders of dresses with simpler designs during the year ended 31 March 2017, which generally have lower subcontracting charges; (ii) we increased our in-house production of our products; and (iii) the depreciation of the Renminbi by approximately 5.5% between the years ended 31 March 2016 and 2017.

Our subcontracting charges increased from HK\$33.5 million for the year ended 31 March 2017 to HK\$45.6 million for the year ended 31 March 2018 primarily as a result of the significant increase in sales quantity of our special occasion dresses from 132.3 thousand units for the year ended 31 March 2017 to 362.0 thousand units for the year ended 31 March 2018.

Our subcontracting charges increased from HK\$28.8 million for the six months ended 30 September 2017 to HK\$46.8 million for the six months ended 30 September 2018 primarily as a result of the significant increase in the sales quantity of our special occasion dresses from 169.3 thousand units for the six months ended 30 September 2017 to 563.0 thousand units for the six months ended 30 September 2018.

Labour costs

Our labour costs primarily consist of salaries, wages, welfare benefits and contributions to retirement plans for staff who are directly involved in the production process of our products at our production facility located in Humen Town, Dongguan City, the PRC.

Our labour costs increased from HK\$22.9 million for the year ended 31 March 2016 to HK\$24.6 million for the year ended 31 March 2017 primarily as a result of (i) the increase in the average salary of our production workers during the year ended 31 March 2017; (ii) the increase in our average production headcount during the year ended 31 March 2017; and (iii) partially offset by the depreciation of the RMB by approximately 5.5% between the years ended 31 March 2016 and 2017.

Our labour costs increased from HK\$24.6 million for the year ended 31 March 2017 to HK\$30.4 million for the year ended 31 March 2018 primarily as a result of (i) the increase in the average salary of our production workers during the year ended 31 March 2018; and (ii) the increase in average production headcount during the year ended 31 March 2018.

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Our labour costs increased from HK\$14.7 million for the six months ended 30 September 2017 to HK\$16.6 million for the six months ended 30 September 2018 primarily as a result of (i) the increase in the average salary of our production workers during the six months ended 30 September 2018; and (ii) the increase in average production headcount for the six months ended 30 September 2018.

Cost of sales by product category

The following table sets forth a breakdown of our cost of sales by product category for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Bridesmaid dresses	96,535	79.2	89,591	74.3	89,744	59.7	52,039	58.4	46,491	39.8
Bridal gowns	9,783	8.0	6,576	5.5	3,359	2.2	1,823	2.0	2,024	1.7
Special occasion dresses	12,631	10.4	21,476	17.8	52,892	35.2	32,041	36.0	64,869	55.5
Others ⁽¹⁾	2,900	2.4	2,933	2.4	4,413	2.9	3,141	3.6	3,501	3.0
Total	<u>121,849</u>	<u>100.0</u>	<u>120,576</u>	<u>100.0</u>	<u>150,408</u>	<u>100.0</u>	<u>89,044</u>	<u>100.0</u>	<u>116,885</u>	<u>100.0</u>

Note:

(1) Others primarily include our cost of sales related to the sales of fabrics and accessories.

Gross profit and gross profit margin

The following table sets forth the breakdown of our gross profit and gross profit margin by product category for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Bridesmaid dresses	34,462	26.3	41,302	31.6	40,083	30.9	21,560	29.3	19,296	29.3
Bridal gowns	5,014	33.9	3,348	33.7	1,483	30.6	760	29.4	864	29.9
Special occasion dresses	3,781	23.0	3,931	15.5	16,216	23.5	8,120	20.2	16,680	20.5
Others	108	3.6	127	4.2	213	4.6	147	4.5	181	4.9
Total	<u>43,365</u>	<u>26.2</u>	<u>48,708</u>	<u>28.8</u>	<u>57,995</u>	<u>27.8</u>	<u>30,587</u>	<u>25.6</u>	<u>37,021</u>	<u>24.1</u>

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We provide one-stop solutions to our customers from design and development to manufacturing and delivery of our products. We do not have a standard selling price for our products. If our customer requires more complex designs for our products, our raw material costs, subcontracting charges and labour costs may increase. Our Directors believe that our ability to transfer such increased costs to our customers and thereby charging additional gross profit margins on those products is dependent on factors including but not limited to, our negotiation with our customers, our sales quantity, the complexity of the designs of our products, our level of involvement in the design and development of the products and our ability to utilise our production staff in producing products of complicated styles. As such, the gross profit margin of our products is dependent on our ability to shift additional costs to our customers.

Furthermore, according to the Ipsos Report, the gross profit margin of our products are affected by, among other factors, its complexity and technical requirements, the volume of orders and timing of delivery, the estimated production cost (including the design and development costs and subcontracting charges) and bargaining power against our customers and suppliers. During the Track Record Period, we generally maintained a higher gross profit margin for our bridal gowns as compared to our bridesmaid dresses and special occasion dresses, which we believe was due to the complexity and material requirements of bridal gowns.

Our gross profit increased from HK\$43.4 million for the year ended 31 March 2016 to HK\$48.7 million for the year ended 31 March 2017 primarily as a result of the increase in the gross profit generated from sales of bridesmaid dresses. Our gross profit increased from HK\$48.7 million for the year ended 31 March 2017 to HK\$58.0 million for the year ended 31 March 2018 primarily as a result of the increase in the gross profit generated from sales of special occasion dresses. Our gross profit increased from HK\$30.6 million for the six months ended 30 September 2017 to HK\$37.0 million for the six months ended 30 September 2018 primarily as a result of the increase in the gross profit generated from sales of special occasion dresses.

Our gross profit margin increased from 26.2% for the year ended 31 March 2016 to 28.8% for the year ended 31 March 2017 primarily as a result of the increase in gross profit margin of our bridesmaid dresses. Our gross profit margin decreased from 28.8% for the year ended 31 March 2017 to 27.8% for the year ended 31 March 2018 and decreased from 25.6% for the six months ended 30 September 2017 to 24.1% for the six months ended 30 September 2018 primarily as a result of the change in our product mix as we sold more special occasion dresses which have lower gross profit margin as compared to our bridesmaid dresses and bridal gowns during the respective periods.

Bridesmaid dresses

The gross profit margin of our bridesmaid dresses increased from 26.3% for the year ended 31 March 2016 to 31.6% for the year ended 31 March 2017 primarily as a result of (i) the decrease in raw material costs as we sourced more raw materials from the PRC which have lower unit costs and less raw materials from Korea which have higher unit costs; and (ii) savings in our production costs due to the depreciation of the Renminbi by approximately 5.5% between the years ended 31 March 2016 and 2017.

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The gross profit margin of our bridesmaid dresses remained relatively stable at 30.9% for the year ended 31 March 2018.

The gross profit margin of our bridesmaid dresses remained at 29.3% for the six months ended 30 September 2017 and 2018, respectively.

Bridal gowns

The gross profit margin of our bridal gown remained relatively stable at 33.9% and 33.7% for the years ended 31 March 2016 and 2017, respectively.

The gross profit margin of our bridal gowns decreased from 33.7% for the year ended 31 March 2017 to 30.6% for the year ended 31 March 2018 primarily as a result of the decrease in sales of bridal gowns with more complex designs, given our strategy to allocate more of our production capacity and resources to products with simpler designs as mentioned above, which resulted in (i) the decrease in average selling price from HK\$1,359 for the year ended 31 March 2017 to HK\$1,309 for the year ended 31 March 2018; and (ii) the increase in our overheads per unit as our average sales quantity per invoice for our bridal gowns decreased.

The gross profit margin of our bridal gowns remained stable at 29.4% and 29.9% for the six months ended 30 September 2017 and 2018, respectively.

Special occasion dresses

The gross profit margin of our special occasion dresses decreased from 23.0% for the year ended 31 March 2016 to 15.5% for the year ended 31 March 2017 primarily as a result of (i) us offering relatively lower average selling prices to two of our existing bridesmaid dresses and bridal gowns customers to attract them to purchase special occasion dresses from us; and (ii) the special occasion dresses sold during the year ended 31 March 2017 were with less complex designs as compared to those sold during the year ended 31 March 2016.

The gross profit margin of our special occasion dresses increased from 15.5% for the year ended 31 March 2017 to 23.5% for the year ended 31 March 2018 primarily as a result of the rebound in the gross profit margin of our special occasion dresses sold to the two customers mentioned above, with whom we believe we had established stable relationships and gained stronger bargaining powers.

The gross profit margin of our special occasion dresses remained stable at 20.2% and 20.5% for the six months ended 30 September 2017 and 2018, respectively.

Other income

Our other income consists of management fee income, bank interest income and sundry income. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2017 and 2018, our other income amounted to HK\$0.3 million, HK\$33,000, HK\$68,000, HK\$27,000 and HK\$95,000, respectively.

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Our other income decreased from HK\$0.3 million for the year ended 31 March 2016 to HK\$33,000 for the year ended 31 March 2017. This decrease was primarily attributable to the decrease in management fee income. For the year ended 31 March 2016, we received management fee income of HK\$0.2 million from KNT 3-D Lenticular Manufacturer Limited, a company owned as to 50% by Mr. S Chong and 50% by Mr. P Chong, for provision of administrative services. No such income was recognised for the year ended 31 March 2017.

Our other income increased from HK\$33,000 for the year ended 31 March 2017 to HK\$68,000 for the year ended 31 March 2018. This increase was primarily attributable to the increase in sales of scrap.

Our other income increased from HK\$27,000 for the six months ended 30 September 2017 to HK\$95,000 for the six months ended 30 September 2018. This increase was primarily attributable to the increase in sales of scrap.

Other (losses) and gains

Our other losses and gains consist of (i) change in fair value of derivative financial instrument; (ii) net foreign exchange (loss) or gain; and (iii) loss or gain on disposal of property, plant and equipment. The following table sets forth the breakdown of our other losses and gains for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Fair value change in derivative financial instrument	(8,627)	(4,080)	598	598	—
Net foreign exchange (loss) or gain	(156)	(618)	(280)	159	(145)
(Loss) or gain on disposal/written off of property, plant and equipment	(4)	—	702	702	—
Total	<u>(8,787)</u>	<u>(4,698)</u>	<u>1,020</u>	<u>1,459</u>	<u>(145)</u>

Fair value change in derivative financial instrument

In August 2015, we entered into a forward contract linked with exchange rate between U.S. dollar and Renminbi with a reputable bank in Hong Kong to manage our foreign currency exposure arising from our business operations. Due to the change in fair value of the forward contract, we recognised a net loss of HK\$8.6 million and HK\$4.1 million for the years ended 31 March 2016 and 2017, respectively, as a result of the depreciation in Renminbi against U.S. dollar during the respective years. We recorded a net gain of HK\$0.6 million for the year ended 31 March 2018 as a result of the appreciation of Renminbi against U.S. dollar during the period. For further details, please refer to the paragraph headed “Net current assets — Derivative financial instrument” in this section.

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We will continue to monitor our foreign exchange risks and have implemented internal policies, which set forth overall principles and monitoring of our future investments in derivative financial instruments. Please refer to the paragraph headed “Quantitative and qualitative disclosures about financial risks — Foreign currency risk — Foreign currency exchange risk management measures” in this section for further details.

Net foreign exchange loss or gain

Our net foreign exchange loss or gain primarily arises from (i) the realised exchange difference on settlement of trade receivables and payables; and (ii) the revaluation of trade receivables, trade payables and bank balances and cash denominated in currencies other than our functional currencies. For the years ended 31 March 2016 and 2017, we recorded net exchange losses of HK\$0.2 million and HK\$0.6 million, respectively, which primarily represented exchange losses arising primarily from sales denominated in British Pound which depreciated during the year, partially offset by the exchange gains arising primarily from purchases denominated in Renminbi which depreciated during the year. For the year ended 31 March 2018, we recorded net exchange loss of HK\$0.3 million which primarily represented exchange losses arising primarily from purchases denominated in Renminbi which appreciated during the year. For the six months ended 30 September 2018, we recorded net exchange loss of HK\$0.1 million which primarily represented exchange losses arising primarily from sales denominated in British Pound which depreciated during the period. For further details, please refer to the paragraph headed “Quantitative and qualitative disclosures about financial risks — Foreign currency risk” in this section.

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Administrative expenses

Our administrative expenses consist of (i) salaries and allowances for our administrative and management personnel; (ii) depreciation and amortisation; (iii) sales commission to our sales consultants and declaration fee; (iv) office expenses; (v) bank charges; (vi) advertising expenses; (vii) entertainment expenses; (viii) travelling expenses; (ix) rents, rates and management fees; (x) repairs and maintenance expenses; (xi) other taxes and surcharges; and (xii) others. The following table sets forth the breakdown of our administrative expenses for the years/periods indicated:

	Year ended 31 March						Six months ended 30 September			
	2016		2017		2018		2017		2018	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
	(unaudited)									
Salaries and allowances	9,854	51.7	8,561	63.7	11,328	60.6	5,435	61.2	6,382	60.8
Depreciation and amortisation	979	5.1	1,005	7.5	805	4.3	426	4.8	403	3.8
Sales commission and declaration fee	829	4.3	829	6.2	888	4.8	535	6.0	639	6.1
Office expenses	1,262	6.6	717	5.3	948	5.1	481	5.4	468	4.5
Bank charges	358	1.9	418	3.1	532	2.9	267	3.0	399	3.8
Advertising expenses	7	0.0	57	0.4	148	0.8	145	1.6	17	0.2
Entertainment expenses	2,057	10.8	95	0.7	303	1.6	136	1.5	413	3.9
Travelling expenses	517	2.7	138	1.1	564	3.0	202	2.3	119	1.1
Rents, rates and management fees	220	1.2	213	1.6	437	2.3	216	2.4	204	1.9
Repairs and maintenance expenses	597	3.1	182	1.4	229	1.2	141	1.6	200	1.9
Other taxes and surcharges	999	5.2	102	0.8	1,200	6.4	299	3.4	629	6.0
Others ⁽¹⁾	1,392	7.4	1,122	8.2	1,303	7.0	597	6.8	626	6.0
Total	19,071	100.0	13,439	100.0	18,685	100.0	8,880	100.0	10,499	100.0

Note:

- (1) Others primarily consist of legal and professional fees, insurance expenses, motor vehicle expenses, messing and sundry expenses.

Our administrative expenses decreased from HK\$19.1 million for the year ended 31 March 2016 to HK\$13.4 million for the year ended 31 March 2017. This decrease was primarily attributable to (i) the decrease in entertainment expenses from HK\$2.1 million for the year ended 31 March 2016 to HK\$95,000 for the year ended 31 March 2017 primarily due to the fact that we lessened our efforts in building relationships with potential customers in the PRC. During the year ended 31 March 2016, our management travelled to the PRC and reached out to more potential customers in the PRC as part of our strategy to explore new business opportunities. However, our Directors later considered that

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sales of our products to those potential customers were not in line with our sales strategies in terms of pricing and quality of the products and lessened our efforts in building relationships with such potential customers during the year ended 31 March 2017 accordingly; (ii) the decrease in travelling expenses from HK\$0.5 million for the year ended 31 March 2016 to HK\$0.1 million for the year ended 31 March 2017 due to fewer business trips by our management during the year ended 31 March 2017; (iii) the decrease in salaries and allowances from HK\$9.9 million for the year ended 31 March 2016 to HK\$8.6 million for the year ended 31 March 2017 due to the decrease in bonus paid to our staff in Hong Kong; and (iv) the decrease in other taxes and surcharges from HK\$1.0 million for the year ended 31 March 2016 to HK\$0.1 million for the year ended 31 March 2017 due to the decrease in certain taxes paid in the PRC.

Our administrative expenses increased from HK\$13.4 million for the year ended 31 March 2017 to HK\$18.7 million for the year ended 31 March 2018. This increase was primarily attributable to (i) the increase in salaries and allowances from HK\$8.6 million for the year ended 31 March 2017 to HK\$11.3 million for the year ended 31 March 2018 due to the increase in salaries, bonus paid and headcount during the year ended 31 March 2018; and (ii) the increase in our other taxes and surcharges from HK\$0.1 million for the year ended 31 March 2017 to HK\$1.2 million for the year ended 31 March 2018 due to the increase in certain taxes paid in the PRC.

Our administrative expenses increased from HK\$8.9 million for the six months ended 30 September 2017 to HK\$10.5 million for the six months ended 30 September 2018. This increase was primarily attributable to the increase in salaries and allowances from HK\$5.4 million for the six months ended 30 September 2017 to HK\$6.4 million for the six months ended 30 September 2018 due to the increase in salaries and average headcount during the six months ended 30 September 2018.

Listing expense

Listing expense represents the professional and consultancy fees incurred by us as a result of the preparation for the Listing. For the year ended 31 March 2018 and the six months ended 30 September 2018, we incurred listing expense of HK\$8.1 million and HK\$4.0 million, respectively.

Finance costs

Our finance costs primarily consist of interest on bank borrowings. For the three years ended 31 March 2018 and the six months ended 30 September 2017 and 2018, we recorded finance costs of HK\$1.0 million, HK\$1.2 million, HK\$1.8 million, HK\$0.9 million and HK\$1.3 million, respectively.

Our finance costs increased from HK\$1.0 million for the year ended 31 March 2016 to HK\$1.2 million for the year ended 31 March 2017 and further increased to HK\$1.8 million for the year ended 31 March 2018. The increase was primarily attributable to increase in our average bank borrowings during the relevant year.

Our finance costs increased from HK\$0.9 million for the six months ended 30 September 2017 to HK\$1.3 million for the six months ended 30 September 2018. This increase was primarily attributable to the increase in our average bank borrowings during the six months ended 30 September 2018.

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Income tax expense

Cayman and BVI

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law and, accordingly, is exempted from the payment of any income tax in the Cayman Islands. For our subsidiaries incorporated in the BVI, they are incorporated as BVI business companies under the BVI Business Companies Act and, accordingly, are exempted from the payment of any income tax in the BVI.

Hong Kong

Our subsidiaries incorporated in Hong Kong were subject to Hong Kong profits tax at the rate of 16.5% for the years ended 31 March 2016, 2017 and 2018. For the six months ended 30 September 2018, Hong Kong profits tax was calculated at a two-tiered profits tax rate regime. For further details, please refer to “Accountants’ Report — Notes to the historical financial information — 9. Income tax expense” in Appendix I to this prospectus.

The PRC

Our subsidiaries established in the PRC were subject to statutory enterprise income tax at the rate of 25.0% in accordance with EIT Law during the Track Record Period.

General

For the three years ended 31 March 2018 and the six months ended 30 September 2017 and 2018, we incurred income tax expense of HK\$2.7 million, HK\$5.5 million, HK\$6.7 million, HK\$3.8 million and HK\$4.5 million, respectively. The following table sets forth the breakdown of our income tax expense for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Current tax					
Hong Kong profits tax	1,715	3,827	5,679	3,333	3,096
PRC enterprise income tax	1,040	1,771	1,016	515	1,376
	2,755	5,598	6,695	3,848	4,472
Deferred tax credit	(41)	(53)	—	—	(7)
	<u>2,714</u>	<u>5,545</u>	<u>6,695</u>	<u>3,848</u>	<u>4,465</u>

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Our income tax expense increased from HK\$2.7 million for the year ended 31 March 2016 to HK\$5.5 million for the year ended 31 March 2017. This increase was primarily attributable to the increase in profit before taxation from HK\$14.8 million for the year ended 31 March 2016 to HK\$29.4 million for the year ended 31 March 2017.

Our income tax expense increased from HK\$5.5 million for the year ended 31 March 2017 to HK\$6.7 million for the year ended 31 March 2018. This increase was primarily attributable to the increase in profit before taxation from HK\$29.4 million for the year ended 31 March 2017 to HK\$30.5 million for the year ended 31 March 2018, partially offset by the effect of the non-tax deductible listing expenses we incurred of HK\$8.1 million during the year ended 31 March 2018.

Our income tax expense increased from HK\$3.8 million for the six months ended 30 September 2017 to HK\$4.5 million for the six months ended 30 September 2018. This increase was primarily attributable to the increase in our profit before tax excluding our listing expenses from HK\$22.3 million for the six months ended 30 September 2017 to HK\$25.2 million for the six months ended 30 September 2018.

Our effective tax rates, calculated as our income tax expense divided by our profit before taxation, were approximately 18.3%, 18.9%, 21.9%, 18.2% and 21.1% for the three years ended 31 March 2018 and the six months ended 30 September 2017 and 2018, respectively. Our effective tax rate increased from 18.9% for the year ended 31 March 2017 to 21.9% for the year ended 31 March 2018. This increase was primarily attributable to the listing expense we incurred which is non-tax deductible in nature. Our effective tax rate increased from 18.2% for the six months ended 30 September 2017 to 21.1% for the six months ended 30 September 2018. This increase was primarily attributable to the increase in listing expense which is non-tax deductible in nature.

Our Directors have confirmed that we have made all required tax filings in all relevant jurisdictions and paid all tax liabilities that have become due. We were not involved in any material tax dispute with respect to our income tax during the Track Record Period and up to the Latest Practicable Date.

PERIOD-TO-PERIOD COMPARISONS OF OUR RESULTS OF OPERATIONS

Six months ended 30 September 2018 compared to six months ended 30 September 2017

Revenue

Our revenue increased by approximately 28.7% from HK\$119.6 million for the six months ended 30 September 2017 to HK\$153.9 million for the six months ended 30 September 2018. This increase was primarily attributable to (i) the increase in our revenue from sales of special occasion dresses, partially offset by (ii) the decrease in our revenue from sales of bridesmaid dresses.

Cost of sales

Our cost of sales increased by approximately 31.3% from HK\$89.0 million for the six months ended 30 September 2017 to HK\$116.9 million for the six months ended 30 September 2018. This increase was in line with the increase in our revenue.

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Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately 20.9% from HK\$30.6 million for the six months ended 30 September 2017 to HK\$37.0 million for the six months ended 30 September 2018.

Our gross profit margin decreased from 25.6% for the six months ended 30 September 2017 to 24.1% for the six months ended 30 September 2018, primarily due to the increase in sales of special occasion dresses which have lower gross profit margin as compared to our bridesmaid dresses and bridal gowns.

Other income

Our other income increased by approximately 251.9% from HK\$27,000 for the six months ended 30 September 2017 to HK\$95,000 for the six months ended 30 September 2018. This increase was primarily attributable to the increase in sales of scrap.

Other losses and gains

We recorded other gains of HK\$1.5 million for the six months ended 30 September 2017 and other losses of HK\$0.1 million for the six months ended 30 September 2018. Our other gains for the six months ended 30 September 2017 was primarily attributable to (i) the fair value change in derivative financial instrument; and (ii) gains on disposal/written off of our property, plant and equipment. Our other losses for the six months ended 30 September 2018 was primarily attributable to the net foreign exchange loss recognised.

Administrative expenses

Our administrative expenses increased by approximately 18.0% from HK\$8.9 million for the six months ended 30 September 2017 to HK\$10.5 million for the six months ended 30 September 2018. This increase was primarily attributable to the increase in our salaries and allowances.

Listing expense

We recorded listing expense of HK\$1.1 million and HK\$4.0 million for the six months ended 30 September 2017 and 2018, respectively.

Finance costs

Our finance costs increased by approximately 44.4% from HK\$0.9 million for the six months ended 30 September 2017 to HK\$1.3 million for the six months ended 30 September 2018. This increase was primarily attributable to the increase in our average bank borrowing during the six months ended 30 September 2018 as compared to the six months ended 30 September 2017.

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Income tax expense

Our income tax expense increased by approximately 18.4% from HK\$3.8 million for the six months ended 30 September 2017 to HK\$4.5 million for the six months ended 30 September 2018. This increase was primarily attributable to increase in our profit before tax excluding our listing expense for the six months ended 30 September 2018. Our effective tax rate increased from 18.2% for the six months ended 30 September 2017 to 21.1% for the six months ended 30 September 2018. This increase was primarily attributable to the increase in listing expense which is non-tax deductible in nature.

Profit for the period

As a result of the foregoing, our profit for the period remained stable at HK\$17.3 million for the six months ended 30 September 2017 and HK\$16.7 million for the six months ended 30 September 2018. Our net profit margin decreased from 14.5% for the six months ended 30 September 2017 to 10.8% for the six months ended 30 September 2018. This decrease was primarily attributable to the decrease in our gross profit margin and increase in our listing expense for the six months ended 30 September 2018.

Adjusted profit for the period

Our adjusted profit for the period increased by approximately 11.9% from HK\$18.5 million for the six months ended 30 September 2017 to HK\$20.7 million for the six months ended 30 September 2018 which was primarily due to the increase in our gross profit.

Year ended 31 March 2018 compared to year ended 31 March 2017

Revenue

Our revenue increased by approximately 23.1% from HK\$169.3 million for the year ended 31 March 2017 to HK\$208.4 million for the year ended 31 March 2018. This increase was primarily attributable to (i) the increase in our revenue from sales of special occasion dresses; and (ii) partially offset by the decrease in revenue from sales of bridal gowns.

Cost of sales

Our cost of sales increased by approximately 24.7% from HK\$120.6 million for the year ended 31 March 2017 to HK\$150.4 million for the year ended 31 March 2018. This increase was in line with the increase in our revenue.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately 19.1% from HK\$48.7 million for the year ended 31 March 2017 to HK\$58.0 million for the year ended 31 March 2018.

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Our gross profit margin decreased from 28.8% for the year ended 31 March 2017 to 27.8% for the year ended 31 March 2018, primarily due to the increase in sale of special occasion dresses of lower gross profit margin as compared to our bridesmaid dresses and bridal gowns.

Other income

Our other income increased by approximately 106.1% from HK\$33,000 for the year ended 31 March 2017 to HK\$68,000 for the year ended 31 March 2018. This increase was primarily attributable to the increase in sales of scrap.

Other losses and gains

We recorded other losses of HK\$4.7 million for the year ended 31 March 2017 and other gains of HK\$1.0 million for the year ended 31 March 2018. Our other losses for the year ended 31 March 2017 were primarily attributable to (i) the fair value change in our derivative financial instrument; and (ii) the net exchange losses recognised. Our other gains for the year ended 31 March 2018 was primarily attributable to (i) the fair value change in our derivative financial instrument; and (ii) the gain on disposal/written off of our property, plant and equipment, partially offset by the net exchange losses recognised.

Administrative expenses

Our administrative expenses increased by approximately 39.6% from HK\$13.4 million for the year ended 31 March 2017 to HK\$18.7 million for the year ended 31 March 2018. This increase was primarily attributable to (i) the increase in our salaries and allowances; and (ii) the increase in our other taxes and surcharges.

Listing expense

We recorded listing expense of HK\$8.1 million for the year ended 31 March 2018. For further details, please refer to the paragraph headed “Listing expenses” in this section.

Finance costs

Our finance costs increased by approximately 50.0% from HK\$1.2 million for the year ended 31 March 2017 to HK\$1.8 million for the year ended 31 March 2018. This increase was primarily attributable to the increase in our average bank borrowings during the year ended 31 March 2018 as compared to the year ended 31 March 2017.

Income tax expense

Our income tax expense increased by approximately 21.8% from HK\$5.5 million for the year ended 31 March 2017 to HK\$6.7 million for the year ended 31 March 2018. The increase was primarily

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attributable to the increase in profit before taxation, partially offset by the effect of non-tax deductible listing expenses. Our effective tax rate increased from 18.9% for the year ended 31 March 2017 to 21.9% for the year ended 31 March 2018. This increase was primarily attributable to the listing expenses we incurred which is non-tax deductible in nature.

Profit for the year

As a result of the foregoing, our profit for the year remained relatively stable at HK\$23.8 million and HK\$23.8 million for the years ended 31 March 2017 and 2018, respectively. Our net profit margin decreased from 14.1% for the year ended 31 March 2017 to 11.4% for the year ended 31 March 2018. This decrease was primarily attributable to the listing expenses we incurred.

Adjusted profit for the year

Our adjusted profit for the year increased by approximately 34.0% from HK\$23.8 million for the year ended 31 March 2017 to HK\$31.9 million for the year ended 31 March 2018 which was primarily due to the increase our gross profit.

Year ended 31 March 2017 compared to year ended 31 March 2016

Revenue

Our revenue increased by approximately 2.5% from HK\$165.2 million for the year ended 31 March 2016 to HK\$169.3 million for the year ended 31 March 2017. This increase was primarily attributable to (i) the increase in our revenue from sales of special occasion dresses; and (ii) partially offset by the decrease in revenue from sales of bridal gowns.

Cost of sales

Our cost of sales remained relatively stable at HK\$121.8 million for the year ended 31 March 2016 and HK\$120.6 million for the year ended 31 March 2017.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit increased by approximately 12.2% from HK\$43.4 million for the year ended 31 March 2016 to HK\$48.7 million for the year ended 31 March 2017.

During the year ended 31 March 2016, we achieved a higher gross profit margin as compared to previous year primarily attributable to (i) the in-house design services provided to our customers; (ii) products produced with raw materials jointly designed and developed by us and our suppliers and our bridesmaid dresses of complicated styles, as these products generally allow us to charge a premium for additional work and skill involved in producing these products; and (iii) control of our staff costs by utilising the experience and capability of our production staff instead of engaging new staff to produce bridesmaid dresses of complicated styles.

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Our gross profit margin increased from approximately 26.2% for the year ended 31 March 2016 to approximately 28.8% for the year ended 31 March 2017 despite the fact that the special occasion dresses sold during the year ended 31 March 2017 were with less complex designs as compared to those sold during the year ended 31 March 2016. This increase was primarily attributable to the increase in gross profit margin of our bridesmaid dresses as a result of (i) the decrease in raw material costs as we sourced more raw materials from the PRC which have lower unit costs and less raw materials from Korea which have higher unit costs; and (ii) savings in our production costs due to the depreciation of the Renminbi by approximately 5.5% between the years ended 31 March 2016 and 2017.

Other income

Our other income decreased by approximately 89.0% from HK\$0.3 million for the year ended 31 March 2016 to HK\$33,000 for the year ended 31 March 2017. This decrease was primarily attributable to the decrease in our management fee income from KNT 3-D Lenticular Manufacturer Limited.

Other losses

Our other losses decreased by approximately 46.6% from HK\$8.8 million for the year ended 31 March 2016 to HK\$4.7 million for the year ended 31 March 2017. This decrease was primarily attributable to the decrease in loss arising from the fair value change in our derivative financial instrument.

Administrative expenses

Our administrative expenses decreased by approximately 29.8% from HK\$19.1 million for the year ended 31 March 2016 to HK\$13.4 million for the year ended 31 March 2017. This decrease was primarily attributable to (i) the decrease in entertainment expenses; (ii) the decrease in travelling expenses; (iii) the decrease in salaries and allowances; and (iv) the decrease in other taxes and surcharges.

Finance costs

Our finance costs increased by approximately 20.0% from HK\$1.0 million for the year ended 31 March 2016 to HK\$1.2 million for the year ended 31 March 2017. This increase was primarily attributable to the increase in our average bank borrowings during the year ended 31 March 2017 as compared to the year ended 31 March 2016.

Income tax expense

Our income tax expense increased by approximately 103.7% from HK\$2.7 million for the year ended 31 March 2016 to HK\$5.5 million for the year ended 31 March 2017. This increase was primarily attributable to the increase in profit before taxation. Our effective tax rate remained relatively stable at 18.3% and 18.9% for the years ended 31 March 2016 and 2017, respectively.

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Profit for the year

As a result of the foregoing, our profit for the year increased by approximately 96.7% from HK\$12.1 million for the year ended 31 March 2016 to HK\$23.8 million for the year ended 31 March 2017. Our net profit margin increased from approximately 7.3% for the year ended 31 March 2016 to approximately 14.1% for the year ended 31 March 2017 which was the combined effect of (i) the increase in our gross profit; (ii) the decrease in our other losses by HK\$4.1 million; and (iii) the decrease in our administrative expenses by HK\$5.7 million.

Adjusted profit for the year

Our adjusted profit for the year increased by approximately 96.7% from HK\$12.1 million for the year ended 31 March 2016 to HK\$23.8 million for the year ended 31 March 2017 which was primarily attributable to the increase in our gross profit and the effect of the fair value change in derivative financial instrument.

NET CURRENT ASSETS

The following table sets forth a summary of our current assets and current liabilities as at the dates indicated:

	As at 31 March			As at 30 September	As at 31 December
	2016	2017	2018	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Current assets					
Inventories	21,765	25,361	36,172	31,946	40,354
Trade receivables	9,283	21,123	20,762	55,472	18,266
Prepayment, deposits and other receivables	1,037	4,502	5,838	5,799	5,423
Amounts due from related companies	12,934	10,979	1,328	568	1,214
Amounts due from Directors	29,372	37,602	30,525	6,569	6,569
Pledged bank deposit	1,005	—	—	—	—
Bank balances and cash	2,812	1,682	21,622	18,938	21,586
Total current assets	<u>78,208</u>	<u>101,249</u>	<u>116,247</u>	<u>119,292</u>	<u>93,412</u>
Current liabilities					
Trade payables	7,584	8,829	7,793	9,199	6,591
Other payables and accruals	3,058	3,286	7,972	5,610	6,336
Contract liabilities	4,401	5,135	6,957	2,709	3,014
Amount due to a related party	—	2,000	—	—	—
Derivative financial instrument	4,872	4,079	—	—	—
Income tax payable	587	3,503	3,225	5,005	5,187
Bank borrowings	25,302	42,757	56,816	59,369	33,432
Total current liabilities	<u>45,804</u>	<u>69,589</u>	<u>82,763</u>	<u>81,892</u>	<u>54,560</u>
Net current assets	<u>32,404</u>	<u>31,660</u>	<u>33,484</u>	<u>37,400</u>	<u>38,852</u>

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Our trade receivables decreased from HK\$55.5 million as at 30 September 2018 to HK\$18.3 million as at 31 December 2018, primarily due to the settlement from one of our top five customers for the orders delivered near the end of the six months ended 30 September 2018. As at the Latest Practicable Date, HK\$53.8 million, representing approximately 96.9% of our trade receivables as at 30 September 2018 had been subsequently settled. Our bank borrowings decreased from HK\$59.4 million as at 30 September 2018 to HK\$33.4 million as at 31 December 2018, primarily due to the repayment of part of our bank borrowings upon the settlement of trade receivables from the aforementioned customer during the period. Our net current assets remained relatively stable at HK\$37.4 million and HK\$38.9 million as at 30 September 2018 and 31 December 2018, respectively.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. We maintain an appropriate level of raw materials for the production of our bridesmaid dresses and bridal gowns to cater for the short production lead time. To avoid the accumulation of inventories, we carry out inventory review on a monthly basis and ageing analysis on an annual basis. We believe our inventory management strategy allows us to respond to customers' demand without straining our liquidity. The following table sets forth a summary of our inventory balances as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	14,568	17,527	22,290	17,329
Work in progress	6,388	7,621	13,841	14,213
Finished goods	809	213	41	404
Total	<u>21,765</u>	<u>25,361</u>	<u>36,172</u>	<u>31,946</u>

Our inventories increased by approximately 16.5% from HK\$21.8 million as at 31 March 2016 to HK\$25.4 million as at 31 March 2017, and further increased by approximately 42.5% to HK\$36.2 million as at 31 March 2018 as we increased our raw materials and work in progress to cope with the increase in sales of our products. Our inventories decreased by approximately 11.9% to HK\$31.9 million as at 30 September 2018 primarily due to the decrease in our raw materials level as at 30 September 2018 as there were generally fewer production orders for October and November as compared to that for April and May.

As at the Latest Practicable Date, approximately HK\$15.2 million, representing approximately 47.6% of our inventories as at 30 September 2018, had been utilised or sold.

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Inventory turnover days

The following table sets forth our inventory turnover days for the years/period indicated:

	Year ended 31 March			Six months ended 30 September
	2016	2017	2018	2018
Average inventory balance (HK\$'000) ⁽¹⁾	20,635	23,563	30,767	34,059
Inventory turnover days (days) ⁽²⁾	62	71	75	53

Notes:

- (1) Average inventory balance is the sum of the beginning and ending inventory balances for the relevant year/period divided by two.
- (2) The inventory turnover days for a year/period is the average inventory balance divided by cost of sales for that year/period and multiplied by (i) 366 days for the year ended 31 March 2016, (ii) 365 days for the years ended 31 March 2017 and 2018; or (iii) 183 days for the six months ended 30 September 2018.

The increase in our inventory turnover days from 62 days for the year ended 31 March 2016 to 71 days for the year ended 31 March 2017 was primarily due to the increase in raw materials and work in progress on hand as a result of the increase in our sales in the first quarter of 2017 as compared with the same period in 2016.

Our inventory turnover days remained stable at 71 days and 75 days for the years ended 31 March 2017 and 2018, respectively.

The decrease in our inventory turnover days from 75 days for the year ended 31 March 2018 to 53 days for the six months ended 30 September 2018 was primarily due to the decrease in our closing balance as a result of the decrease in raw material level as at 30 September 2018 due to fewer production orders for October and November as compared to that for April and May.

We believe our raw materials are not obsolete and do not have expiration dates. We carry out inventory review and ageing analysis on a regular basis. In determining whether to make appropriate provision, our management takes into account a number of factors including but not limited to historical and forecast consumption of raw materials. During the Track Record Period, we did not make any provision for inventories.

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Trade receivables

Our trade receivables represent the outstanding amounts receivable by us from our customers for the sales of our products. We generally grant our customers a credit period of 0 to 90 days. In addition, we typically require new customers to make deposit before we commence production. The following table sets forth our trade receivables as at the dates indicated:

	As at 31 March			As at
	2016	2017	2018	30 September 2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	<u>9,283</u>	<u>21,123</u>	<u>20,762</u>	<u>55,472</u>

The increase in our trade receivables by approximately 126.9% from HK\$9.3 million as at 31 March 2016 to HK\$21.1 million as at 31 March 2017 was primarily due to the increase in our sales in March 2017 as compared with March 2016. Our trade receivables remained stable at HK\$21.1 million and HK\$20.8 million as at 31 March 2017 and 2018, respectively. The increase in our trade receivables by approximately 166.8% from HK\$20.8 million for the year ended 31 March 2018 to HK\$55.5 million for the six months ended 30 September 2018 was primarily attributable to the increase in trade receivables from one of our top five customers for the orders delivered near the end of the six months ended 30 September 2018. We granted a credit term of 60 days to this customer and a majority of such balance was not due as at 30 September 2018.

Trade receivable turnover days

The following table sets forth our trade receivable turnover days for the years/period indicated:

	Year ended 31 March			As at
	2016	2017	2018	30 September 2018
Average trade receivables (HK\$'000) ⁽¹⁾	12,138	15,203	20,943	38,117
Trade receivable turnover days (days) ⁽²⁾	27	33	37	45

Notes:

- (1) Average trade receivables are the sum of the beginning and ending trade receivables for the relevant year/period divided by two.
- (2) The trade receivable turnover days for a year/period is the average trade receivables divided by revenue for that year/period and multiplied by (i) 366 days for the year ended 31 March 2016, (ii) 365 days for the years ended 31 March 2017 and 2018; or (iii) 183 days for the six months ended 30 September 2018.

Our trade receivable turnover days increased from 27 days for the year ended 31 March 2016 to 33 days for the year ended 31 March 2017 primarily due to the large closing balance of trade receivables for the year ended 31 March 2017 attributable to the increased sales to two major customers during March 2017 as compared to March 2016.

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Our trade receivable turnover days remained stable at 33 days and 37 days for the years ended 31 March 2017 and 2018, respectively.

Our trade receivable turnover days increased from 37 days for the year ended 31 March 2018 to 45 days for the six months ended 30 September 2018 primarily due to the large closing balance as a result of the increase in trade receivables from one of our top five customers with a credit period of 60 days.

Ageing analysis on trade receivables

The following table sets forth an ageing analysis of our trade receivables based on the invoice date as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	5,975	17,947	9,440	23,244
31 to 60 days	1,279	61	7,071	21,721
61 to 90 days	1,141	1,917	2,620	8,054
91 to 180 days	772	640	479	775
181 to 365 days	27	83	1,152	1,677
Over 365 days	89	475	—	1
	<u>9,283</u>	<u>21,123</u>	<u>20,762</u>	<u>55,472</u>

We generally grant our customers a credit period of 0 to 90 days. The credit period we offer to our customers is determined on a case-by-case basis, after taking into account our customers' historical sales level, their market reputation, payment history, the number of years of their business relationship with us and their financial status. In determining the recoverability of our trade receivables, we monitor the creditworthiness of the relevant customers.

Our management determines the impairment of our trade receivables based on the credit history of our customers, such as financial difficulties or default in payments, and current market condition. No allowance for doubtful debts was recognised as at 31 March 2016, 2017 and 2018 and 30 September 2018.

Among our trade receivables as at 31 March 2016, 2017 and 2018 and 30 September 2018, HK\$4.7 million, HK\$6.5 million, HK\$6.8 million and HK\$10.1 million, respectively, were past due. We did not make provision for these overdue trade receivables as there were no significant changes in credit quality of these trade receivables and the amounts are still considered recoverable based on the historical experience of our management. We did not hold any collateral over these balances.

As at the Latest Practicable Date, approximately HK\$53.8 million, representing approximately 96.9% of our trade receivables as at 30 September 2018, had been settled.

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Prepayment, deposits and other receivables

The following table sets forth our prepayment, deposits and other receivables as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deposits paid to suppliers	—	1,375	1,768	152
Other tax receivables	694	1,275	1,139	1,602
Prepaid listing expenses	—	962	280	629
Deferred share issue cost	—	—	2,263	3,222
Rental, utilities and other deposits	99	612	80	90
Other prepayments	141	169	195	17
Other receivables	103	109	113	87
Total	<u>1,037</u>	<u>4,502</u>	<u>5,838</u>	<u>5,799</u>

Deposits paid to suppliers

Our deposits paid to suppliers represent primarily payment in advance to certain new suppliers upon placement of our first purchase orders with them. Our deposits paid to suppliers increased from nil as at 31 March 2016 to HK\$1.4 million as at 31 March 2017, which was primarily due to the increase in purchases of raw materials from certain new PRC suppliers. Our deposits paid to suppliers increased from HK\$1.4 million as at 31 March 2017 to HK\$1.8 million as at 31 March 2018, which was primarily due to the increase in purchases of raw materials from a Hong Kong supplier to whom we were required to make deposits before shipment. Our deposits paid to suppliers decreased from HK\$1.8 million as at 31 March 2018 to HK\$0.2 million as at 30 September 2018, which was primarily due to the decrease in our deposits to PRC suppliers as we did not purchase from new PRC suppliers who required us to pay deposits near the end of the period.

Other tax receivables

Our other tax receivables represent primarily VAT and import duty recoverable in relation to our raw materials purchased in the PRC. Our other tax receivables increased by approximately 85.7% from HK\$0.7 million as at 31 March 2016 to HK\$1.3 million as at 31 March 2017, which was primarily due to the increase in VAT recoverable as a result of the increase in the purchase of raw materials from PRC suppliers by our PRC subsidiary during the year ended 31 March 2017. Our other tax receivables remained relatively stable at HK\$1.3 million as at 31 March 2017 and HK\$1.1 million as at 31 March 2018. Our other tax receivables increased from HK\$1.1 million as at 31 March 2018 to HK\$1.6 million as at 30 September 2018, which was primarily due to the increase in purchase of raw materials from PRC suppliers.

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Prepaid listing expenses and deferred share issue cost

Our prepaid listing expenses are payments to professional parties for services rendered which do not relate to the issue of shares and will be recognised in the profit or loss as incurred. Our deferred share issue cost are payments to professional parties for services rendered that are directly attributable to the Listing of new shares and will be capitalised and deducted from equity upon the Listing. We recorded prepaid listing expenses of HK\$1.0 million, HK\$0.3 million and HK\$0.6 million as at 31 March 2017 and 2018 and 30 September 2018, respectively, and deferred share issue cost of HK\$2.3 million and HK\$3.2 million as at 31 March 2018 and 30 September 2018, respectively. For further details of our listing expenses, please refer to the paragraph headed “Listing expenses” in this section.

Rental, utilities and other deposits

Our rental, utilities and other deposits increased from HK\$99,000 as at 31 March 2016 to HK\$0.6 million as at 31 March 2017, which was primarily due to the payment of HK\$0.5 million as guarantee for custom duties in the PRC during the year ended 31 March 2017. Our rental, utilities and other deposits decreased from HK\$0.6 million as at 31 March 2017 to HK\$80,000 as at 31 March 2018, which was primarily due to the refund of the aforementioned guarantee for custom duties in the PRC in July 2017. Our rental, utilities and other deposits remained stable at HK\$80,000 as at 31 March 2018 and HK\$90,000 as at 30 September 2018.

Amounts due from Directors

The following table sets forth the breakdown of our amounts due from Directors as at the dates indicated:

	As at 31 March			As at
	2016	2017	2018	30 September 2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. S Chong	28,763	37,029	29,889	6,569
Mr. P Chong	609	573	636	—
	<u>29,372</u>	<u>37,602</u>	<u>30,525</u>	<u>6,569</u>

As at 31 March 2016, 2017 and 2018 and 30 September 2018, our amounts due from Directors represented the advances to Mr. S Chong and Mr. P Chong and were of a non-trade nature, unsecured, interest-free and repayable on demand. As at the Latest Practicable Date, the outstanding amount as at 30 September 2018 had been fully settled.

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Amounts due from related companies

The following table sets forth the breakdown of our amounts due from related companies as at the dates indicated:

	As at 31 March			As at
	2016	2017	2018	30 September
	HK\$'000	HK\$'000	HK\$'000	2018
Veromia ⁽¹⁾	10,983	10,979	1,328	568
JFMC Limited ⁽²⁾	1,881	—	—	—
KNT 3-D Lenticular Manufacturer Limited ⁽³⁾	70	—	—	—
	<u>12,934</u>	<u>10,979</u>	<u>1,328</u>	<u>568</u>

Notes:

- (1) Veromia is a company incorporated in the United Kingdom and wholly owned by Mr. S Chong.
- (2) JFMC Limited is a company incorporated in Hong Kong and wholly owned by Mr. Chong Yu Sang, a then director of KNT.
- (3) KNT 3-D Lenticular Manufacturer Limited is a company incorporated in Hong Kong and owned as to 50% and 50% by Mr. S Chong and Mr. P Chong, respectively.

As at 31 March 2016, 2017 and 2018 and 30 September 2018, all of our amounts due from related companies were unsecured and interest-free. Except for the amount due from Veromia of HK\$11.0 million, HK\$11.0 million, HK\$1.3 million and HK\$0.6 million as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively, which was of trade nature and had a credit period of 90 days, all of our amounts due from related companies were of non-trade nature and repayable on demand. The decrease in amount due from Veromia from HK\$11.0 million as at 31 March 2017 to HK\$1.3 million as at 31 March 2018 was primarily due to the settlement of the long-outstanding balance by Veromia during the year ended 31 March 2018. As at 30 September 2018, all of the amount due from Veromia was within the credit period of 90 days. Our Directors have confirmed that the sale transactions between Veromia and us were conducted on normal commercial terms and on an arm's length basis.

Except for the trade balance due from Veromia, all of the amounts due from related companies will be fully settled before the Listing. For further details, please refer to "Accountants' Report — Notes to the historical financial information — 19. Amounts due from related companies and directors/amount due to a related party/amount due to a subsidiary" in Appendix I to this prospectus.

Pledged bank deposit

Our pledged bank deposit as at 31 March 2016 represented the deposit we pledged to a bank to secure the bank borrowings extended to us, and carried at fixed interest rate at 0.55% per annum for the year ended 31 March 2016. The pledge was released during the year ended 31 March 2017 upon settlement of the relevant bank borrowings.

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Bank balances and cash

Our bank balances and cash represented (i) the short term bank deposits we held with an original maturity of three months or less, and carried with prevailing market interest rate ranging from 0.001% to 0.25% per annum; and (ii) the cash we held.

As at 31 March 2016, 2017 and 2018 and 30 September 2018, our bank balances and cash amounted to HK\$2.8 million, HK\$1.7 million, HK\$21.6 million and HK\$18.9 million, respectively. The increase in our bank balances and cash as at 31 March 2018 was primarily attributable to the increased net cash generated from operating activities during the year ended 31 March 2018.

Trade payables

Our trade payables represent the outstanding amounts payable by us to our suppliers for the procurement of our raw materials and subcontracting services. Our suppliers generally offer us a credit period of 0 to 60 days. In addition, we may be required to make a deposit for our new suppliers. The following table sets forth our trade payables as at the dates indicated:

	As at 31 March			As at
	2016	2017	2018	30 September
	HK\$'000	HK\$'000	HK\$'000	2018
Trade payables	<u>7,584</u>	<u>8,829</u>	<u>7,793</u>	<u>9,199</u>

Our trade payables increased by approximately 15.8% from HK\$7.6 million as at 31 March 2016 to HK\$8.8 million as at 31 March 2017 primarily due to the increase in purchases of raw materials from suppliers to cater for the increase in our sales. Our trade payables decreased by approximately 11.4% from HK\$8.8 million as at 31 March 2017 to HK\$7.8 million as at 31 March 2018 primarily due to the increase in purchases of raw materials from a Hong Kong supplier by whom we were not granted any credit terms. Our trade payables increased by approximately 17.9% from HK\$7.8 million as at 31 March 2018 to HK\$9.2 million as at 30 September 2018 primarily due to increase in our subcontracting charges payable to our subcontractors as at 30 September 2018.

Trade payable turnover days

The following table sets forth our trade payable turnover days for the years/period indicated:

	Year ended 31 March			Six months ended
	2016	2017	2018	30 September 2018
Average trade payables (HK\$'000) ⁽¹⁾	5,932	8,207	8,311	8,496
Trade payable turnover days (days) ⁽²⁾	18	25	20	13

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Notes:

- (1) Average trade payables are the sum of the beginning and ending trade payable balances for the relevant year/period divided by two.
- (2) The trade payable turnover days for a year/period is the average trade payables divided by cost of sales for that year/period and multiplied by (i) 366 days for the year ended 31 March 2016; (ii) 365 days for the years ended 31 March 2017 and 2018; or (iii) 183 days for the six months ended 30 September 2018.

The increase in our trade payable turnover days from 18 days for the year ended 31 March 2016 to 25 days for the year ended 31 March 2017 was primarily due to the increase in purchase of raw materials and subcontracting processes consumed for March 2017 as compared to March 2016.

Our trade payable turnover days remained relatively stable at 25 days and 20 days for the years ended 31 March 2017 and 2018, respectively.

The decrease in our trade payable turnover days from 20 days for the year ended 31 March 2018 to 13 days for the six months ended 30 September 2018 was primarily due to faster settlement of our trade payables during the six months ended 30 September 2018 as two of our top five suppliers for the period did not offer us any credit period.

Ageing analysis on trade payables

The following table sets forth an ageing analysis of our trade payables based on the invoice date as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	6,270	7,398	6,457	6,926
31 to 60 days	410	927	1,237	2,164
61 to 90 days	832	389	65	81
91 to 180 days	44	78	—	—
181 to 365 days	—	8	6	—
Over 365 days	28	29	28	28
	<u>7,584</u>	<u>8,829</u>	<u>7,793</u>	<u>9,199</u>

During the Track Record Period, our suppliers generally grant us a credit period of 0 to 60 days. Substantially all of our trade payables as at 30 September 2018 were within the range of credit period our suppliers offered to us.

As at the Latest Practicable Date, approximately HK\$9.2 million, representing 99.6% of our trade payables as at 30 September 2018, had been settled.

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Other payables and accruals

The following table sets forth the breakdown of our other payables and accruals as at the dates indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	3,018	3,233	3,780	3,412
Accrued listing expense	—	—	2,841	1,698
Accrued share issue cost	—	—	857	401
Other tax payables	40	53	494	99
	<u>3,058</u>	<u>3,286</u>	<u>7,972</u>	<u>5,610</u>

Our total other payables and accruals remained stable at HK\$3.1 million and HK\$3.3 million as at 31 March 2016 and 2017, respectively.

Our total other payables and accruals increased by approximately 142.4% from HK\$3.3 million as at 31 March 2017 to HK\$8.0 million as at 31 March 2018. This increase was primarily attributable to (i) an increase in our accrued listing expense and accrued share issue cost from nil as at 31 March 2017 to HK\$2.8 million and HK\$0.9 million, respectively, as at 31 March 2018; and (ii) an increase in other payables and accruals by approximately 18.8% from HK\$3.2 million as at 31 March 2017 to HK\$3.8 million as at 31 March 2018 as a result of the increase in other operating expense payables.

Our total other payable and accruals decreased by approximately 30.0% from HK\$8.0 million as at 31 March 2018 to HK\$5.6 million as at 30 September 2018. This decrease was primarily attributable to a decrease in accrued listing expense from HK\$2.8 million as at 31 March 2018 to HK\$1.7 million as at 30 September 2018.

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Contract liabilities

Our contract liabilities represent the deposits received from our customers in advance of the transfer of the title of our products to our customers. The following table sets forth our contract liabilities as at the dates indicated:

	As at 1 April 2015	As at 31 March			As at 30 September 2018
		2016	2017	2018	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract liabilities on sales of garment products	7,071	4,401	5,135	6,957	2,709

We recognised the entire balances of our contract liabilities as at 1 April 2015, 31 March 2016, 2017 and 2018 as our revenue in our profit or loss during the years ended 31 March 2016, 2017 and 2018 and six months ended 30 September 2018, respectively.

Our contract liabilities increased by approximately 15.9% from HK\$4.4 million as at 31 March 2016 to HK\$5.1 million as at 31 March 2017, and further increased by approximately 37.3% to HK\$7.0 million as at 31 March 2018 as a result of the increase in deposits received from certain customers for their orders placed with us. Our contract liabilities decreased by approximately 61.4% from HK\$7.0 million as at 31 March 2018 to HK\$2.7 million as at 30 September 2018 primarily as we have fewer purchase orders on hand as at 30 September 2018 as compared to 31 March 2018 from two of our recurring customers who were required to pay deposits.

Derivative financial instrument

A significant portion of our operating costs is denominated in Renminbi and over 90% of our sales was denominated and settled in U.S. dollar during the Track Record Period. In August 2015, we entered into a forward contract linked with exchange rate between U.S. dollar and Renminbi with a licensed bank in Hong Kong (the “**Forward Contract**”) to mitigate our exposure to foreign currency risks arising from our operations. As at 31 March 2016 and 2017, we recorded our Forward Contract as financial liabilities which amounted to HK\$7.1 million and HK\$4.1 million, respectively. Details of our derivative financial instrument are as follows:

Contract	Nominal principal amount	Contract date	Termination date
US\$/RMB structured foreign currency forward contract	US\$1,000,000	7 August 2015	11 August 2017

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Pursuant to the Forward Contract, any appreciation in Renminbi beyond the pre-determined exchange rates would result in gains for us such that we would be able to mitigate the risk in increased operational costs arising from the appreciation of Renminbi. The Forward Contract was settled on a monthly basis throughout the contract period. Due to the significant depreciation of Renminbi against U.S. dollar from August 2015 to March 2017, we recorded net losses arising from the Forward Contract of HK\$8.6 million and HK\$4.1 million for the years ended 31 March 2016 and 2017, respectively. We recorded net gains arising from the Forward Contract of HK\$0.6 million during the year ended 31 March 2018 up to its expiry in August 2017. For further details, please refer to “Accountants’ Report — Notes to the historical financial information — 25. Derivative financial instrument” in Appendix I to this prospectus.

As at the Latest Practicable Date, we did not hold any other derivative financial instruments and had no plans to enter into new derivative financial instruments or engage in any foreign exchange hedging activities. However, we will continue to monitor our foreign exchange risks and take a prudent approach when entering into any new derivative financial instruments should the need arise. For details of our foreign exchange management measures, please refer to the paragraph headed “Quantitative and qualitative disclosures about financial risks — Foreign currency risk — Foreign currency exchange risk management measures” in this section.

RELATED PARTY TRANSACTIONS

We entered into certain related party transactions during the Track Record Period. For further details, please refer to “Accountants’ Report — Notes to the historical financial information — 27. Related party disclosures” in Appendix I to this prospectus. Our Directors have confirmed that these transactions were conducted on normal commercial terms and on arm’s length basis and did not have a material impact on our results of operations during the Track Record Period.

Save for the connected transactions as set out in the section headed “Connected transactions” in this prospectus, our Directors confirm that the related party transactions as disclosed in “Accountants’ Report — Notes to the historical financial information — 27. Related party disclosures” in Appendix I to this prospectus will be discontinued before the Listing.

LIQUIDITY AND CAPITAL RESOURCES

Overview

We have historically financed our operations through bank borrowings and internal resources. As at 30 September 2018, we had bank balances and cash of HK\$18.9 million to fund our future working capital, capital expenditure and other cash requirements.

Our future cash requirements will depend on many factors, among other things, our operating income and capital expenditures on the expansion of our operations. Our current debt may reduce our liquidity and place some limitations on our ability to fund capital expenditures to support our expansion.

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Following completion of the Global Offering, we expect to fund our future working capital, capital expenditure and other cash requirements from bank borrowings, our internal resources and the estimated net proceeds from the Global Offering. Our ability to fund our working capital needs, repay our indebtedness and finance other obligations depends on our future operating performance and cash flow, which are in turn subject to the prevailing economic conditions, the level of spending by our customers and other factors, many of which are beyond our control. Any future significant acquisition or expansion may require additional capital, and we cannot assure you that such capital will be available to us on acceptable terms, if at all. We did not experience any liquidity shortage during the Track Record Period.

Working capital sufficiency

After taking into consideration the financial resources available to our Group, including our available banking facilities, bank balances and cash on hand, operating cash flows and the estimated net proceeds from the Global Offering, and in the absence of unforeseeable circumstances, our Directors confirm, and the Sole Sponsor concurs, that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus.

We set forth in the following a quantitative analysis on the sufficiency of our working capital for the period ending 31 March 2020. Our working capital analysis is based on our historical financial performance during the Track Record Period. In our base case scenario for the period ending 31 March 2020, we assumed (i) the gross profit margin of each product segment remained stable as compared with the Track Record Period; (ii) the composition of our cost of sales remained stable as compared with the Track Record Period; and (iii) inventory, trade receivable, and trade payable turnover days remained stable as compared with the Track Record Period.

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The following sensitivity and tipping point analysis is for reference only and illustrate the impact on our cash flow position as a result of hypothetical changes in one of the four key parameters, namely (i) revenue; (ii) raw material costs; (iii) subcontracting charges; and (iv) labour costs. In preparing the sensitivity analysis, we excluded any expected proceeds from the Global Offering.

	Decrease in our working capital as at 31 March 2020 ⁽¹⁾	Whether the working capital requirement met
	HK\$'000	
Movement in our revenue ⁽²⁾		
- Decrease by 50%	6,924	Yes
- Decrease by 55%	7,616	Yes
- Decrease by 60%	8,308	No
Movement in our raw material costs ⁽³⁾		
- Increase by 5%	5,783	Yes
- Increase by 10%	11,566	No
- Increase by 15%	17,348	No
Movement in our subcontracting charges ⁽³⁾		
- Increase by 5%	4,253	Yes
- Increase by 10%	8,506	No
- Increase by 15%	12,759	No
Movement in our labour costs ⁽³⁾		
- Increase by 5%	2,835	Yes
- Increase by 10%	5,671	Yes
- Increase by 15%	8,506	No

Notes:

- (1) The decrease in our working capital as at 31 March 2020 is hypothetical in nature and does not represent the actual business performance of our Group. Such decrease is calculated based on the changes in either one of the key parameters above. Any material change in these parameters may result in shortfall in working capital to satisfy our Group's capital expenditure commitments and payment obligations and/or to maintain a sufficient positive cash balance to stay solvent.
- (2) In preparing the sensitivity analysis on our working capital by changing our revenue, we assumed (i) the gross profit margin of each product segment remained constant as compared with the base case scenario with the respective cost of sales decreased in line with the decrease in revenue; and (ii) all other factors remained constant save for the decrease in our revenue.
- (3) In preparing the sensitivity analysis on our working capital by changing our raw material costs, subcontracting charges or labour costs, we assumed all other factors remained constant save for the increase in our raw material costs, subcontracting charges or labour costs in the respective scenarios.

Based on the foregoing analysis, with all other variables remained constant, (i) our revenue would have to decrease by 58.3%; (ii) our raw material costs would have to increase by 7.0%; (iii) our subcontracting charges would have to increase by 9.5%; or (iv) our labour costs would have to increase by 14.3% as compared to our base case scenario, in order for our cash and cash equivalents as at 31 March 2020 to be depleted.

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Working capital management policy

During the six months ended 30 September 2018, we recorded net cash used in operating activities of HK\$15.8 million primarily as we delivered our products to one of our top five customers near the end of the period with a credit term of 60 days resulting in a significant trade receivables of HK\$55.5 million as at 30 September 2018. We experienced time lag between making payments to our suppliers and collecting payments from our customers, as some of our top suppliers during the same period did not offer us any credit period. In order to improve our cash flow position, we have the following measures in place:

- (i) we have designated our finance and accounting department to review regularly and update our working capital policies to ensure that it is aligned with our business plans and financial position, and report to our Board on the status of working capital management concerned;
- (ii) our finance and accounting department is responsible for preparing monthly cash flow forecasts, which are reviewed and approved by our Directors. The cash flow forecasts set forth, among other things, (a) the outstanding repayment amounts and repayment schedules of our invoice financing loans, trust receipt loans and other bank borrowings; (b) the trade receivables from our customers; (c) the trade payables to our suppliers; (d) our operational expenses including employee salaries, rental expenses and utilities expenses; and (e) any capital expenditure (i.e. purchase of plants and equipment). We monitor and review the accuracy of these cash flow forecasts on a monthly basis to ensure we have sufficient level of cash to repay all our outstanding bank borrowings in a timely manner and to meet our working capital requirements. Such cash flow forecasts help us to estimate our cash inflows and outflows;
- (iii) based on our monthly and annual cash flow forecasts, our finance and accounting department prepares periodic cash flow reports to our senior management to closely monitor and manage the collection and use of cash. Our Directors and senior management hold regular meetings to review the operating budget plan and cash flow estimates in respect of each major business activity and transaction, if any;
- (iv) while we grant credit periods of varying lengths to our customers, we actively monitor the payment status of our customers by designating sales personnel to review our customer accounts and have in place systems and procedures for collecting receivables. Each week, our finance and accounting department prepares trade receivable aging analyses and our management reviews the same to ensure any outstanding receivables are followed up in a timely manner. For debtors with long outstanding receivables, our Group may request for their settlement of the long overdue debts before delivery of completed order to them;
- (v) we will actively negotiate with our customers to arrange delivery of large orders by batches to the extent possible such that we can invoice our customers and collect respective payments in batches; and
- (vi) we will actively negotiate with our suppliers to extend the payment terms from 0 days or 30 days to 60 days to the extent possible.

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Our Directors believe that by implementing the aforementioned measures, our Group would be able to ensure effective use of cash and avoid unnecessary lock-up of our working capital resources.

SUMMARY OF OUR CASH FLOWS

The following table sets forth a summary of our consolidated statements of cash flows for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Operating cash flows before movements in working capital	25,493	35,804	32,073	21,294	23,016
Net cash from/(used in) operating activities	22,583	8,239	28,927	23,099	(15,782)
Net cash (used in)/from investing activities	(14,756)	(27,468)	(22,842)	(11,793)	13,720
Net cash (used in)/from financing activities	<u>(4,344)</u>	<u>16,319</u>	<u>11,841</u>	<u>(1,347)</u>	<u>729</u>
Net increase/(decrease) in cash and cash equivalents	3,483	(2,910)	17,926	9,959	(1,333)
Cash and cash equivalents at the beginning of the year/period	(7,750)	(4,341)	(7,380)	(7,380)	10,718
Effect of foreign exchange rate changes	<u>(74)</u>	<u>(129)</u>	<u>172</u>	<u>290</u>	<u>(136)</u>
Cash and cash equivalents at the end of the year/period	<u>(4,341)⁽¹⁾</u>	<u>(7,380)⁽¹⁾</u>	<u>10,718</u>	<u>2,869</u>	<u>9,249</u>
Represented by					
Bank balances and cash	2,812	1,682	21,622	3,785	18,938
Bank overdrafts	(7,153)	(9,062)	(10,904)	(916)	(9,689)

Note:

- (1) As at 31 March 2016 and 2017, we recorded negative cash and cash equivalents of HK\$4.3 million and HK\$7.4 million, respectively, which were attributable to the bank overdrafts of HK\$7.2 million and HK\$9.1 million, respectively. The utilisation of bank overdrafts by our Group was mainly a result of the combined effect of (i) negative cash and cash equivalents of HK\$7.8 million as at 1 April 2015; (ii) positive operating cash flows before movement in working capital

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of HK\$25.5 million and HK\$35.8 million for the years ended 31 March 2016 and 2017, respectively; (iii) settlement of derivative financial instrument of HK\$1.6 million and HK\$7.1 million for the years ended 31 March 2016 and 2017, respectively; and (iv) net advance to Directors of HK\$11.4 million and HK\$29.3 million for the years ended 31 March 2016 and 2017, respectively.

Cash flows in relation to our operating activities

During the Track Record Period, the cash inflows from our operating activities were primarily derived from the payments made by our customers for our products, while the cash outflows for our operating activities were primarily attributable to (i) the purchase of raw materials from our suppliers; (ii) the settlement of our rental expenses; (iii) the payment of staff costs; and (iv) payments for other working capital needs. Cash flows from operating activities can be significantly affected by factors such as the timing of collection of trade receivables from customers and the timing of payment of trade payables to suppliers during the ordinary course of our business, which also primarily accounted for the difference in the net cash generated from operating activities among the years during the Track Record Period. For the six months ended 30 September 2018, we recorded net cash used in operating activities of HK\$15.8 million which was primarily as a result of the increase in our trade receivables of HK\$34.7 million during the six months ended 30 September 2018 as we delivered our products to one of our top five customers near the end of the period with a credit term of 60 days.

Six months ended 30 September 2018

For the six months ended 30 September 2018, we had net cash used in operating activities of HK\$15.8 million, which was primarily attributable to our profit before taxation of HK\$21.1 million, positively adjusted by (i) depreciation on property, plant and equipment of HK\$0.6 million; and (ii) finance costs of HK\$1.3 million. For the six months ended 30 September 2018, our operating cash flows before movements in working capital was HK\$23.0 million. Movement in working capital contributed to the net cash outflow of HK\$36.1 million which was primarily due to (i) the increase in our trade receivables of HK\$34.7 million; and (ii) the decrease in our contract liabilities of HK\$4.2 million.

Year ended 31 March 2018

For the year ended 31 March 2018, we had net cash generated from operating activities of HK\$28.9 million, which was primarily attributable to our profit before taxation of HK\$30.5 million, positively adjusted by (i) the depreciation on property, plant and equipment of HK\$1.0 million; and (ii) finance costs of HK\$1.8 million. The effect was partially offset by the negative adjustments arising primarily from (i) the gain on disposal of property, plant and equipment of HK\$0.7 million; and (ii) the change in fair value of derivative financial instrument of HK\$0.6 million. For the year ended 31 March 2018, our operating cash flows before movements in working capital was HK\$32.1 million. Movements in working capital contributed to the net cash inflow of HK\$3.9 million which was primarily due to (i) the decrease in amounts due from related companies of HK\$9.7 million as a result of the settlement from Veromia during the year ended 31 March 2018; (ii) the increase in other payables and accruals of HK\$3.4 million; and (iii) the increase in contract liabilities of HK\$1.8 million, partially offset by (i) the increase in inventories of HK\$7.7 million; and (ii) the settlement of derivative financial instrument of HK\$3.5 million.

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Year ended 31 March 2017

For the year ended 31 March 2017, we had net cash generated from operating activities of HK\$8.2 million, which was primarily attributable to our profit before taxation of HK\$29.4 million, positively adjusted by (i) the depreciation on property, plant and equipment of HK\$1.1 million; (ii) finance costs of HK\$1.2 million; and (iii) change in fair value of derivative financial instrument of HK\$4.1 million. For the year ended 31 March 2017, our operating cash flows before movements in working capital was HK\$35.8 million. Movements in working capital contributed to the net cash outflow of HK\$24.9 million, which was primarily due to (i) the increase in inventories of HK\$4.9 million; (ii) the increase in trade receivables of HK\$11.8 million; (iii) the increase in prepayments, deposits and other receivables of HK\$3.5 million; and (iv) the settlement of derivative financial instrument of HK\$7.1 million, partially offset by the increase in trade payables of HK\$1.4 million.

Year ended 31 March 2016

For the year ended 31 March 2016, we had net cash generated from operating activities of HK\$22.6 million, which was primarily attributable to our profit before taxation of HK\$14.8 million, positively adjusted by (i) the depreciation on property, plant and equipment of HK\$1.0 million; (ii) finance costs of HK\$1.0 million; and (iii) change in fair value of derivative financial instrument of HK\$8.6 million. For the year ended 31 March 2016, our operating cash flows before movements in working capital was HK\$25.5 million. Movements in working capital contributed to the net cash inflow of HK\$0.3 million, which was primarily due to (i) the decrease in trade receivables of HK\$5.7 million; and (ii) the increase in trade payables of HK\$3.4 million, partially offset by (i) the increase in inventories of HK\$3.1 million; (ii) the decrease in contract liabilities of HK\$2.7 million; (iii) the increase in amounts due from related companies of HK\$1.1 million; and (iv) the settlement of derivative financial instrument of HK\$1.6 million.

Cash flows in relation to our investing activities

During the Track Record Period, the cash inflows from our investing activities were primarily derived from (i) the withdrawal of pledged bank deposit; and (ii) the repayment from related companies and Directors, while the cash outflows for our investing activities were primarily attributable to (i) the purchases of property, plant and equipment; (ii) the placement of pledged bank deposit; (iii) advances to related companies and a Director.

Six months ended 30 September 2018

For the six months ended 30 September 2018, we had net cash generated from investing activities of HK\$13.7 million, which was primarily attributable to the repayment from Directors of HK\$18.7 million, partially offset by the advance to a Director of HK\$3.8 million.

Year ended 31 March 2018

For the year ended 31 March 2018, we had net cash used in investing activities of HK\$22.8 million, which was primarily attributable to (i) the advance to a Director of HK\$39.3 million; and (ii) purchases of property plant and equipment of HK\$1.7 million, partially offset by the repayment from Directors of HK\$18.2 million.

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Year ended 31 March 2017

For the year ended 31 March 2017, we had net cash used in investing activities of HK\$27.5 million, which was primarily attributable to (i) the advance to a Director of HK\$38.6 million; and (ii) purchases of property, plant and equipment of HK\$1.2 million, partially offset by (i) the repayment from Directors of HK\$9.3 million; (ii) the repayment from related companies of HK\$2.8 million; and (iii) the withdrawal of pledged bank deposit of HK\$1.0 million.

Year ended 31 March 2016

For the year ended 31 March 2016, we had net cash used in investing activities of HK\$14.8 million, which was primarily attributable to (i) the advance to a Director of HK\$23.5 million; (ii) the advance to related companies of HK\$2.3 million; and (iii) the placement of pledged bank deposit of HK\$1.0 million, partially offset by the repayment from Directors of HK\$12.1 million.

Cash flows in relation to our financing activities

During the Track Record Period, the cash inflows from our financing activities were primarily derived from (i) new bank borrowings raised; and (ii) the advance from a Director, while the cash outflows for our financing activities were primarily attributable to (i) the repayment of bank borrowings; (ii) repayment to a related company and a Director; (iii) share issue cost paid; and (iv) interest paid.

Six months ended 30 September 2018

For the six months ended 30 September 2018, we had net cash generated from financing activities of HK\$0.7 million, which was primarily attributable to the new bank borrowings of HK\$73.1 million, partially offset by the repayment of bank borrowings of HK\$69.3 million, share issue cost paid of HK\$1.7 million and interest paid of HK\$1.3 million.

Year ended 31 March 2018

For the year ended 31 March 2018, we had net cash generated from financing activities of HK\$11.8 million, which was primarily attributable to the new bank borrowings of HK\$116.4 million; and (ii) advance from a Director of HK\$7.0 million, partially offset by (i) the repayment of bank borrowings of HK\$104.2 million; (ii) repayment to a related party of HK\$2.0 million; (iii) repayment to a Director of HK\$1.8 million; (iv) interest paid of HK\$1.8 million; and (v) share issue costs paid of HK\$1.7 million.

Year ended 31 March 2017

For the year ended 31 March 2017, we had net cash generated from financing activities of HK\$16.3 million, which was primarily attributable to (i) the new bank borrowings of HK\$88.9 million; and (ii) advance from a related party of HK\$2.0 million, partially offset by (i) the repayment of bank borrowings of HK\$73.3 million; and (ii) interest paid of HK\$1.2 million.

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Year ended 31 March 2016

For the year ended 31 March 2016, we had net cash used in financing activities of HK\$4.3 million, which was primarily attributable to (i) the repayment of bank borrowings of HK\$71.4 million; and (ii) interest paid of HK\$1.0 million, partially offset by the new bank borrowings of HK\$68.3 million.

CAPITAL EXPENDITURE AND COMMITMENT

Capital expenditure

Our capital expenditure for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018 was HK\$0.8 million, HK\$1.2 million, HK\$1.7 million and HK\$1.3 million, respectively. Our capital expenditure were used primarily for purchases of production facility and office equipment. We financed our capital expenditure primarily through cash flow generated from operating activities and borrowings.

Operating lease commitments

As at 31 March 2016, 2017 and 2018 and 30 September 2018, we had commitments for future minimum lease payments in respect of our factory premises and staff dormitories rented under non-cancellable operating lease arrangement, which fall due as follows:

	As at 31 March			As at
	2016	2017	2018	30 September
	HK\$'000	HK\$'000	HK\$'000	2018
				HK\$'000
Within one year	<u>404</u>	<u>939</u>	<u>1,040</u>	<u>947</u>

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INDEBTEDNESS

Bank Borrowings

The following table sets forth the breakdown of our bank borrowings as at the dates indicated:

	As at 31 March			As at 30 September	As at 31 December
	2016	2017	2018	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Unsecured and guaranteed					
Bank overdrafts	1,942	5,275	5,054	5,269	941
Bank loans	4,325	7,054	14,527	21,973	10,254
	6,267	12,329	19,581	27,242	11,195
Secured and guaranteed					
Bank overdrafts	5,211	3,787	5,850	4,420	2,178
Bank loans	13,824	26,641	31,385	27,707	20,059
	19,035	30,428	37,235	32,127	22,237
Total	<u>25,302</u>	<u>42,757</u>	<u>56,816</u>	<u>59,369</u>	<u>33,432</u>

The following table sets forth our ranges of effective interest rates for the years/periods indicated:

	Year ended 31 March			Six months ended 30 September
	2016	2017	2018	2018
Variable-rate bank overdrafts	5.00%-5.25%	5.00%-5.25%	5.00%-5.25%	5.13%-5.38%
Variable-rate bank loans	3.06%-4.50%	2.25%-5.00%	2.25%-5.81%	2.38%-5.85%

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The following table sets forth the breakdown of types of bank borrowings as at the dates indicated:

	As at 31 March			As at 30 September	As at 31 December
	2016	2017	2018	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Invoice financing loans and trust receipt loan	8,625	14,209	21,021	19,554	7,521
Term loans	—	8,940	12,350	8,979	7,292
Revolving loans	—	—	11,000	7,500	7,500
Bank overdrafts	7,153	9,062	10,904	9,689	3,119
Export loans	9,524	10,546	1,541	13,647	8,000
Total	<u>25,302</u>	<u>42,757</u>	<u>56,816</u>	<u>59,369</u>	<u>33,432</u>

We used proceeds from bank loans and bank overdrafts to finance our working capital requirement and capital expenditure. Our bank loans and bank overdrafts were guaranteed by personal guarantees by Mr. S Chong, Mr. S Chong's spouse and Mr. P Chong, and our secured bank borrowings were pledged by the leasehold land and building owned by us and properties owned by Mr. P Chong and his spouse as at 31 March 2016, 2017 and 2018, 30 September 2018 and 31 December 2018. As at 31 March 2016, our secured bank borrowings were also pledged by pledged bank deposit.

As at the close of business on 31 December 2018, being the latest practicable date for the purpose of this indebtedness statement, we had (i) outstanding bank loans of HK\$30.3 million; (ii) outstanding bank overdrafts of HK\$3.1 million; and (iii) unutilised bank facilities for short term financing of HK\$30.5 million. The security and guarantees provided by Mr. S Chong, Mr. P Chong and their spouses to the relevant lenders for these borrowings will be released and replaced by our Group's corporate guarantee upon Listing.

Our Directors have confirmed that there had not been any delay or default in the repayment of borrowings or material non-compliance with the covenants or requirements contained in our borrowing agreements that affect the renewal of such borrowing throughout the Track Record Period and up to the Latest Practicable Date. Our Directors do not expect that such covenants and requirements would materially restrict our Group's overall ability to undertake additional debt or equity financing necessary to carry out our business plans.

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During the Track Record Period, we did not experience any delay or default in payment of (i) trade and non-trade payables; and (ii) bank borrowings and bank overdrafts, and did not experience any difficulties in obtaining bank facilities with terms that are commercially acceptable to us. As at the Latest Practicable Date, we did not have any plan for material external debt financing.

Amount due to a related party

The following table sets forth the breakdown of our amount due to a related party as at the dates indicated:

	As at 31 March			As at 30 September	As at 31 December
	2016	2017	2018	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Chong Yu Sang	—	2,000	—	—	—

As at 31 March 2017, our amount due to a related party represented the advance to Mr. Chong Yu Sang, a then director of KNT and was of a non-trade nature, unsecured, interest-free and repayable on demand.

As at 31 December 2018, being the latest practicable date for the preparation of the indebtedness statement in this prospectus, except as disclosed in the paragraph headed “Indebtedness” in this section, we did not have other outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances (other than normal trade bills) or acceptance credits or any guarantees or other material contingent liabilities outstanding.

Our Directors confirmed that there has not been any material change in our indebtedness since 31 December 2018, being the latest practicable date for determining our indebtedness.

CONTINGENT LIABILITIES

As at 31 December 2018, being the latest practicable date for the purpose of determining the contingent liabilities of our Group, we did not have any material contingent liabilities. Our Directors have confirmed that there was no material adverse change in our Group’s contingent liabilities since 31 December 2018 and up to the Latest Practicable Date.

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OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we did not have any off-balance sheet commitments and transactions.

LISTING EXPENSES

The total estimated listing expenses in connection with the Global Offering is approximately HK\$44.8 million (based on the mid-point of the Offer Price of HK\$1.12 per Offer Share and assuming no Over-allotment Option will be exercised), of which (i) approximately HK\$8.1 million and HK\$4.0 million were charged to our consolidated statements of profit or loss for the year ended 31 March 2018 and the six months ended 30 September 2018, respectively; (ii) approximately HK\$13.8 million is expected to be charged to our consolidated statements of profit or loss for the six months ending 31 March 2019; (iii) approximately HK\$16.3 million is expected to be accounted for as a deduction from equity upon the Listing; and (iv) the remaining amount of HK\$2.6 million will be borne by the Selling Shareholders, being Strategic Elite and Total Clarity, wholly-owned by Mr. S Chong and Mr. P Chong, respectively.

Our Directors consider that our financial results will be affected by the estimated listing expenses in relation to the Global Offering as we expect to recognise approximately HK\$17.8 million in the consolidated statements of profit or loss for the the year ending 31 March 2019. Accordingly, the financial performance for the year ending 31 March 2019 is expected to be adversely affected by such listing expenses.

Our Directors would like to emphasise that the estimated amount of listing expenses disclosed above is for reference only. The final amount of listing expenses in relation to the Listing to be recognised in our consolidated statements of profit or loss for the year ending 31 March 2019 will be subject to adjustment based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 March 2019 is expected to be adversely affected by non-recurring listing expenses, and may or may not be comparable to the financial performance of our Group in the past.

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MAJOR FINANCIAL RATIOS

The following table sets forth the major financial ratios as at the dates or for the years/periods indicated:

	As at / Year ended 31 March			As at / Six months ended	
				30 September	
	2016	2017	2018	2017	2018
Profitability ratios:					
Gross profit margin ⁽¹⁾	26.2%	28.8%	27.8%	25.6%	24.1%
Net profit margin ⁽²⁾	7.3%	14.1%	11.4%	14.5%	10.8%
Return on assets ⁽³⁾	13.4%	24.5%	20.4%	N/A	N/A ⁽¹⁰⁾
Return on equity ⁽⁴⁾	28.2%	62.6%	59.5%	N/A	N/A ⁽¹⁰⁾
Liquidity ratios:					
Current ratio ⁽⁵⁾	1.71	1.45	1.40	N/A	1.46
Quick ratio ⁽⁶⁾	1.23	1.09	0.97	N/A	1.07
Solvency ratios:					
Gearing ratio ⁽⁷⁾	67.7%	115.3%	137.7%	N/A	130.1%
Debt to equity ratio ⁽⁸⁾	60.2%	110.9%	85.3%	N/A	88.6%
Interest coverage ratio ⁽⁹⁾	15.6	24.9	17.9	25.2	17.1

Notes:

- (1) Gross profit margin is calculated based on our gross profit of the relevant years/periods divided by our revenue of the corresponding years/periods and multiplied by 100%.
- (2) Net profit margin is calculated based on our profit for the relevant years/periods divided by our revenue of the corresponding years/periods and multiplied by 100%.
- (3) Return on assets is calculated based on our net profit attributable to our equity shareholders for the relevant years/periods divided by our average total assets as at the beginning and the end of the corresponding years/periods and multiplied by 100%.
- (4) Return on equity is calculated based on our net profit attributable to our equity shareholders for the relevant years/periods divided by our average total equity as at the beginning and the end of the corresponding years/periods and multiplied by 100%.
- (5) Current ratio is calculated based on our total current assets as at the end of the relevant years/periods divided by our total current liabilities as at the end of the corresponding years/periods.
- (6) Quick ratio is calculated based on our total current assets less inventories as at the end of the relevant years/periods divided by our total current liabilities as at the end of the corresponding years/periods.
- (7) Gearing ratio is calculated based on our total debt (being the total of bank borrowings and amount due to a related party) as at the end of the relevant years/periods divided by our total equity as at the end of the corresponding years/periods and multiplied by 100%.
- (8) Debt to equity ratio is calculated based on our total debt (being the total of bank borrowings and amount due to a related party) net of bank balances and cash as at the end of the relevant years/periods divided by our total equity as at the end of the corresponding years/periods and multiplied by 100%.

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- (9) Interest coverage ratio is calculated based on profit before interest and tax for the relevant years/periods divided by the finance cost for the corresponding years/periods.
- (10) This semi-annual number is not meaningful as it is not comparable to the annual numbers.

Gross profit margin

Our gross profit margin increased from approximately 26.2% for the year ended 31 March 2016 to approximately 28.8% for the year ended 31 March 2017, and decreased to approximately 27.8% for the year ended 31 March 2018. Our gross profit margin decreased from approximately 25.6% for the six months ended 30 September 2017 to 24.1% for the six months ended 30 September 2018, primarily due to the increase in sales of special occasion dresses which have lower gross profit margin as compared to our bridesmaid dresses and bridal gowns. For further details of the fluctuations in our gross profit margin during the Track Record Period, please refer to the paragraph headed “Description of certain components of our consolidated statements of profit or loss” in this section.

Net profit margin

Our net profit margin increased from approximately 7.3% for the year ended 31 March 2016 to approximately 14.1% for the year ended 31 March 2017, and decreased to approximately 11.4% for the year ended 31 March 2018. Our net profit margin decreased from approximately 14.5% for the six months ended 30 September 2017 to approximately 10.8% for the six months ended 30 September 2018. For further details of the fluctuations in our net profit margin during the Track Record Period, please refer to the paragraph headed “Description of certain components of our consolidated statements of profit or loss” in this section.

Return on assets

Our return on assets increased from approximately 13.4% for the year ended 31 March 2016 to approximately 24.5% for the year ended 31 March 2017, which was primarily attributable to the increase in net profit from HK\$12.1 million for the year ended 31 March 2016 to HK\$23.8 million for the year ended 31 March 2017. Our return on assets remained stable at approximately 24.5% for the year ended 31 March 2017 and approximately 20.4% for the year ended 31 March 2018.

Return on equity

Our return on equity increased from approximately 28.2% for the year ended 31 March 2016 to approximately 62.6% for the year ended 31 March 2017, which was primarily attributable to (i) the increase in net profit from HK\$12.1 million for the year ended 31 March 2016 to HK\$23.8 million for the year ended 31 March 2017; and (ii) decrease in the average total equity as we recorded a large total equity balance as at the beginning of the year ended 31 March 2016. Our return on equity remained stable at approximately 62.6% for the year ended 31 March 2017 and approximately 59.5% for the year ended 31 March 2018.

Current ratio and quick ratio

As at 31 March 2016, 2017 and 2018, our current ratio was approximately 1.71, 1.45 and 1.40 and our quick ratio was approximately 1.23, 1.09 and 0.97, respectively. The decrease in our current

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ratio and quick ratio was primarily attributable to a greater increase in current liabilities than current assets resulting from new bank borrowings raised during the year ended 31 March 2017. Our current ratio and quick ratio remained relatively stable as at 31 March 2017 and 2018. As at 30 September 2018, our current ratio and quick ratio remained stable and was approximately 1.46 and approximately 1.07, respectively.

Gearing ratio and debt to equity ratio

As at 31 March 2016, 2017 and 2018, our gearing ratio was approximately 67.7%, 115.3% and 137.7%, respectively, and our debt to equity ratio was approximately 60.2%, 110.9% and 85.3%, respectively. The increase in our gearing ratio and debt to equity ratio from approximately 67.7% and 60.2% as at 31 March 2016, respectively, to approximately 115.3% and 110.9% as at 31 March 2017, respectively, was primarily attributable to new bank borrowings raised during the year ended 31 March 2017. The increase in our gearing ratio from 115.3% for the year ended 31 March 2017 to 137.7% for the year ended 31 March 2018 was primarily attributable to new bank borrowing raised during the year ended 31 March 2018. The decrease in our debt to equity ratio from 110.9% for the year ended 31 March 2017 to 85.3% for the year ended 31 March 2018 was primarily attributable to increase in our bank balances and cash, with the effect partially offset by the new bank borrowing raised during the year ended 31 March 2018. As at 30 September 2018, our gearing ratio and our debt to equity ratio remained stable and was approximately 130.1% and approximately 88.6%, respectively.

Interest coverage ratio

For the years ended 31 March 2016 and 2017 and 2018 and the six months ended 30 September 2017 and 2018, our interest coverage ratio was approximately 15.6, 24.9, 17.9, 25.2 and 17.1, respectively. The increase in our interest coverage ratio from 15.6 for the year ended 31 March 2016 to 24.9 for the year ended 31 March 2017 was primarily attributable to the increase in profit before taxation for the year ended 31 March 2017. The decrease in our interest coverage ratio from 24.9 for the year ended 31 March 2017 to 17.9 for the year ended 31 March 2018 was primarily attributable to the increase in finance costs as a result of increase in average bank borrowing and the increase in listing expenses during the year ended 31 March 2018. The decrease in our interest coverage ratio from 25.2 for the six months ended 30 September 2017 to 17.1 for the six months ended 30 September 2018 was primarily attributable to the increase in finance costs as a result of increase in average bank borrowings and the increase in listing expenses.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISKS

The main risks associated with our financial instruments are (i) foreign currency risk; (ii) interest rate risk; (iii) credit risk; and (iv) liquidity risk. Our management regularly reviews and monitors our exposures to these risks in order to ensure appropriate measures are implemented on a timely and effective manner. Details of the relevant risks and our policies for managing these risks are set out below.

Foreign currency risk

We are exposed to foreign currency risk when we enter into transactions which are not denominated in our functional currency of the relevant group entities. Such exposure mainly relates

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to the currency mismatch between our sales and costs in respect of the sales and purchases of products settled in currencies other than our functional currency. For the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, approximately 8.9%, 7.3%, 4.3% and 2.6%, respectively, of our sales were denominated in currencies other than the functional currency of the respective group entities, and approximately 8.1%, 7.8%, 5.8% and 5.2%, respectively, of our purchases were denominated in currencies other than the functional currency of the respective group entities.

We are also subject to relatively larger exposure to foreign currency risk as certain of our trade receivables, other receivables, amounts due from related companies and Directors, bank balances and cash, trade payables, other payables and accruals, amount due to a related party and bank borrowings are denominated in foreign currency. Our exposure to foreign currency risks may affect our results of operations and financial position.

Foreign currency exchange risk management measures

Our finance and accounting department is in charge of implementing our internal control measures on foreign currency risk. This department monitors our exposure to foreign currency risk in reference to (i) our cash flow budgets; (ii) historical cash flows; (iii) actual receivables; (iv) sales orders; (v) payables; (vi) purchase orders; and (vii) our potential hedging plans. Our finance and accounting department at least annually reviews and examines (i) the compliance of our hedging transactions; (ii) soundness of our internal control policy; and (iii) the accuracy of the disclosure of information regarding our foreign currency risk exposure, and reports to the chief financial officer and our management.

Our foreign currency exchange risk management measures involve, among other things, the following:

- (i) monitoring of material sales and purchase transactions in foreign currencies and negotiating more favourable settlement currencies whenever possible, e.g. US\$, to minimise our foreign currency risk exposure;
- (ii) compiling historical foreign exchange rates and forward exchange rates data from banks for reference;
- (iii) monitoring the exchange rate fluctuations on a weekly basis by collecting the prevailing market information; and
- (iv) investing in derivative financial instruments, for example foreign currency exchange contracts, whereby all such financial products are transacted only with authorised financial institutions and undertaken only in situations where we have actual needs.

In respect of our investments in derivative financial instruments, we have formulated an investment management policy to analyse and assess the risk and benefit of each investment. In

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determining the amount and duration of each investment, we consider a number of factors including (i) different investment vehicles available in the market; (ii) costs associated with the entering into the investment transaction; (iii) the level of risk exposure; (iv) potential financial return and loss of the instrument; and (v) the expected market trends of exchange rate fluctuations.

To implement our foreign currency exchange risk management measures, our finance team is responsible for maintaining accurate accounting records on foreign currency sales and purchase transactions and investments and monitoring of relevant exchange rates on a weekly basis. Our financial controller is responsible for recommending any investment strategy and preparing detailed risk and benefit assessment of any proposed investment products. Ms. Chan Nga Chun, our chief financial officer, is responsible for monitoring the performance of our investment on a regular basis. Our Board is responsible for approval and oversight of our foreign exchange risk measures. Going forward, our Audit Committee will also review our new investment in the amount exceeding HK\$2.0 million. Such threshold will be subject to review by the Board and the independent non-executive Directors from time to time. Our internal audit function will be charged with reviewing all investments and will be required to submit investment return analysis regularly on all investments throughout the investment period for review by our Board.

We do not currently have a foreign currency hedging policy. However, in the event that there is significant foreign currency exposure, we will, upon approval by our Board and Audit Committee and implementation of necessary measures and policies to manage such risk, consider entering into foreign currency hedging transactions.

As at the Latest Practicable Date, we had no plans to enter into new derivative financial instruments or engage in any foreign exchange hedging activities.

Sensitivity analysis

Since the exchange rate of HK\$ is pegged with US\$, we do not expect any significant movements in the US\$/HK\$ exchange rates.

The following sensitivity analysis is for reference only and illustrates the impact of a hypothetical 5% fluctuations in our functional currency against the relevant foreign currencies during the Track Record Period. The following table sets forth the effect of foreign currency fluctuations on our net profits as at the date indicated:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase/(decrease) in post-tax profit of our Group				
AUD	43	34	25	17
EUR	23	30	18	10
GBP	459	458	55	12
RMB	<u>1</u>	<u>(173)</u>	<u>(118)</u>	<u>(120)</u>

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Interest rate risk

We are exposed to fair value interest rate risk in relation to its interest-free amounts due from related companies and Directors and interest-free amount due to a related party. We are also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. Our cash flow interest rate risk is mainly concentrated on the fluctuations of the HIBOR, Hong Kong best lending rate or Hong Kong prime rate arising from our floating-rate bank borrowings or other market rates from pledged bank deposit and bank balances. We currently do not have an interest rate hedging policy. However, we closely monitor interest rate exposure and will consider hedging changes in market interest rates should the need arise.

Credit risk

Our credit risk is primarily attributable to trade receivables, amounts due from related companies and Directors and bank balances. During the Track Record Period, our maximum exposure to credit risk which may cause a financial loss to our Group due to failure to discharge an obligation by the counterparties was arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position at the end of each reporting period.

In order to minimise the credit risk in relation to trade receivables, our management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, we review the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for the irrecoverable amounts. Under HKAS 39, impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 April 2018, our Group applies simplified approach on trade receivable and amount due from Veromia to provide for expected credit losses prescribed by HKFRS 9. To measure the expected credit losses of trade receivables and amount due from Veromia, these balances have been assessed individually with details disclosed in note 17 in Appendix I to this prospectus.

During the Track Record Period, our Group had concentration of credit risk with exposure limited to certain customers. Our concentration of credit risk on the top five largest debtors accounted for approximately 87.3%, 86.5%, 95.3% and 98.9% of our total trade receivables as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively. We closely monitor the credit qualities, financial positions and subsequent settlement of our customers. In this regard, we consider that our Group's credit risk is insignificant.

For deposits and other receivables, our management makes periodic collective assessment as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 April 2018. Our management believes that there is no material credit risk inherent in our outstanding balance of deposits and other receivables deposits.

In order to minimise the credit risk in relation to amounts due from Directors, we continuously monitor the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. We consider that the risk of default by these counterparties is not significant and we assessed the expected credit losses on these balances are insignificant.

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Most of our Group's bank balances are held in reputable banks with high credit ratings assigned by international credit-rating agencies. There has been no history of default in relation to these banks and thus the risk of default is regarded as low. No loss allowance provision for bank balances was recognised upon application of HKFRS 9.

Liquidity risk

Our Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and long term. We are satisfied that our Group will be able to meet in full its financial obligations as and when they fall due in the foreseeable future in the normal course of our business.

DIVIDEND

We declared dividends of HK\$22.0 million, HK\$21.0 million, HK\$24.0 million and HK\$9.0 million for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively. The dividends declared were settled by offsetting against our amounts due from Directors. As at the Latest Practicable Date, we had not adopted any dividend policy. We have no present plan to pay any dividends to our Shareholders in the foreseeable future as we intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

The recommendation of the payment of dividend by our Board is subject to the absolute discretion of our Board, and, after the Listing, any declaration of final dividend for the year will be subject to the approval of our Shareholders. The declaration and payment of future dividends will be subject to various factors, including but not limited to our results of operations, financial performance, profitability, business development, prospects, capital requirements and economic outlook. Any declaration and payment as well as the amount of the dividend will be subject to our constitutional documents and the Cayman Islands Companies Law, including the approval of our Shareholders.

DISTRIBUTABLE RESERVE

As at 30 September 2018, our accumulated distributable profits amounted to HK\$22.7 million.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

For details of our unaudited pro forma adjusted consolidated net tangible assets, please refer to "Unaudited pro forma financial information" in Appendix II to this prospectus.

RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGE

Subsequent to the Track Record Period and up to the Latest Practicable Date, we continued to focus on being a one-stop solutions provider of bridesmaid dresses, bridal gowns and special occasion dresses, and our business model remained unchanged. For the nine months ended 31 December 2018, we sold approximately 880.6 thousand units of products, comprising approximately 281.8 thousand units of bridesmaid dresses, 2.4 thousand units of bridal gowns and 596.4 thousand units of special occasion dresses.

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Recently, a trade war was initiated by the U.S. against the PRC, and certain products exported from the PRC to the U.S. are or will be subject to a new tariff. According to the Ipsos Report, as at the Latest Practicable Date, the trade war did not have any material adverse impact on our business given that the U.S. government had not imposed or proposed to impose new tariffs on bridesmaid dresses, bridal gowns and special occasion dresses, and the new tariffs imposed or proposed to be imposed by the U.S. against the PRC are mainly targeted at Chinese technical products. However, given the uncertainties in the development of the trade war and its effects on the global economy, we cannot assure you that the trade war will not materially and adversely affect our business, financial condition and operations. For further detail, please refer to the section headed “Risk factors - Our financial performance and results of operations could be adversely affected by import restrictions imposed by global trade policies, trade protection measures and trade war” in this prospectus.

Save for the estimated non-recurring listing expenses as disclosed in the paragraph headed “Listing expenses” in this section, our Directors, after performing reasonable due diligence works which our Directors consider appropriate, have confirmed that since 30 September 2018 and up to the date of this prospectus, (i) there was no material adverse change in the market conditions and the industry and the regulatory environment in which our Group operates that affect our financial or operating position materially and adversely; (ii) there was no material adverse change in the business, revenue structure, trading, profitability, cost structure, financial position and prospects of our Group; and (iii) no event had occurred that would affect the information shown in our Accountants’ Report in Appendix I to this prospectus materially and adversely.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please see the section headed “Business — Business strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

In the event that the Over-allotment Option is not exercised, we estimate the net proceeds from the Global Offering which we will receive, assuming an Offer Price of HK\$1.12 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$74.3 million, after deduction of underwriting fees and commissions and other estimated expenses in connection with the Global Offering.

In the event that the Over-allotment Option is exercised in full and assuming an Offer Price of HK\$1.12 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), we will receive additional net proceeds from the Global Offering of approximately HK\$19.9 million.

If the Offer Price is fixed at HK\$1.26 per Offer Share (being the high end of the Offer Price range stated in this prospectus), we will receive (i) additional net proceeds from the Global Offering of approximately HK\$13.2 million, assuming the Over-allotment Option is not exercised; and (ii) additional net proceeds from the Global Offering of approximately HK\$15.7 million, assuming the Over-allotment Option is exercised in full.

If the Offer Price is fixed at HK\$0.98 per Offer Share (being the low end of the Offer Price range stated in this prospectus), the net proceeds from the Global Offering we receive will be (i) reduced by approximately HK\$13.2 million, assuming the Over-allotment Option is not exercised; and (ii) reduced by approximately HK\$15.7 million, assuming the Over-allotment Option is exercised in full.

We intend to use the net proceeds from the Global Offering for the following purposes assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$1.12 per Offer Share, being the mid-point of the Offer Price range stated in this prospectus:

- approximately 76.0% of the net proceeds from the Global Offering (approximately HK\$56.5 million) to increase our production capacity by building our second production facility, among which:
 - o approximately 16.0% of the net proceeds from the Global Offering (approximately HK\$11.9 million) to acquire land for our second production facility;
 - o approximately 47.9% of the net proceeds from the Global Offering (approximately HK\$35.6 million) to construct our second production facility;

FUTURE PLANS AND USE OF PROCEEDS

- o approximately 10.1% of the net proceeds from the Global Offering (approximately HK\$7.5 million) to acquire machinery and equipment for our second production facility;
- o approximately 1.9% of the net proceeds from the Global Offering (approximately HK\$1.4 million) as labour costs and related training costs for staff at our second production facility; and
- o approximately 0.1% of the net proceeds from the Global Offering (approximately HK\$0.1 million) to other miscellaneous costs for our second production facility.

For further details, please refer to the section headed “Business — Production expansion plan” in this prospectus.

- approximately 10.0% of the net proceeds from the Global Offering (approximately HK\$7.4 million) to repay part of our term loan and revolving loans. The term loan carries interest rate of Hong Kong prime rate minus 3% per annum and will mature in August 2026. The revolving loans carry interest rates ranging from Hong Kong prime rate minus 2% to Hong Kong prime rate minus 1.5% per annum and will mature every three months from drawdown date.
- approximately 10.0% of the net proceeds from the Global Offering (approximately HK\$7.4 million) to set up a sales office in the U.S., among which:
 - o approximately 5.9% of the net proceeds from the Global Offering (approximately HK\$4.4 million) to recruit four staff for our sales office in the U.S.;
 - o approximately 0.4% of the net proceeds from the Global Offering (approximately HK\$0.3 million) as the initial set up cost of our sales office the U.S.; and
 - o approximately 3.7% of the net proceeds from the Global Offering (approximately HK\$2.7 million) as rental for our sales office in the U.S..
- approximately 4.0% of the net proceeds from the Global Offering (approximately HK\$3.0 million) for our working capital and general corporate purposes.

We estimate the net proceeds to be received by the Selling Shareholders from the sale of Sale Shares, assuming an Offer Price of HK\$1.12 per Offer Share (being the mid-point of the Offer Price range stated in this prospectus), will be approximately HK\$26.5 million, after deduction of underwriting fees and commissions and assuming the Over-allotment Option is not exercised. We will not receive any of the proceeds from the Sale Shares.

The above allocation of the net proceeds from the Global Offering will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the mid-point of the proposed Offer Price range.

FUTURE PLANS AND USE OF PROCEEDS

In the event that the Over-allotment Option is exercised in full, we intend to apply the additional net proceeds from the Global Offering to the above uses in the proportions stated above.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, we intend to deposit the net proceeds from the Global Offering into short-term demand deposits and/or money market instruments we will make an appropriate announcement if there is any change to the above proposed use of proceeds.

REASONS FOR THE LISTING AND THE GLOBAL OFFERING

Our Directors believe that the commercial rationale of the Listing and the Global Offering is as follows:

(a) **Facilitate the implementation of our business strategies**

We believe that the Listing and the Global Offering will facilitate us in implementation our following business strategies to expand our production capacity and strengthen and broaden our customer base:

(i) ***Construct a new production facility***

As disclosed above, we plan to utilise approximately 76.0% of the net proceeds from the Global Offering to increase our production capacity by building our second production facility. Upon establishment of our second production facility, we will continue to lease the properties from our Controlling Shareholders where our existing production facility and staff dormitory are located and our expanded production capacity will nearly double the present capacity. Our Directors consider that our production expansion plan is necessary for our future growth due to the following reasons:

- (A) we achieved consistently high utilisation rates of our existing production facility throughout the Track Record Period, details of which are set out in the section headed “Business — Production facility and capacity” in this prospectus. Following the expected commencement of production at our new production facility in the year ending 31 March 2021, based on our best estimate on the demand for our products, we estimate that the utilisation rates of our existing production facility and new production facility will reach approximately 100% and over 30%, respectively, for the year ending 31 March 2022, our sales volume is expected to increase from approximately 790,600 units for the year ended 31 March 2018 to over 1,200,000 units for the year ending 31 March 2022 and our revenue is expected to increase by approximately 67.9% accordingly, representing significant growth for us. Regarding the sale of bridesmaid dresses to the U.S., our largest geographic segment, it is expected that our sales volume would increase from approximately 400,000 units for the year ended 31 March 2018 to approximately 639,000 units for the year ending 31 March 2022 and our market share in terms of sales volume would increase from approximately 7.1% to approximately 10.6% accordingly after the commencement of production at our new production facility based on our expected utilisation rates, on the assumptions that for the year ending 31 March 2022 as compared to the year ended 31

FUTURE PLANS AND USE OF PROCEEDS

March 2018, (i) our product mix among bridesmaid dresses, bridal gowns and special occasion dresses in terms of sales volume will remain the same; (ii) the proportion of our bridesmaid dresses sold to the U.S. in terms of sales volume will remain the same; and (iii) the average selling price of bridesmaid dresses in the U.S. will remain the same;

- (B) our limited production capacity had hindered our ability to capture additional market share during the Track Record Period, as (aa) there were certain sales orders from 11 customers (including four existing customers and seven potential customers) which we had to decline due to capacity constraints. If such orders were accepted, such orders should have contributed or will contribute additional revenue of approximately HK\$4.2 million, HK\$4.7 million and HK\$18.3 million in each of the three years ended 31 March 2018, respectively and HK\$45.5 million in the year ending 31 March 2019; (bb) we did not place much resources in soliciting new customers to purchase our bridesmaid dresses and bridal gowns as we diverted more resources to increase the sales of special occasion dresses given our limited production capacity during the Track Record Period; and (cc) we did not have sufficient capacity to accept three, five and six additional rush orders for the three years ended 31 March 2018, respectively for our bridesmaid dresses and bridal gowns, which require shorter production lead time during the Track Record Period, though the value of such rush orders were relatively minimal to our Group; and
- (C) while we subcontracted various production steps of the production process of our products during the Track Record Period to our subcontractors to supplement our limited production capacity, it is notable that we did not subcontract the first and final steps of the production process, being fabric cutting, finishing, final quality inspection, needle detection and packaging, during the Track Record Period. Our Directors consider that such practice is indispensable to ensuring the quality of our products and forms an integral part of our business model. We insist on completing the first and final steps of our production process at our production facility as (aa) we are able to control the utilisation of fabric which we believe is key to the cost of our products. Furthermore, wastage of fabric could also affect the profit margin of our orders; (bb) fabric cutting, being the first step of the production of our products, lays the foundation and quality of our products and any error or inaccuracy in the pattern pieces can result in non-conformance of the our final products with our customers' product specifications and quality standards; (cc) finishing, final quality inspection, needle detection and packaging, being the final production steps of the production of our products, are critical quality control steps. During these final steps, it is the last chance that we can reassure that our products conform with our customers' standards before they are delivered to our customers. As at 30 September 2018, the first and final steps of our production process, together with other non-production related functions which cannot be subcontracted (i.e. warehouse and our product design and development department), occupied over 70% of the gross floor area of our existing production facility. Our Directors also believe that it is necessary for our Group to maintain part of the other production processes, including embroidery and beading, pleating, sewing and handwork, at our production facilities to accommodate the production of dresses with higher complexity and/or when our subcontractors cannot complete our orders within a specific

FUTURE PLANS AND USE OF PROCEEDS

timeframe required by us. Given that we have fully utilised the working space at our current production facility and therefore cannot expand our capacities for the first and final steps of our production process, our ability to take further orders in the future hinges on our production capacity expansion plans.

Our Directors believe that there will be adequate demand for our products to support our production expansion plan based on the following:

- (A) our rejection of customers' orders in the past is an indication of our ability to increase sales to our customers;
- (B) we believe we will continue to achieve growth in the sales quantity of our products based on the significant growth in the sales quantity of our products during the Track Record Period, which increased by approximately 25.6% from the year ended 31 March 2016 to the year ended 31 March 2017, by approximately 42.6% from the year ended 31 March 2017 to the year ended 31 March 2018, and by approximately 88.2% from the six months ended 30 September 2017 to the six months ended 30 September 2018. In particular, the sales quantity of our special occasion dresses increased by approximately 173.6% from the year ended 31 March 2017 to the year ended 31 March 2018 and by approximately 232.5% from the six months ended 30 September 2017 to the six months ended 30 September 2018;
- (C) based on our on-going communications with our key customers involving discussions about their business plans and future demand for our products in the coming years, we believe the demand for our products will continue to increase in the coming years. Such increase in the demand for our products is evidenced by the following:
 - the value of our orders on hand but not yet delivered in aggregate increased from approximately HK\$41.5 million as at 1 April 2017 to approximately HK\$48.4 million as at 1 April 2018, representing an increase of approximately 16.6%;
 - the value of new orders we received and accepted from our customers in aggregate increased from approximately HK\$148.5 million for the nine months ended 31 December 2017 to approximately HK\$177.9 million for the nine months ended 31 December 2018, representing an increase of approximately 19.8%. Such increase in the value of new orders was primarily due to the increase in the value of new orders for special occasion dresses we received and accepted from our customers based on our existing production capacity. For details relating to the reasons for the increase in our sales of special occasion dresses during the Track Record Period, please refer to the section headed "Financial information — Description of certain components of our consolidated statements of profit or loss — Revenue — Revenue by product category — Special occasion dresses" in this prospectus;
 - the value of our orders on hand but not yet delivered in aggregate increased from approximately HK\$36.7 million as at 31 December 2017 to approximately HK\$45.2 million as at 31 December 2018, representing an increase of approximately 23.2%;

FUTURE PLANS AND USE OF PROCEEDS

- the increase in the revenue we derived from certain key customers. For example, (i) our revenue attributable to Customer B increased from HK\$20.7 million, HK\$22.9 million to HK\$61.3 million for the years ended 31 March 2016, 2017 and 2018, respectively, and from HK\$34.0 million to HK\$80.0 million for the six months ended 30 September 2017 and 2018, respectively; and (ii) our revenue attributable to Customer D increased from approximately HK\$30,000, HK\$7.0 million to HK\$16.9 million for the years ended 31 March 2016, 2017 and 2018, respectively, and from HK\$9.3 million to HK\$10.2 million for the six months ended 30 September 2017 and 2018, respectively;
- (D) as at the Latest Practicable Date, we were in discussions with five new potential customers on business opportunities. Such new customers include (i) a leading European department store listed on the Global Exchange Market of Euronext Dublin with over 90 department stores offering a wide range of products including household furniture and gadgets, gourmet and apparel with an extensive collection of women clothing such as party dresses, evening gowns and special occasions dresses, from which we have received purchase orders for bridesmaid dresses amounting to approximately US\$80,000 expected to be recognised as our revenue for the year ending 31 March 2019 and to which we have delivered finished products and provided photos of new styles of bridesmaid dresses for fall 2019; (ii) a long-established international brand that has established over a hundred chain of fashion department stores in Europe with its headquarter in Germany offering a diversified product portfolio including classic bridal gowns and special occasion dresses, from which we have received purchase orders for bridesmaid dresses amounting to approximately US\$0.2 million expected to be recognised as our revenue for the year ending 31 March 2020 and for which we expect to make further samples of bridesmaid dresses; (iii) a large scale bridal company based in Catalonia, Spain with five brands specialised in bridal dresses and three brands specialised in cocktail dresses, and over 40 stores in the world's main fashion capitals such as Paris, New York, Dubai, Mexico, Tokyo and Berlin, to which we have provided samples of bridal gowns and special occasion dresses; (iv) a multinational luxury fashion group targeting both luxury market and middle class with different brands and various product lines including accessories, footwear, watches, jewelry, men's and women's ready-to-wear, eyewear and a full line of fragrance products and more than 4,500 retail stores and department store doors in the U.S., Canada, Latin America, Europe, Middle East, Africa and Asia, including some of the most prestigious cities in the world such as New York, Beverly Hills, Chicago, London, Milan, Paris, Munich, Tokyo and Hong Kong, to which we have provided samples of special occasion dresses; and (v) a well-known international designer brand featuring prestigious bridal gowns and wedding dresses of superior quality and intricate detailing with around six, five and seven bridal flagship shops in Asia, the U.S. and Europe, respectively, to which we have provided samples of bridal gowns;
- (E) we believe that our business strategy to strengthen and broaden our customer base in the U.S. by setting up a sales office in the U.S. will enable us to explore opportunities with international brand apparel companies, being our target customers;

FUTURE PLANS AND USE OF PROCEEDS

- (F) according to the Ipsos Report, while the overall retail sales of bridal gowns and bridesmaid dresses market in the U.S. and Europe is expected to grow moderately at a CAGR of 2.6% and 1.0% from 2018 to 2021, respectively, our market share in the bridesmaid dresses manufacturing industry in terms of revenue was only approximately 2.9% in 2017. We believe that given that the industries in which we operate in are fragmented coupled with our low market share despite us being the largest bridesmaid dresses manufacturer in the PRC, we can increase our market share by capturing existing demand instead of relying on the growth rates of the retail sales of bridal gowns and bridesmaid dresses; and
- (G) we plan to capture additional market share through enhancing our marketing initiatives by participating in fashion fair, fashion shows and trade summits, online promotions, setting up a sales office in the U.S. and employing marketing staff in the U.S. to assist us in obtaining contact information of our target customers.

Based on our cost-benefit analysis, we believe that it is more cost effective for us to acquire rather than to lease the property for establishment of our second production facility. For further details, please refer to the section headed “Business — Production expansion plan” in this prospectus.

(ii) *Set up a sales office in the U.S.*

As disclosed above, we plan to utilise approximately 10.0% of the net proceeds from the Global Offering to set up a sales office in the U.S.. As over 85% of our revenue was generated from our sales to the U.S. during the Track Record Period, the U.S. will remain an important market for us in the future. While we managed to grow our business in the U.S. since commencement of our business in 1993 without the need of any overseas sales office, customers’ requirement for service quality has intensified over the years and we believe we have grown to a size which warrants a U.S. office in order to achieve further growth. With our current scale and size of operation, we are able to sustain our business based on the demands of our existing key customers. This is evidenced by us being the sole supplier of certain customers for bridesmaid dresses, three of whom were our five largest customers during the Track Record Period and had maintained an average of over 12 years of relationship with us as at the Latest Practicable Date. However, we believe that in order to further expand our business in the U.S. market and leverage on the track record we have built with leading brand apparel companies, it is necessary for us to establish a sales office in the U.S..

We believe that the proposed establishment of a sales office in the U.S. could further strengthen our relationship with existing customers and attract new customers whom we have not established business relationships.

The sales office in the U.S. is proposed to be a well-decorated venue where we can showcase our latest in-house designs, product samples, fabrics and other components required for the production of our products to our existing customers and new customers. We believe that not only will such venue allow us to enhance our competitiveness in pitching for new orders, but also enhance our corporate profile and recognition amongst our customers.

FUTURE PLANS AND USE OF PROCEEDS

During the Track Record Period, our customers visited our showrooms in the PRC and Hong Kong from time to time to view our latest designs and product samples. Our Directors believe such customer visits to our showrooms allowed us to more effectively showcase our product samples and discuss any design modifications. By building a business presence in the U.S. with similar functionality, our Directors believe that the sales office can serve as a direct channel for U.S. customers to reach us in a timely manner with higher convenience which increases the initiatives of our customers to view our products and thereby increasing our likelihood to solicit new customers as well as enhancing our service quality to our existing customers. According to the Ipsos Report, international brand apparel companies, being our target customers, tend to give priority and opportunities to companies with business presence in the U.S.. As such, with a business presence in the U.S., the chance that we could secure purchase orders from new international brand apparel companies is higher.

Furthermore, with a sales office in the U.S., we will be able to showcase our products to our existing and potential customers in the sales office in person instead of mailing samples to them. Such direct face-to-face discussion could facilitate more active promotion of our products and closer cooperation on the design and development of our products with our customers which can shorten the overall design discussion process with our customers.

We believe that utilising bank borrowings for financing our above expansion plans is not a commercially viable method as we had approached three commercial banks for bank loan facilities to finance the construction of our new production facility, all of which had denied our requests which we believe is attributable to the lack of assets that we could offer to such banks as security for the bank loan. Furthermore, we believe that many commercial banks will be unwilling to grant us bank loans to construct our new product facility given that we have no track record in such constructions. The majority of the banking facilities granted to us as at 31 December 2018 can only be used for our working capital but not capital expenditure.

(b) Provide a platform for us to access the capital markets for future secondary fund-raising

We have historically financed our business operation and internal resources through bank borrowings. Due to the expansion of our business operation, our bank borrowing balances increased from HK\$25.3 million as at 31 March 2016 to HK\$59.4 million as at 30 September 2018. Finance costs incurred also increased from HK\$1.0 million for the year ended 31 March 2016 to HK\$1.8 million for the year ended 31 March 2018, and increased from HK\$0.9 million for the six months ended 30 September 2017 to HK\$1.3 million for the six months ended 30 September 2018.

Our Directors believe that Listing provides a platform for us to access the capital markets for future secondary fund-raising through the issuance of shares and debt securities, which can provide funding sources for the implementation of our business strategies in the future as and when necessary. In addition, the ability to obtain bank financing is generally easier for a public entity as compared to a private entity.

FUTURE PLANS AND USE OF PROCEEDS

(c) Strengthen our competitiveness in the market through the Listing

It is expected that our brand recognition can be broadened and our corporate profile will be enhanced through the Listing, which in turn will help attract more customers. As we plan to further strengthen and broaden our customer base in the U.S., we believe that our potential customers tend to give preference to a company which has a public listing status with a sound reputation. We also believe that the listing status will also enhance our credibility, which would increase our bargaining power in negotiating terms and earn us more favourable terms from our suppliers.

(d) Other commercial benefits arising from a public listing status

We believe that our internal control and corporate governance practices would be further enhanced through the Listing. The Global Offering will strengthen the liquidity of the Shares by achieving the listing status of the Shares which will be freely traded on the Stock Exchange when compared to the limited liquidity of the Shares that are privately held before the Listing.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We and the Joint Global Coordinators have entered into cornerstone investment agreements with the cornerstone investors (the “**Cornerstone Investors**” and each a “**Cornerstone Investor**”) who have agreed to subscribe for such number of our Offer Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of approximately HK\$35.0 million).

Assuming the Offer Price of HK\$0.98 (being at the low end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors (rounded down to the nearest whole board lot of 4,000 Shares) would be approximately 35,712,000 Shares, representing approximately (i) 27.4% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised, (ii) 7.0% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 6.7% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$1.12 (being at the mid-point of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors (rounded down to the nearest whole board lot of 4,000 Shares) would be approximately 31,244,000 Shares, representing approximately (i) 24.0% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised, (ii) 6.0% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 5.9% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is fully exercised.

Assuming an Offer Price of HK\$1.26 (being at the high end of the Offer Price range set out in this prospectus), the total number of Shares to be subscribed by the Cornerstone Investors (rounded down to the nearest whole board lot of 4,000 Shares) would be approximately 27,772,000 Shares, representing approximately (i) 21.3% of the Offer Shares under the Global Offering, assuming that the Over-allotment Option is not exercised, (ii) 5.3% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, and (iii) 5.2% of the Shares in issue upon completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is fully exercised.

To the best knowledge of our Company, each of the Cornerstone Investors is an Independent Third Party and is independent of our Company, its connected persons and their respective associates (as defined in the Listing Rules). Each of the Cornerstone Investors is independent from each other and makes his/her own independent investment decision. The Cornerstone Investors will acquire the Offer Shares pursuant to, and as part of, the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank pari passu in all respects with the other fully paid Shares in issue and will be counted towards the public float of our Company under Rule 8.08 of the Listing Rules. None of the Cornerstone Investors will have any representation on the Board or become a substantial shareholder of our Company upon completion of the Global Offering, or will subscribe for any Offer Shares under the Global Offering other than pursuant to the cornerstone investment agreements referred to below.

CORNERSTONE INVESTORS

The Offer Shares to be subscribed by the Cornerstone Investors may be affected by reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering as described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering — Reallocation” in this prospectus. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors will be disclosed in the allotment results announcement to be issued by us on or around 27 February, 2019.

OUR CORNERSTONE INVESTORS

Based on the Offer Price of HK\$0.98 (being the low end of the Offer Price range)

Cornerstone Investor	Investment amount (HK\$ in million)	Number of Offer Shares (rounded down to nearest whole board lot of 4,000 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Mr. Cheng Kwok Woo	10	10,204,000	7.8	6.8	2.0	1.9
Mr. Lam Wing Chuen	12	12,244,000	9.4	8.2	2.4	2.3
Ms. Ng Suk Fan	13	13,264,000	10.2	8.9	2.6	2.5
Total	35	35,712,000	27.4	23.9	7.0	6.7

CORNERSTONE INVESTORS

Based on the Offer Price of HK\$1.12 (being the mid-point of the Offer Price range)

Cornerstone Investor	Investment amount (HK\$ in million)	Number of Offer Shares (rounded down to nearest whole board lot of 4,000 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Mr. Cheng Kwok Woo	10	8,928,000	6.9	6.0	1.7	1.7
Mr. Lam Wing Chuen	12	10,712,000	8.2	7.2	2.1	2.0
Ms. Ng Suk Fan	13	11,604,000	8.9	7.8	2.2	2.2
Total	35	31,244,000	24.0	21.0	6.0	5.9

CORNERSTONE INVESTORS

Based on the Offer Price of HK\$1.26 (being the high end of the Offer Price range)

Cornerstone Investor	Investment amount (HK\$ in million)	Number of Offer Shares (rounded down to nearest whole board lot of 4,000 Shares)	Approximate % of total number of Offer Shares		Approximate % of total Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering	
			Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full	Assuming the Over-allotment Option is not exercised	Assuming the Over-allotment Option is exercised in full
Mr. Cheng Kwok Woo	10	7,936,000	6.1	5.3	1.5	1.5
Mr. Lam Wing Chuen	12	9,520,000	7.3	6.4	1.8	1.8
Ms. Ng Suk Fan	13	10,316,000	7.9	6.9	2.0	1.9
Total	35	27,772,000	21.3	18.6	5.3	5.2

The following information on the Cornerstone Investors was provided to the Company by the Cornerstone Investors.

Mr. Cheng Kwok Woo (“Mr. KW Cheng”)

Mr. KW Cheng has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of HK\$10.0 million at the Offer Price.

Mr. KW Cheng is an individual Cornerstone Investor. Mr. KW Cheng is a director of PME International Investment (South China) Limited, a company incorporated in Hong Kong and principally engaged in the business of investment holding, and trading of polishing materials and glasses. Mr. KW Cheng had been the executive director and chairman of China Ever Grand Financial Leasing Group Co., Ltd, a company listed on the Main Board of the Stock Exchange (stock code: 00379.hk) from 2002 to 2012 and the non-executive director from 2012 to 2017.

CORNERSTONE INVESTORS

Mr. Lam Wing Chuen (“Mr. WC Lam”)

Mr. WC Lam has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of HK\$12.0 million at the Offer Price.

Mr. WC Lam is an individual Cornerstone Investor. Mr. WC Lam is a businessman and had been a shareholder and a director of Tai Shing Stationery Manufactory Limited, a company incorporated in Hong Kong whose principal business was manufacturing of spectacles cases. He is now a director of Resource Fact Limited, a company incorporated in Hong Kong and principally engaged in the production and design of management software. Mr. WC Lam is also a director of Skyblue Asia Limited, a company incorporated in Hong Kong whose principal activity is property investment.

Ms. Ng Suk Fan (“Ms. SF Ng”)

Ms. SF Ng has agreed to subscribe for such number of Shares (rounded down to the nearest whole board lot of 4,000 Shares) which may be purchased with an aggregate amount of HK\$13.0 million at the Offer Price. Mr. Tam Chun Kit, the spouse of Ms. SF Ng, is the landlord with whom we entered into a legally binding memorandum of understanding on 10 April 2018 to lease the backup site upon our request. Please refer to the section headed “Business — Land and property interests — Leased properties — Backup relocation plan of our production facility and staff dormitory” in this prospectus for further details.

Ms. SF Ng is an individual Cornerstone Investor. Ms. SF Ng is a businesswoman and had been in the industry of printing business and operated a printing house for over 15 years. Since 2015, Ms. SF Ng started to help manage the leasing business of her family in the PRC with a major focus on factory leasing and rental management. Ms. SF Ng has experience in equity markets investment.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently varied by agreement of the parties thereto) on or before the time and date as specified in these underwriting agreements, and neither of the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been terminated;
- (b) the Offer Price having been agreed upon between the Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters);
- (c) the Listing Committee having granted the listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the Shares;

CORNERSTONE INVESTORS

- (d) the respective representations, warranties and undertakings of the Cornerstone Investors and our Company under the relevant cornerstone investment agreements are accurate and true and not misleading and that there is no material breach of the relevant cornerstone investment agreements on the part of the relevant Cornerstone Investor; and
- (e) no relevant laws shall have been enacted or promulgated which prohibits the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or in the cornerstone investment agreements, and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSAL OF SHARES BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Joint Global Coordinators, he/she will not, whether directly or indirectly, at any time during the period of six months following the Listing Date (the “**Lock-up Period**”), dispose of any of the Shares they have purchased pursuant to the relevant cornerstone investment agreements or any interest in any company or entity holding any of the relevant Shares, save for certain limited circumstances, such as transfers to any of his/her wholly-owned subsidiaries provided that such transferee agrees to be subject to the terms and restrictions imposed on such Cornerstone Investor, including the Lock-up Period restriction specified in the relevant cornerstone investment agreements.

UNDERWRITING

HONG KONG UNDERWRITERS

Innovax Securities Limited
Pacific Foundation Securities Limited
Quasar Securities Co., Limited
Guotai Junan Securities (Hong Kong) Limited
Central China International Capital Limited
ChaoShang Securities Limited
Fruit Tree Securities Limited
Merdeka Capital Limited
SSIF Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 14 February 2019. Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 13,000,000 Hong Kong Offer Shares (subject to reallocation) for subscription by way of Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the Over-allotment Option), and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally, but not jointly, agreed to subscribe or procure subscriptions for their respective applicable proportions of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting

UNDERWRITING

Agreement with immediate effect at any time prior to 8:00 a.m. on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change or development, or any event or series of events resulting or likely to result in or representing a change or development, or any prospective change or development in, local, national, regional or international financial, political, military, industrial, legal, economic, currency market, credit, fiscal or regulatory or market matters or conditions (including without limitation, conditions in stock and bond markets, money and foreign exchange markets, credit markets and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), or any other jurisdiction relevant to any member of our Group (collectively, the “**Relevant Jurisdictions**”, and each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, pandemic, outbreak of disease (including without limitation, Severe Acute Respiratory Syndromes (SARS) Middle East Respiratory Syndromes (MERS), H5N1, H1N1, swine or avian influenza or such related/mutated forms), economic sanctions, in or affecting any Relevant Jurisdiction; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or
 - (v) (A) any moratorium, suspension, restriction or limitation on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the American Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or (B) a

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general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services procedures or matters in or affecting any Relevant Jurisdiction; or

- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of exchange controls), currency exchange rates or foreign investment regulations in any Relevant Jurisdiction; or
- (vii) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (viii) any change or development or event involving a prospective change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) the commencement by any judicial, regulatory, governmental or political body or organisation of any action, claim or proceedings against any Director or an announcement by any judicial, regulatory, governmental or political body or organisation that it intends to take any such action; or
- (x) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (xi) a Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xii) the chairman, chief executive officer or any executive Director of our Company vacating his office; or
- (xiii) an authority or a political body or organisation in any jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or
- (xiv) a contravention by any member of our Group of the Listing Rules or any applicable laws or regulations in the PRC, the Cayman Islands, Hong Kong, the BVI, the United States, the United Kingdom and the European Union (or any member thereof); or
- (xv) an order or petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries make any compromise or arrangement with our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or

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- (xvi) a demand by any creditor for repayment or payment of any of our Company's indebtednesses or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable prior to its stated maturity; or
- (xvii) any loss or damage sustained by our Company or any of our subsidiaries as a result of a breach of its respective obligations or non-compliance with the applicable laws and regulations (however caused and whether or not the subject of any insurance or claim against any person); or
- (xviii) any litigation or claim being threatened or instigated against our Company or any of our subsidiaries or the covenantors as defined in the Hong Kong Underwriting Agreement (the “**Covenantors**”); or
- (xix) a prohibition on our Company or the Selling Shareholders for whatever reason from allotting or selling the Offer Shares (including our Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xx) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of our Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xxi) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of our Shares) pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xxii) any event which give rise or would give rise to liability on the part of our Company pursuant to the indemnity provisions in the Hong Kong Underwriting Agreement; or
- (xxiii) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk factors” in this prospectus,

and which, individually or in aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (A) has or may have or will have or is likely to have a material adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, shareholders' equity, profits, losses, trading position, results of operations, prospects, position or condition, financial or otherwise, or performance of our Company or our subsidiaries as a whole; or
- (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of indications of interest under the International Offering; or

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- (C) makes, may make or will or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to proceed or to be performed or implemented as envisaged or to market the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
 - (D) makes or may make or will or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice or any announcements in the agreed form issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become untrue or incorrect or misleading in a material respect, or that any forecast, expression of opinion, intention or expectation contained therein is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) that any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus which would or might constitute a material omission from this prospectus or the Application Forms and/or in any notices or announcements issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) that any of the warranties given by our Company or the Covenantors as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading or having been breached; or
 - (iv) that any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or the Covenantors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement and/or pursuant to the indemnities given by our Company, the Covenantors or any of them under the Hong Kong Underwriting Agreement; or
 - (v) that any breach of any of the obligations or undertakings of any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than the Hong Kong Underwriters or the International Underwriters); or
 - (vi) that any adverse change or prospective adverse change in the condition, business, assets and liabilities, properties, profits, losses, results of operations, financial,

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general affairs, shareholders' equity, management, trading position, prospects, position or condition, financial or otherwise, or performance of our Company and/or our subsidiaries as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their sole and absolute discretion; or

- (vii) that our Company withdraws this prospectus and/or the Application Forms; or
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, our Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) that any of the experts described under the section headed "Statutory and general information — E. Other information — 8. Qualifications and consents of experts" in Appendix IV to this prospectus has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (including warrants or other convertible securities) (whether or not a class already listed) may be issued, allotted or formed the subject of any agreement to such an issue by our Company within six months from the date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of our Shares or securities will be completed within six months from the commencement of dealing), except (i) pursuant to the Capitalisation Issue, the Global Offering, the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme; or (ii) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

We have undertaken to each of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), *inter alia*, pursuant to the Hong Kong Underwriting Agreement, that, and our Controlling Shareholders further undertake to procure that, except pursuant to the Global Offering (including pursuant to the Over-allotment Option), the grant of options under the Share Option Scheme and the issue of Shares on exercise thereof or as otherwise permitted under the Listing Rules, and provided that the below restrictions shall not apply to any pledge or charge of Shares by any of our Controlling Shareholders in favour of any authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, we will not, and will procure that our subsidiaries will not, without the prior

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written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the Listing Rules, at any time during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the expiry of the six months immediately following the Listing Date (the “**First Six-Month Period**”),

- (i) offer, accept subscription for, pledge, charge, allot, issue, sell, lend, mortgage, assign, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of the share capital, debt capital or any securities of our Company or any of our subsidiaries or any interest therein or any voting right or any right attaching thereto (including but not limited to, any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein) save as pursuant to the repurchase mandate granted by our Shareholders to the Directors, details of which are set out in Appendix IV to this prospectus; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto; or
- (iii) enter into any transaction with the same economic effect as any foregoing transaction described in (i) and (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any foregoing transaction described in (i), (ii) and (iii) above,

whether any of the foregoing transactions described in (i), (ii) and (iii) above is to be settled by delivery of shares capital or such other securities, in cash or otherwise, provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Global Offering (including upon the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), and our Company has further has agreed that, in the event of an issue or disposal of any Shares or any interest therein or any voting right or any other right attaching thereto during the period of six months immediately following the expiry of the First Six-Month Period (the “**Second Six-Month Period**”), we will take all reasonable steps to ensure that such issue or disposal will not create a disorderly or false market in the securities of our Company.

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Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders, namely Mr. S Chong, Mr. P Chong, Strategic Elite and Total Clarity, has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that except pursuant to the Capitalisation Issue, the Global Offering (including the sale of the Sale Shares by the Selling Shareholders), the Stock Borrowing Agreement, the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, he/it will not:

- (i) in the period commencing on the date by reference to which disclosure of their shareholding in our Company is made in this prospectus (the “**Reference Date**”) and ending on the date which is six months from the Listing Date (the “**End Date**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owners; and
- (ii) in the period of six months from the End Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the securities of our Company referred to in paragraph (i) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan), he/it would then cease to be our Controlling Shareholder.

In addition, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further irrevocably and unconditionally undertaken to the Stock Exchange and our Company that he/it will, within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, he/it shall:

- (a) when he/it pledges or charges of any of our Shares or securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)), pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of such Shares or securities of our Company so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from any pledgee or chargee of any of our Shares or other securities of our Company pledged or charged will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraphs (a) and (b) above by any of our Controlling Shareholders and make a public disclosure in relation to such information by way of an announcement in accordance with the Listing Rules.

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Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) pursuant to the Hong Kong Underwriting Agreement, that except pursuant to the Global Offering (including the exercise of the Over-allotment Option) or the arrangement under the Stock Borrowing Arrangement, he or it will not, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (i) at any time during the First Six-Month Period, offer, pledge, charge (other than any pledge or charge of the issued share capital of our Company after the consummation of the Global Offering (assuming the Over-allotment Option is not exercised) in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan in compliance with Rule 10.07(2) of the Listing Rules), sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital, debt capital or other securities of our Company or any interest therein held by him/it or any voting right or any other right attaching thereto (including but not limited to, any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of our Company or any interest therein) whether currently held or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or other such securities, in cash or otherwise or offer or to agree to do any of the foregoing or announce any intention to do so, provided that the restriction shall not apply to the lending of Shares pursuant to the Stock Borrowing Agreement or any pledge or charge of Shares by our Controlling Shareholders in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan;
- (ii) at any time during the Second Six-Month Period enter into any of the transactions described in (i) above if, immediately following such transaction, he/it would cease to be the controlling shareholder (as defined in the Listing Rules) of our Company provided that the restriction shall not apply to any pledge or charge of Shares by our Controlling Shareholders in favour of an authorised institution as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan; and
- (iii) in the event of a disposal by him/it of any share capital or any interest therein or any voting right or any other right attaching thereto during the period referred to in (ii) above, he/it will take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for our Shares or other securities of our Company.

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International Offering

International Underwriting Agreement

In connection with the International Offering, our Company expects to enter into the International Underwriting Agreement with, among others, our Controlling Shareholders, the Selling Shareholders and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally, but not jointly, agree to purchase the International Offer Shares or procure purchasers for the International Offer Shares. The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to as those given pursuant to the Hong Kong Underwriting Agreement as described in the paragraphs headed “Underwriting Arrangements and Expenses — Hong Kong Public Offering — Undertakings by our Company” in this section.

Under the International Underwriting Agreement, our Company expects to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offering, to require our Company to allot and issue up to an aggregate of 19,500,000 additional Shares, representing in aggregate not more than 15% of the number of Offer Shares initially available under the Global Offering. These additional Shares will be issued or sold at the Offer Price and used to cover over-allocation, if any, in the International Offering.

It is expected that each of our Controlling Shareholders will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement, which is described in the paragraphs headed “Underwriting arrangements and expenses — Hong Kong Public Offering — Undertakings by our Controlling Shareholders” in this section.

Underwriting commission and expenses

The Hong Kong Underwriters will receive a gross commission of 8.0% of the aggregate Offer Price payable for our Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. In addition, our Company agrees, at our sole discretion, to pay to the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) a discretionary incentive fee of not more than 1.0% of the aggregate Offer Price in respect of all the Hong Kong Offer Shares. The commission and discretionary incentive fee payable to the International Underwriters and the Hong Kong Underwriters, the Stock

UNDERWRITING

Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering are currently estimated to be about HK\$44.8 million in aggregate (based on an Offer Price of HK\$1.12 per Share, being the mid-point of the stated range of the Offer Price between HK\$0.98 and HK\$1.26 per Share, and on the assumption that the Over-allotment Option is not exercised), of which HK\$42.2 million and HK\$2.6 million shall be borne by our Company and the Selling Shareholders, respectively.

INDEMNITY

Our Company, each of our Controlling Shareholders and the Selling Shareholders have agreed to indemnify the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any material breach by our Company, our Controlling Shareholders or the Selling Shareholders of the Hong Kong Underwriting Agreement.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable set out in Rule 3A.07 of the Listing Rules. For further details, please refer to the section headed “Statutory and general information — E. Other information — 3. Sole Sponsor” in Appendix IV to this prospectus.

UNDERWRITERS' INTERESTS IN OUR COMPANY

The Joint Global Coordinators and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the paragraphs headed “Underwriting arrangements and expenses — Underwriting commission and expenses” in this section for further details.

Our Company has appointed the Sole Sponsor as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first financial year commencing after such Listing Date, or until the agreement is terminated, whichever is earlier.

Other than pursuant to the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters has any shareholding in any member of our Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

Following the completion of the Global Offering, the Hong Kong Underwriters and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

MINIMUM PUBLIC FLOAT

Our Directors and the Joint Global Coordinators will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

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ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the “**Syndicate Members**”) and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to our Shares, those activities could include acting as agent for buyers and sellers of our Shares, entering into transactions with those buyers and sellers in a principal capacity, proprietary trading in our Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including our Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of our Shares. All such activity could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in our Shares, in baskets of securities or indices including our Shares, in units of funds that may purchase our Shares, or in derivatives related to any of the foregoing.

In relation to issues by Syndicate Members or their affiliates of any listed securities having our Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the exchange may require the issuer of those securities (or one of its affiliates or agents) to act as a market maker or liquidity provider in the security, and this will also result in hedging activity in our Shares in most cases.

All such activities may occur both during and after the end of the stabilising period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of our Shares, the liquidity or trading volume in our Shares and the volatility of the price of our Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Innovax Capital Limited is the Sole Sponsor. Innovax Securities and Pacific Foundation are the Joint Global Coordinators, and each of them is one of the Joint Bookrunners and the Joint Lead Managers.

The Global Offering consists of (subject to reallocation and the Over-allotment Option):

- the Hong Kong Public Offering of 13,000,000 Shares (subject to reallocation as mentioned below) for subscription by the public in Hong Kong as described under the paragraph headed “The Hong Kong Public Offering” in this section below; and
- the International Offering of 117,000,000 Shares comprising 91,000,000 new Shares and 26,000,000 Sale Shares (subject to reallocation as mentioned below), outside the United States in reliance on Regulation S of the U.S. Securities Act as described under the paragraph headed “The International Offering” in this section below.

Up to 19,500,000 additional Shares may be offered pursuant to the exercise of the Over-allotment Option as set forth in the paragraph headed “Over-allotment Option” in this section.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. Reasonable steps will be taken to identify and reject: (i) applications in the Hong Kong Public Offering from investors who have applied for International Offer Shares under the International Offering; and (ii) applications or indications of interest in the International Offering from investors who have applied for Hong Kong Offer Shares under the Hong Kong Public Offering.

The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors in Hong Kong. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the U.S. Securities Act. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the International Offer Shares in the International Offering. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Offer Shares to be offered under the Global Offering may be subject to reallocation and, in the case of the International Offering only, the Over-allotment Option as set out in the paragraph headed “Over-allotment Option” in this section below. References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$1.26 per Offer Share and is expected to be not less than HK\$0.98 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK\$1.26 per Hong Kong Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$5,090.79 for one board lot of 4,000 Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price, as finally determined in the manner described below, is less than HK\$1.26, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. For further details, please refer to the section headed “How to apply for the Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about the Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about 21 February 2019 and in any event, no later than 12:00 noon on 25 February 2019.

If, for any reason, our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 12:00 noon on 25 February 2019, the Global Offering will not proceed and will lapse.

Reduction in Offer Price range and/or number of Offer Shares

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Global Coordinators (for themselves and on

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behalf of the Underwriters) considers it appropriate and together with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), the indicative Offer Price range and/or the number of Hong Kong Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published in The Standard (in English) and Sing Tao Daily (in Chinese) notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary” in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

In the event of a reduction in the number of the Offer Shares, the Joint Global Coordinators may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Offering may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Joint Global Coordinators.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell

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Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of our Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Offering, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on 27 February 2019 in The Standard (in English) and Sing Tao Daily (in Chinese).

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or by applying online through the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service, will be made available through a variety of channels as described in the section headed “How to apply for the Hong Kong Offer Shares — 11. Publication of results” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalisation Issue and the Global Offering, and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options which may be granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- the Offer Price having been duly agreed on or around the Price Determination Date;
- the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and

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- the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering in *The Standard* (in English) and *Sing Tao Daily* (in Chinese) on the next business day following such lapse. In the event of such lapse, all application monies will be returned, without interest, on the terms set out in the section headed “How to apply for the Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares are expected to be issued on 27 February 2019 but will only become valid certificates of title at 8:00 a.m. on 28 February 2019, provided that (i) the Global Offering has become unconditional in all respects; and (ii) the right of termination as described in the section headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

THE HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to our Company (for ourselves and on behalf of the Selling Shareholders) and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. The Hong Kong Public Offering is subject to the conditions set out in the paragraphs headed “Conditions of the Global Offering” in this section. The Hong Kong Underwriting Agreement and the International Underwriting Agreement shall be conditional upon each other.

Number of Offer Shares initially offered

Our Company is initially offering 13,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the 130,000,000 Offer Shares initially available under

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the Global Offering. Subject to reallocation as mentioned below, the number of Hong Kong Offer Shares offered under the Hong Kong Public Offering will represent 2.5% of the total issued share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the paragraph headed “Conditions of the Global Offering” in this section. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional, professional and individual investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any reallocation) will be divided equally into two pools (subject to adjustment of odd lot size): pool A and pool B. Pool A will comprise 6,500,000 Hong Kong Offer Shares and pool B will comprise 6,500,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage of 1%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee of 0.005%) of HK\$5 million or below will fall into pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage of 1%, the SFC transaction levy of 0.00027% and the Stock Exchange trading fee of 0.005%) of over HK\$5 million and up to the total value of pool B will fall into pool B.

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both of the pools) are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only apply for Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only receive Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools will be rejected.

No application will be accepted from applicants for more than 6,500,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares available for subscription under the Hong Kong Public Offering).

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Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Offering is subject to reallocation. Assuming that the Over-allotment Option is not exercised, the allocation of the Offer Shares shall be subject to reallocation on the following basis:

- (a) where the International Offer Shares are fully subscribed or oversubscribed and:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority (but not the obligation) in their absolute discretion to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Joint Global Coordinators deem appropriate to satisfy demand under the International Offering;
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed but the number of Offer Shares validly applied for under the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 13,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 26,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option);
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 26,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 39,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option);
 - (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 39,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 52,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before exercise of the Over-allotment Option); and

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- (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 52,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 65,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).
- (b) where the International Offer Shares are undersubscribed:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are fully subscribed or oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 13,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 26,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reallocate the Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 26,000,000 Offer Shares).

In the event of a reallocation of the Offer Shares from the International Offering to the Hong Kong Public Offering in the circumstances under paragraphs (a)(ii), (a)(iii), (a)(iv), (a)(v) or (b)(ii) above, the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

In the event of a reallocation of the Offer Shares from the International Offering to the Hong Kong Public Offering in the circumstances under paragraphs (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the low end of the indicative Offer Price range (i.e. HK\$0.98 per Offer Share) stated in this prospectus.

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Applications

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Offering. The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$1.26 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$5,090.79 for one board lot of 4,000 Shares. If the Offer Price, as finally determined in the manner described in the paragraph headed "Pricing and allocation — Determining the Offer Price" in this section, is less than the maximum price of HK\$1.26 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants without interest. For further details, please refer to the section headed "How to apply for the Hong Kong Offer Shares — 13. Refund of application monies" in this prospectus.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering is expected to be fully underwritten by the International Underwriters on a several basis. Our Company expects to enter into the International Underwriting Agreement relating to the International Offering on or about the Price Determination Date.

Number of Offer Shares offered

The number of the Offer Shares to be initially offered for subscription by our Company under the International Offering will be 117,000,000 Shares, representing 90% of the total number of the Offer Shares under the Global Offering (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the number of International Offer Shares will represent 22.5% of our Company's enlarged issued share capital immediately after completion of the

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Capitalisation Issue and the Global Offering, assuming that the Over-allotment Option is not exercised. The International Offering is subject to the same conditions set out in the paragraphs headed “Conditions of the Global Offering” in this section. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

Allocation

Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offering will include selective marketing of Offer Shares to professional, institutional and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S of the U.S. Securities Act. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offer Shares will be allocated in accordance with the “book-building” process described in the paragraph headed “Pricing and allocation” in this section and is based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its International Offer Shares after Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would allow for the establishment of a solid professional and institutional shareholder base which will be beneficial to our Company and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the International Underwriters). Pursuant to the Over-allotment Option, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) has the right, exercisable at any time and for up to 30 days after the last day for lodging of Application Forms under the Hong Kong Public Offering, to require our Company to allot and issue up to 19,500,000 additional Shares, representing 15% of the number of Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocation in the International Offering, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. If the Over-allotment Option is exercised in full, the additional Shares made available under the Over-allotment Option will represent 3.61% of the total Shares in issue immediately after completion

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of the Global Offering and the Capitalisation Issue, but without taking into account of any Shares which may be allotted and issued pursuant to the exercise of any option that may be granted under the Share Option Scheme. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

STOCK BORROWING AGREEMENT

In order to facilitate the settlement of over-allocations under the International Offering, the Stabilising Manager (or any person acting for it) may, at its option, cover such over-allocations by borrowing Shares from Strategic Elite under the stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option. The Stabilising Manager will enter into the Stock Borrowing Agreement with Strategic Elite, one of our Controlling Shareholders, whereby the Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- (a) such stock borrowing arrangement with Strategic Elite will only be effected by the Stabilising Manager for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Offering;
- (b) the maximum number of Shares to be borrowed from Strategic Elite under the Stock Borrowing Agreement will be limited to 19,500,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares so borrowed must be returned to Strategic Elite or its nominees no later than the third Business Day following the earlier of:
 - (i) the last day on which the Over-allotment Option may be exercised;
 - (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been allotted and issued; or
 - (iii) such earlier time as may be agreed in writing between Strategic Elite and the Stabilising Manager;
- (d) the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, listing rules and regulatory requirements; and
- (e) no payment will be made to Strategic Elite by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

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STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the Offer Price in Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the Offer Price.

We have appointed Pacific Foundation as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day from the last day for lodging of applications under the Hong Kong Public Offering.

Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates, or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising action must cease within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely, 19,500,000 Shares in aggregate, which represents 15% of the Offer Shares initially available under the Global Offering.

The types of stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) under the SFO include:

- (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of our Shares;
- (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (iii) purchasing, or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above;
- (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of our Shares;

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- (v) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and
- (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising actions in Hong Kong during the stabilisation period. Specifically, prospective applicants for and investors in our Offer Shares should note that:

- (i) the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- (ii) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for it, which may have an adverse impact on the market price of our Shares;
- (iii) stabilising action cannot be used to support the price of our Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken and therefore demand for our Shares as well as the price of our Shares may fall;
- (iv) there is no assurance that the price of our Shares will stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and
- (v) stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants or investors for our Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

OVER-ALLOCATION

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 19,500,000 additional Shares and cover such over-allocations by, among other methods, exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at their sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the

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purpose of settlement of over-allocations in connection with the International Offering, the Stabilising Manager may borrow up to 19,500,000 Shares from Strategic Elite, equivalent to the maximum number of Shares to be issued on the full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

All necessary arrangements have been made enabling our Shares to be admitted into CCASS. Subject to the granting of the listing of, and permission to deal in, our Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

DEALING ARRANGEMENTS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. (Hong Kong time) on 28 February 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on 28 February 2019. The Shares will be traded in board lots of 4,000 Shares. The stock code of the Shares will be 1025.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- a close associate (as defined in the Listing Rules) of any of the above;
- a core connected person (as defined in the Listing Rules) of our Company or will become a core connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for or indicated an interest in any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which application channel to use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the designated website at www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 15 February 2019 until 12:00 noon on Wednesday, 20 February 2019 from:

- (i) the following office of Hong Kong Underwriters:

Innovax Securities Limited
Unit A — C, 20/F, Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

Pacific Foundation Securities Limited
11/F, New World Tower II

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

16-18 Queen's Road Central
Hong Kong

Quasar Securities Co., Limited
Unit A, 12/F, Harbour Commercial Building
122-124 Connaught Road Central
Sheung Wan
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F, Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Central China International Capital Limited
Suite 3108, Two Exchange Square
8 Connaught Place
Central
Hong Kong

ChaoShang Securities Limited
Rooms 2206-2210, 22/F
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Fruit Tree Securities Limited
Room 1906, 19/F, China Insurance Group Building
141 Des Voeux Road Central
Central
Hong Kong

Merdeka Capital Limited
Room 1108-1110, 11/F, Wing On Centre
111 Connaught Road
Central
Hong Kong

SSIF Securities Limited
Unit A, 29/F, Tower 1, Admiralty Center
18 Harcourt Road
Admiralty
Hong Kong

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(ii) any of the branches of the following receiving bank:

DBS Bank (Hong Kong) Limited

	Branch Name	Address
Hong Kong Island	Head Office	G/F, The Center, 99 Queen's Road Central, Central
	United Centre Branch	Shops 1015-1018 on 1/F & Shops 2032-2034 on 2/F, United Centre, 95 Queensway, Admiralty
Kowloon	Kowloon Bay — SME Banking Centre	Shop 6, G/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay
	Yaumatei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
New Territories	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 15 February 2019 until 12:00 noon on Wednesday, 20 February 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to **TING HONG NOMINEES LIMITED — KNT PUBLIC OFFER** for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

- Friday, 15 February 2019 — 9:00 a.m. to 5:00 p.m.
- Saturday, 16 February 2019 — 9:00 a.m. to 1:00 p.m.
- Monday, 18 February 2019 — 9:00 a.m. to 5:00 p.m.
- Tuesday, 19 February 2019 — 9:00 a.m. to 5:00 p.m.
- Wednesday, 20 February 2019 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 20 February 2019, the last application day or such later time as described in the paragraph headed "10. Effect of bad weather on the opening of the application lists" in this section.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to our Company, the Selling Shareholders, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective directors, officers, employees, partners, advisers, agents and representatives any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers and representatives will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (a) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for the Hong Kong Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to deposit any share certificate(s) into CCASS and/or to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in the paragraphs headed "14. Despatch/collection of share certificates and refund monies — Personal collection" in this section to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, the Selling Shareholders, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional instructions for **YELLOW** Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in the paragraph headed “Who can apply” in this section may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for submitting applications under the **HK eIPO White Form**

You may submit your application online through the **HK eIPO White Form** service at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 15 February 2019 until 11:30 a.m. on Wednesday, 20 February 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 20 February 2019 or such later time as described in the paragraph headed “10. Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and our Hong Kong Share Registrar.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

Giving electronic application instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, the Selling Shareholders, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
 - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
 - confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree that none of our Company, the Selling Shareholders, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers, representatives and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, the Selling Shareholders, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the Application Lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum purchase amount and permitted numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 4,000 Hong Kong Offer Shares. Instructions for more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates⁽¹⁾:

- Friday, 15 February 2019 — 9:00 a.m. to 8:30 p.m.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- Monday, 18 February 2019 — 8:00 a.m. to 8:30 p.m.
- Tuesday, 19 February 2019 — 8:00 a.m. to 8:30 p.m.
- Wednesday, 20 February 2019 — 8:00 a.m. to 12:00 noon

Note:

- (1) The times in this section are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 15 February 2019 until 12:00 noon on Wednesday, 20 February 2019 (24 hours daily, except on Wednesday, 20 February 2019, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 20 February 2019, the last application day or such later time as described in the paragraph headed “Effect of bad weather on the opening of the application lists” in this section.

No multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Selling Shareholders, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and representatives about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, the Selling Shareholders, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 20 February, 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.
“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 4,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 4,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please refer to the section headed “Structure of the Global Offering — Pricing and allocation” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 20 February 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If the application lists do not open and close on Wednesday, 20 February 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Wednesday, 27 February 2019 in The Standard (in English) and Sing Tao Daily (in Chinese) and on our Company’s website at www.kntholdings.com and the Stock Exchange’s website at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our Company’s website at www.kntholdings.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 27 February 2019;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 27 February 2019 to 12:00 mid-night on Tuesday, 5 March 2019;
- by telephone enquiry line by calling (852) 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 27 February 2019 to Monday, 4 March 2019 (excluding Saturday and Sunday);
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 27 February 2019 to Friday, 1 March 2019 at all the receiving bank branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) **If our Company or its agents exercise their discretion to reject your application:**

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$1.26 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 27 February 2019.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

No temporary document of title will be issued in respect of the Hong Kong Offer Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on despatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Wednesday, 27 February 2019. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 28 February 2019 provided that the Global Offering has become unconditional and the right of termination described in the section headed “Underwriting” in this prospectus has not been exercised. Investors who trade shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

Personal collection

(i) *If you apply using a WHITE Application Form*

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 27 February 2019 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 27 February 2019, by ordinary post and at your own risk.

(ii) *If you apply using a **YELLOW** Application Form*

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described in (i) above for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 27 February 2019, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 27 February 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you apply as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in the paragraphs headed "11. Publication of results" above in this section. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 February 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) *If you apply through the **HK eIPO White Form** service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 27 February 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Auto Refund payment instructions/refund cheques.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 27 February 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions on or before Wednesday, 27 February 2019. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) on or before Wednesday, 27 February 2019, by ordinary post at your own risk.

(iv) *If you apply via electronic application instructions to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of share certificates into CCASS and refund of application monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 27 February 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in the paragraph headed "11. Publication of results" above in this section on Wednesday, 27 February 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 February 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR THE HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Wednesday, 27 February 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 27 February 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-78, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Prospectus.

Deloitte.**德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KNT HOLDINGS LIMITED AND INNOVAX CAPITAL LIMITED****Introduction**

We report on the historical financial information of KNT Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-78, which comprises the consolidated statements of financial position of the Group as at 31 March 2016, 2017 and 2018 and 30 September 2018, the statements of financial position of the Company as at 31 March 2017 and 2018 and 30 September 2018, the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows of the Group for each of the three years ended 31 March 2018 and the six months ended 30 September 2018 (the "Track Record Period") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-4 to I-78 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 15 February 2019 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information, and for such internal control as the directors of the Company determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors of the Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 March 2016, 2017 and 2018 and 30 September 2018, of the Company's financial position as at 31 March 2017 and 2018 and 30 September 2018 and of the Group's financial performance and cash flows for the Track Record Period in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Review of stub period comparative financial information

We have reviewed the stub period comparative financial information of the Group which comprises the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 6 months ended 30 September 2017 and other explanatory information (the "Stub Period Comparative Financial Information"). The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends declared or settled by the Company and group entities in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 February 2019

HISTORICAL FINANCIAL INFORMATION OF THE GROUP**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the Group for the Track Record Period ("Underlying Financial Statements"), on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	NOTES	Year ended 31 March			Six months ended 30 September	
		2016	2017	2018	2017	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i> <i>(unaudited)</i>	<i>HK\$'000</i>
Revenue	5	165,214	169,284	208,403	119,631	153,906
Cost of sales		<u>(121,849)</u>	<u>(120,576)</u>	<u>(150,408)</u>	<u>(89,044)</u>	<u>(116,885)</u>
Gross profit		43,365	48,708	57,995	30,587	37,021
Other income	6	307	33	68	27	95
Other gains and losses	7	(8,787)	(4,698)	1,020	1,459	(145)
Administrative expenses		(19,071)	(13,439)	(18,685)	(8,880)	(10,499)
Listing expense		—	—	(8,080)	(1,129)	(4,014)
Finance costs	8	<u>(1,011)</u>	<u>(1,227)</u>	<u>(1,806)</u>	<u>(875)</u>	<u>(1,317)</u>
Profit before taxation		14,803	29,377	30,512	21,189	21,141
Income tax expense	9	<u>(2,714)</u>	<u>(5,545)</u>	<u>(6,695)</u>	<u>(3,848)</u>	<u>(4,465)</u>
Profit for the year/period	10	<u>12,089</u>	<u>23,832</u>	<u>23,817</u>	<u>17,341</u>	<u>16,676</u>
Earnings per share						
Basic (HK cents)	13	<u>2.9</u>	<u>5.7</u>	<u>5.7</u>	<u>4.2</u>	<u>4.0</u>

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Profit for the year/period	12,089	23,832	23,817	17,341	16,676
Other comprehensive (expense)					
income for the year/period					
<i>Item that may be reclassified</i>					
<i>subsequently to</i>					
<i>profit or loss:</i>					
Exchange differences arising on					
translation of					
foreign operation	(1,066)	(1,365)	2,930	1,090	(2,998)
Total comprehensive income for					
the year/period	11,023	22,467	26,747	18,431	13,678

STATEMENTS OF FINANCIAL POSITION

		The Group				The Company		
		As at 31 March			As at 30 September	As at 31 March		As at 30 September
NOTES		2016	2017	2018	2018	2017	2018	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets								
Property, plant and equipment	14	7,414	7,400	8,029	8,490	—	—	—
Intangible asset	15	234	208	182	169	—	—	—
		<u>7,648</u>	<u>7,608</u>	<u>8,211</u>	<u>8,659</u>	<u>—</u>	<u>—</u>	<u>—</u>
Current assets								
Inventories	16	21,765	25,361	36,172	31,946	—	—	—
Trade receivables	17	9,283	21,123	20,762	55,472	—	—	—
Prepayment, deposits and other receivables	18	1,037	4,502	5,838	5,799	962	2,543	3,861
Amounts due from related companies	19a	12,934	10,979	1,328	568	—	—	—
Amounts due from directors	19b	29,372	37,602	30,525	6,569	—	—	—
Pledged bank deposit	20	1,005	—	—	—	—	—	—
Bank balances and cash	20	<u>2,812</u>	<u>1,682</u>	<u>21,622</u>	<u>18,938</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>78,208</u>	<u>101,249</u>	<u>116,247</u>	<u>119,292</u>	<u>962</u>	<u>2,543</u>	<u>3,861</u>
Current liabilities								
Trade payables	21	7,584	8,829	7,793	9,199	—	—	—
Other payables and accruals	22A	3,058	3,286	7,972	5,610	—	3,698	2,099
Contract liabilities	22B	4,401	5,135	6,957	2,709	—	—	—
Amount due to a related party	19c	—	2,000	—	—	—	—	—
Amount due to a subsidiary	19d	—	—	—	—	962	2,245	3,485
Derivative financial instrument	25	4,872	4,079	—	—	—	—	—
Income tax payable		587	3,503	3,225	5,005	—	—	—
Bank borrowings	23	<u>25,302</u>	<u>42,757</u>	<u>56,816</u>	<u>59,369</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u>45,804</u>	<u>69,589</u>	<u>82,763</u>	<u>81,892</u>	<u>962</u>	<u>5,943</u>	<u>5,584</u>
Net current assets (liabilities)		<u>32,404</u>	<u>31,660</u>	<u>33,484</u>	<u>37,400</u>	<u>—</u>	<u>(3,400)</u>	<u>(1,723)</u>

APPENDIX I
ACCOUNTANTS' REPORT

		The Group				The Company		
		As at 31 March			As at 30 September	As at 31 March		As at 30 September
NOTES		2016	2017	2018	2018	2017	2018	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets less current liabilities		40,052	39,268	41,695	46,059	—	(3,400)	(1,723)
Non-current liabilities								
Derivative financial instrument	25	2,198	—	—	—	—	—	—
Deferred tax liabilities	26	493	440	440	433	—	—	—
		2,691	440	440	433	—	—	—
Net assets (liabilities)		37,361	38,828	41,255	45,626	—	(3,400)	(1,723)
Capital and reserves								
Share capital	24	3,020	3,020	—*	—*	—*	—*	—*
Reserves		34,341	35,808	41,255	45,626	—	(3,400)	(1,723)
Total		37,361	38,828	41,255	45,626	—	(3,400)	(1,723)

* amount less than HK\$1,000

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital	Other reserve	Translation reserve	Shareholders distribution reserve	Statutory reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note (c))	HK\$'000 (Note (b))	HK\$'000	HK\$'000
At 1 April 2015	19,510	—	4,300	—	633	23,897	48,340
Profit for the year	—	—	—	—	—	12,089	12,089
Exchange differences arising on the translation of foreign operation	—	—	(1,066)	—	—	—	(1,066)
Total comprehensive (expense) income for the year	—	—	(1,066)	—	—	12,089	11,023
Appropriation to reserve	—	—	—	—	312	(312)	—
Issue of shares of KNT International Holdings Limited ("KNT Int'l")	10	—	—	—	—	—	10
Arising from reorganisation (Note (a))	(16,500)	16,500	—	—	—	—	—
Dividends recognised as distribution (note 12)	—	—	—	—	—	(22,012)	(22,012)
At 31 March 2016	3,020	16,500	3,234	—	945	13,662	37,361
Profit for the year	—	—	—	—	—	23,832	23,832
Exchange differences arising on the translation of foreign operation	—	—	(1,365)	—	—	—	(1,365)
Total comprehensive (expense) income for the year	—	—	(1,365)	—	—	23,832	22,467
Appropriation to reserve	—	—	—	—	529	(529)	—
Dividends recognised as distribution (note 12)	—	—	—	—	—	(21,000)	(21,000)
At 31 March 2017	3,020	16,500	1,869	—	1,474	15,965	38,828
Profit for the year	—	—	—	—	—	23,817	23,817
Exchange differences arising on the translation of foreign operation	—	—	2,930	—	—	—	2,930
Total comprehensive income for the year	—	—	2,930	—	—	23,817	26,747
Appropriation to reserve	—	—	—	—	305	(305)	—
Deemed distribution to shareholders	—	—	—	(320)	—	—	(320)
Arising from reorganisation (notes 1(iv) and 1(v))	(3,020)	3,020	—	—	—	—	—
Dividends recognised as distribution (note 12)	—	—	—	—	—	(24,000)	(24,000)
At 31 March 2018	—	19,520	4,799	(320)	1,779	15,477	41,255
Profit for the period	—	—	—	—	—	16,676	16,676
Exchange differences arising on the translation of foreign operation	—	—	(2,998)	—	—	—	(2,998)
Total comprehensive (expense) income for the period	—	—	(2,998)	—	—	16,676	13,678
Appropriation to reserve	—	—	—	—	413	(413)	—
Deemed distribution to shareholders	—	—	—	(307)	—	—	(307)
Dividends recognised as distribution (note 12)	—	—	—	—	—	(9,000)	(9,000)
At 30 September 2018	—	19,520	1,801	(627)	2,192	22,740	45,626

	Share capital	Other reserve	Translation reserve	Shareholders distribution reserve	Statutory reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note (c))	HK\$'000 (Note (b))	HK\$'000	HK\$'000
(Unaudited)							
At 1 April 2017	3,020	16,500	1,869	—	1,474	15,965	38,828
Profit for the period	—	—	—	—	—	17,341	17,341
Exchange differences arising on the translation of foreign operation	—	—	1,090	—	—	—	1,090
Total comprehensive income for the period	—	—	1,090	—	—	17,341	18,431
Appropriation to reserve	—	—	—	—	154	(154)	—
Deemed distribution to shareholders	—	—	—	(60)	—	—	(60)
At 30 September 2017	3,020	16,500	2,959	(60)	1,628	33,152	57,199

Notes:

- (a) On 20 October 2015, the Controlling Shareholders (as defined in note 1) transferred their entire shareholding in HYG Limited ("HYG"), one of the operating subsidiaries established in the People's Republic of China ("PRC"), to KNT Int'l, a company incorporated in Hong Kong and wholly owned by the Controlling Shareholders, at nil consideration. HYG is then wholly-owned by KNT Int'l since the completion of transfer.
- (b) As stipulated by the relevant PRC laws and regulations, the subsidiary established in the PRC shall set aside 10% of its net profit to the statutory reserve. The statutory reserve can only be used upon approval by the board of directors of the relevant subsidiary and by the relevant authority, to offset previous year's losses or convert into additional capital of the PRC subsidiary.
- (c) The shareholders distribution reserve represents the share issue cost of the shares to be offered for sale by the shareholders of the Company, which was borne by the Group and deemed as shareholders' distribution.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
OPERATING ACTIVITIES					
Profit before taxation	14,803	29,377	30,512	21,189	21,141
Adjustments for:					
Interest income	(10)	(7)	(7)	(4)	(24)
Depreciation of property, plant and equipment	1,032	1,101	1,036	521	569
Amortisation of intangible asset	26	26	26	13	13
Finance costs	1,011	1,227	1,806	875	1,317
Loss (gain) on disposal/written off of property, plant and equipment	4	—	(702)	(702)	—
Fair value change in derivative financial instrument	8,627	4,080	(598)	(598)	—
Operating cash flows before movements in working capital	25,493	35,804	32,073	21,294	23,016
(Increase) decrease in inventories	(3,060)	(4,864)	(7,699)	3,634	1,064
Decrease (increase) in trade receivables	5,709	(11,840)	361	6,623	(34,710)
(Increase) decrease in prepayments, deposits and other receivables	(740)	(3,548)	1,136	(1,046)	833
(Increase) decrease in amounts due from related companies	(1,123)	4	9,709	(2,373)	760
Increase (decrease) in trade payables	3,381	1,372	(1,308)	1,382	1,654
Increase (decrease) in other payables and accruals	349	293	3,355	144	(1,483)
(Decrease) increase in contract liabilities	(2,670)	734	1,822	(1,641)	(4,248)
Settlement of derivative financial instrument	(1,557)	(7,071)	(3,481)	(3,481)	—
Cash generated from (used in) operations	25,782	10,884	35,968	24,536	(13,114)
Income tax paid	(3,199)	(2,645)	(7,041)	(1,437)	(2,668)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	22,583	8,239	28,927	23,099	(15,782)

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(794)	(1,166)	(1,735)	(888)	(1,275)
Placement of pledged bank deposit	(1,005)	—	—	—	—
Withdrawal of pledged bank deposit	—	1,005	—	—	—
Advances to related companies	(2,298)	(850)	(70)	(70)	—
Repayment from related companies	754	2,801	70	70	—
Repayment from directors	12,105	9,295	18,152	3,036	18,721
Advance to a director	(23,528)	(38,560)	(39,266)	(13,945)	(3,750)
Bank interest received	10	7	7	4	24
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(14,756)	(27,468)	(22,842)	(11,793)	13,720
FINANCING ACTIVITIES					
Interest paid	(1,011)	(1,227)	(1,806)	(875)	(1,317)
Issue of shares	10	—	—	—	—
New bank borrowings raised	68,279	88,878	116,411	56,962	73,095
Repayment of bank borrowings	(71,354)	(73,332)	(104,194)	(55,108)	(69,327)
Advance from a related party	—	2,000	—	—	—
Repayment to a related party	—	—	(2,000)	(2,000)	—
Repayment to a director	—	—	(1,844)	—	—
Advance from a director	—	—	7,000	—	—
Repayment to a related company	(268)	—	—	—	—
Share issue cost paid	—	—	(1,726)	(326)	(1,722)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(4,344)	16,319	11,841	(1,347)	729

APPENDIX I**ACCOUNTANTS' REPORT**

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
				<i>(unaudited)</i>	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,483	(2,910)	17,926	9,959	(1,333)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	(7,750)	(4,341)	(7,380)	(7,380)	10,718
Effect of foreign exchange rate changes	<u>(74)</u>	<u>(129)</u>	<u>172</u>	<u>290</u>	<u>(136)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>(4,341)</u>	<u>(7,380)</u>	<u>10,718</u>	<u>2,869</u>	<u>9,249</u>
Represented by:					
Bank balances and cash	2,812	1,682	21,622	3,785	18,938
Bank overdrafts	<u>(7,153)</u>	<u>(9,062)</u>	<u>(10,904)</u>	<u>(916)</u>	<u>(9,689)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>(4,341)</u>	<u>(7,380)</u>	<u>10,718</u>	<u>2,869</u>	<u>9,249</u>

NOTES TO THE HISTORICAL FINANCIAL INFORMATION**1. GENERAL, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 July 2016 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the Company's registered office and principal place of business are disclosed in the section headed "Corporate Information" of this Prospectus. The principal activity of the Company is investment holding. The principal activities of the Group is manufacturing and trading garment.

The Company is 60.5% owned by Strategic Elite Limited ("Strategic Elite"), a limited company incorporated in the British Virgin Islands (the "BVI") and wholly owned by Mr. Chong Sik ("Mr. S Chong"), and 39.5% owned by Total Clarity Investments Limited ("Total Clarity"), a limited company incorporated in the BVI and wholly owned by Mr. Chong Pun ("Mr. P Chong"). Mr. P Chong and Mr. S Chong (collectively referred to as "Controlling Shareholders") are brothers and they are acting in concert, historically and throughout the Track Record Period on their ownerships and exercise their control collectively over the companies now comprising the Group in respect of all the relevant business activities of these companies.

The Historical Financial Information is presented in Hong Kong dollar ("HK\$"), whereas the functional currency of the Company is United States Dollar ("US\$"). The management of the Group considered that selecting HK\$ as its presentation currency is more beneficial for the users of the Historical Financial Information as the Company's shares will be listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which conform with HKFRSs issued by the HKICPA and the principles of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations" ("AG 5") issued by the HKICPA.

Prior to a group reorganisation as more fully explained in the section headed "History, Reorganisation and group structure" in the Prospectus (the "Reorganisation"), all the companies comprising the Group were controlled by the Controlling Shareholders. In preparation for the listing of the Company's shares on the Stock Exchange ("Listing"), the companies now comprising the Group underwent a series of reorganisation as described below.

- (i) The Company was incorporated with limited liabilities in the Cayman Islands on 5 July 2016. The authorised share capital of the Company was HK\$380,000 divided into 38,000,000 shares of the Company of HK\$0.01 each. On the same day, one share of the Company was allotted and issued to Mr. S Chong.
- (ii) KNT Group Limited ("KNTGL") was incorporated with limited liabilities in the BVI on 29 April 2016. On incorporation, KNTGL had an authorised share capital of US\$50,000, divided into 50,000 shares of US\$1 each. On the same day, one share of KNTGL was allotted and issued to Mr. S Chong at par.

- (iii) On 24 August 2017, Mr. S Chong transferred one share of the Company to Strategic Elite at nil consideration. On the same date, Total Clarity subscribed one share of the Company at par. On the same date, Mr. S Chong transferred one share of KNTGL to the Company at par.
- (iv) On 27 October 2017, the Controlling Shareholders transferred their entire interests of KNT Int'l to KNTGL in consideration of the allotment and issue of 112 and 112 shares of the Company to Strategic Elite and Total Clarity, respectively.
- (v) On the same date, the Controlling Shareholders transferred their entire interests of KNT Limited ("KNT"), a company incorporated in Hong Kong, to KNTGL in consideration of the allotment and issue of 492 and 282 shares of the Company to Strategic Elite and Total Clarity, respectively.

Upon completion of the aforesaid steps, the Company became owned as to 60.5% and 39.5% by Strategic Elite and Total Clarity, respectively.

Pursuant to the Reorganisation detailed above, the Company became the holding company of the companies now comprising the Group on 27 October 2017. The Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. Accordingly, the Historical Financial Information has been prepared on the basis as if the Company had always been the holding company of the Group.

The consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the three years ended 31 March 2018 include the results, changes in equity and cash flows of the companies now comprising the Group, as if the Company had always been the holding company of the Group and the current group structure has been in existence throughout the Track Record Period, or since their respective dates of the incorporation.

The consolidated statements of financial position as at 31 March 2016 and 2017, have been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure had been in existence at those dates taking into account the respective dates of the incorporation, where applicable.

2. APPLICATION OF HKFRSs

For the purpose of preparing and presenting the Historical Financial Information for the Track Record Period, the Group has consistently applied the accounting policies, including but not limited to HKFRS 15 "Revenue from Contracts with Customers", which conform with HKFRSs issued by the HKICPA that are effective for the accounting periods beginning on 1 April 2018 throughout the Track Record Period, except the Group adopted HKFRS 9 "Financial Instruments" from 1 April 2018 and adopts HKAS 39 "Financial Instruments Recognition and Measurement" for the three years ended 31 March 2018. The accounting policies for financial instruments under HKFRS 9, are set out in note 3.

HKFRS 9 “Financial Instruments” and the related amendments

In the six months ended 30 September 2018, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 April 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 April 2018. The difference between carrying amounts as at 31 March 2018 and the carrying amounts as at 1 April 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Classification and measurement of financial assets

All financial assets and financial liabilities continue to be measured on the same bases as were previously measured under HKAS 39.

Impairment of financial assets

As at 1 April 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9.

The Group applies simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and amount due from Veromia Limited. To measure the ECL, trade receivables and amount due from Veromia Limited are assessed individually for each debtor. Based on assessment by the management of the Group, management of the Group considers that the ECL for trade receivables and amount due from Veromia Limited are insignificant at 1 April 2018.

Loss allowances for other financial assets at amortised cost mainly comprise deposits and other receivables, amounts due from directors and bank balances and cash, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

For bank balances, the Group only transacts with reputable banks with high credit ratings assigned by international credit-rating agencies and consider the risk of default is regard as low and 12-month ECL is insignificant.

For deposits and other receivables and amounts due from directors, the management of the Group makes periodic collective as well as individual assessment on the recoverability of deposits and other receivables and amounts due from directors based on historical settlement records and past experience with available reasonable and supportive forward-looking information. Based on assessment by the management of the Group, management of the Group considers that the ECL for deposits and other receivables and amounts due from directors is insignificant.

The Group has not early applied the following new and revised HKFRSs and interpretations (“new and revised HKFRSs”) in issue which are not yet effective.

HKFRS 16	Leases ¹
HKFRS 17	Insurance contracts ³
HK(IFRIC) - Int 23	Uncertainty over income tax treatments ¹
Amendments to HKFRS 3	Definition of a business ⁴
Amendments to HKFRS 9	Prepayment features with negative compensation ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ²
Amendments to HKAS 1 and HKAS 8	Definition of material ⁵
Amendments to HKAS 19	Plan amendment, curtailment or settlement ¹
Amendments to HKAS 28	Long-term interests in associates and joint ventures ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycle ¹

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

⁵ Effective for annual periods beginning on or after 1 January 2020.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be both presented as financing cash flows.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 September 2018, the Group has non-cancellable operating lease commitments of approximately HK\$947,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. The management of the Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the result and the net assets of the Group.

The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as lease applying HKAS 17 and HK(IFRIC)-Int 4 “Determining whether an arrangement contains a lease” which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

Except as described above, the management of the Group anticipates that the application of other new and revised HKFRSs will have no material impact on the Group’s financial statements in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair value at the end of each reporting period (as explained in the accounting policies below) and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 “Inventories” or value in use in HKAS 36 “Impairment of assets”.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Basis of consolidation

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Merger accounting for business combination involving entities under common control

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under common control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets and liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated statements of profit or loss and the consolidated statements of profit or loss and other comprehensive income include the results of each of the combining entities or businesses from the earliest date presented or since the dates when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

Revenue recognition

Revenue is recognised to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services in accordance with HKFRS 15 during the Track Record Period. Specifically, the Group uses a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to customers.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and the revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue is measured based on the consideration specified in a contract with customer and excluded amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of goods and service to a customer.

The Group recognises revenue mainly from the sales of garment products (including bridesmaid dresses, bridal gowns and special occasion dresses).

Sales of garment products

Revenue from the sales of garment products is recognised at a point in time when the control of goods has transferred, being when the goods have been shipped to the customers' specific location. Transportation and other related activities that occur before customers obtains control of the related products are considered as fulfilment activities.

A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, momentary items denominated in foreign currencies are retranslated at the rates prevailing at the date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Historical Financial Information, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

Retirement benefit costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are charged as an expense when employees have rendered service entitling them to the contributions.

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries and annual leave) after deducting any amount already paid.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned at the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in finance costs in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 'profit before taxation' as reported in the consolidated statements of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Impairment losses on assets other than financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted-average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Financial instruments (before application of HKFRS 9 on 1 April 2018)

Financial assets and financial liabilities are recognised on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Financial assets are classified into loans and receivables and financial assets at fair value through profit or loss ("FVTPL"). The classification depends on the nature and purpose of the financial assets

and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the other gains and losses line item. Fair value is determined in the manner described in note 30.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, deposits and other receivables, amounts due from related companies and directors, pledged bank deposit and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the respective credit period, observable changes in national or local economic conditions that correlate with default on trade receivables.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the receivable at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a group entity after deducting all of its liabilities. Equity instruments issued by the group entities are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading or (ii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest paid on the financial liabilities and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 30.

Financial liabilities at amortised cost

Financial liabilities (including trade payables, other payables and accruals, amount due to a related party, and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instrument

Derivative is initially recognised at fair value at the date when derivative contract is entered into and is subsequently remeasured to its fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Financial instruments (after application of HKFRS 9 as at 1 April 2018)

Financial assets and financial liabilities are recognised on the statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on a specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured at fair value.

Amortised cost and effective interest rate

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The effective interest method is a method of calculating the amortised cost of debt instrument and of allocating interest income over the relevant periods.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset.

Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, deposits and other receivables, amounts due from related companies and directors and bank balances and cash). The amount of ECL is updated at the end of each reporting period to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognise lifetime ECL for trade receivables and amount due from Veromia Limited and measures the lifetime ECL on each debtor individually. The ECL on those financial assets are estimated by applying a probability-weighted estimate of the credit loss for each debtor. The probability-weighted estimate of the credit loss is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast direction of conditions at the end of each reporting period, including time value of money where appropriate.

For all other financial instruments, the Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether the credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable.

- when there is a breach of financial covenants by the counterparty; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is “credit-impaired” when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have been occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer of the borrower; or
- A breach of contract, such as a default or past due event; or
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- It is becoming probably that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group’s recovery procedures, taking into account legal advice when appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the end of each reporting period.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the correspondence adjustment is recognised through a loss allowance account.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Financial liabilities and equity

Debt and equity instruments that are issued are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

The Group's financial liabilities including trade payables, other payables and accruals, and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that

exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the amortised cost of a financial liability.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligations, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimate is recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumption concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management of the Group reassesses the estimations on a product-by-product basis at the end of each reporting period and provision for obsolete inventories will be made when necessary.

As at 31 March 2016, 2017 and 2018 and 30 September 2018, the carrying amounts of inventories are HK\$21,765,000, HK\$25,361,000, HK\$36,172,000 and HK\$31,946,000, respectively.

Allowance for bad and doubtful debts

During the three years ended 31 March 2018 before the application of HKFRS 9, the allowance for bad and doubtful debts of the Group is estimated based on the evaluation of collectability and ageing analysis of individual trade receivables performed by the management of the Group. A considerable amount of estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Upon the application of HKFRS 9 on 1 April 2018, the Group recognised lifetime ECL on trade receivables and amount due from Veromia Limited on individual basis. The estimation on ECL is required in assessing probability-weighted estimate of the credit loss within the relevant time band which is based on Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as forecast direction of conditions at the end of each reporting period. If there is a significant increase in credit risk on the customers of the Group since initial recognition, additional ECL may be required.

There was no impairment on trade receivables and amount due from Veromia Limited (as disclosed in note 19(a)) during the three years ended 31 March 2018 before application of HKFRS 9. Upon the application of HKFRS 9 on 1 April 2018, the management of the Group considers the ECL for trade receivables and amount due from Veromia Limited are insignificant as at 1 April 2018 and 30 September 2018. As at 31 March 2016, 2017 and 2018 and 30 September 2018, the carrying amounts of trade receivables were HK\$9,283,000, HK\$21,123,000, HK\$20,762,000 and HK\$55,472,000, respectively and that of amount due from Veromia Limited were HK\$10,983,000, HK\$10,979,000, HK\$1,328,000 and HK\$568,000, respectively.

5. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable for goods sold by the Group, net of discounts.

The following is an analysis of the Group's revenue:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Sales of garment products recognised at a point in time:					
- Bridesmaid dresses	130,997	130,893	129,827	73,599	65,787
- Bridal gowns	14,797	9,924	4,842	2,583	2,888
- Special occasion dresses	16,412	25,407	69,108	40,161	81,549
- Others (Note)	3,008	3,060	4,626	3,288	3,682
Total	<u>165,214</u>	<u>169,284</u>	<u>208,403</u>	<u>119,631</u>	<u>153,906</u>

Note: Others include sales of fabrics and accessories.

Transaction price allocated to the remaining performance obligations

The following table shows the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied (or partially unsatisfied) as at the end of each reporting period.

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of garment products	<u>21,693</u>	<u>26,893</u>	<u>38,192</u>	<u>35,788</u>

Based on the information available to the Group at the end of each reporting period, the directors of the Company expect the transaction price allocated to the above unsatisfied (or partially unsatisfied) contracts as of 31 March 2016, 2017 and 2018 and 30 September 2018 will be recognised as revenue within twelve months after the end of each reporting period.

Segment information

The Group's operation is solely derived from manufacturing and trading of garment products during the Track Record Period. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the top management of the Group) reviews overall results and financial position of the Group as a whole based on same accounting policies set out in note 3. Accordingly, the Group has only one single operating segment and no further analysis of this single segment information is presented.

Geographical information

The Group's operations are mainly located in Hong Kong and the PRC.

Non-current assets by geographical location of assets are detailed below:

	As at			
	31 March			30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	6,528	5,892	5,609	6,004
The PRC	1,120	1,716	2,602	2,655
	<u>7,648</u>	<u>7,608</u>	<u>8,211</u>	<u>8,659</u>

The Group's revenue from external customers based on the location of customers are detailed below:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
United States of America	145,145	149,966	193,426	111,255	145,759
Europe	14,832	13,859	10,521	5,006	3,783
Australia	3,560	3,503	2,503	1,461	1,422
Others	1,677	1,956	1,953	1,909	2,942
	<u>165,214</u>	<u>169,284</u>	<u>208,403</u>	<u>119,631</u>	<u>153,906</u>

Information about major customers

Revenue from customers individually contributing over 10% of the Group's revenue during the Track Record Period are as follows:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Customer A	87,450	75,101	72,920	41,645	40,345
Customer B	20,663	22,901	61,314	34,008	79,960
Customer C	—*	19,883	—*	—*	—*

* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

6. OTHER INCOME

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Bank interest income	10	7	7	4	24
Management fee income from a related company	240	—	—	—	—
Sundry income	57	26	61	23	71
	<u>307</u>	<u>33</u>	<u>68</u>	<u>27</u>	<u>95</u>

7. OTHER GAINS AND LOSSES

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Fair value change in derivative financial instrument	(8,627)	(4,080)	598	598	—
(Loss) gain on disposal/written off of property, plant and equipment	(4)	—	702	702	—
Net foreign exchange (loss) gain	<u>(156)</u>	<u>(618)</u>	<u>(280)</u>	<u>159</u>	<u>(145)</u>
	<u>(8,787)</u>	<u>(4,698)</u>	<u>1,020</u>	<u>1,459</u>	<u>(145)</u>

8. FINANCE COSTS

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Interests on bank borrowings	<u>1,011</u>	<u>1,227</u>	<u>1,806</u>	<u>875</u>	<u>1,317</u>

9. INCOME TAX EXPENSE

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Current Tax:					
- Hong Kong Profits Tax	1,715	3,827	5,679	3,333	3,096
- PRC Enterprise Income Tax	<u>1,040</u>	<u>1,771</u>	<u>1,016</u>	<u>515</u>	<u>1,376</u>
	2,755	5,598	6,695	3,848	4,472
Deferred tax credit (note 26)	<u>(41)</u>	<u>(53)</u>	<u>—</u>	<u>—</u>	<u>(7)</u>
Income tax expense	<u>2,714</u>	<u>5,545</u>	<u>6,695</u>	<u>3,848</u>	<u>4,465</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day.

Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

For the six months ended 30 September 2018, Hong Kong Profits Tax is calculated in accordance with the two-tiered profits tax rates regime. For the years ended 31 March 2016, 2017 and 2018, Hong Kong Profits Tax was calculated at a flat rate of 16.5% of the estimated assessable profits.

Under the law of People’s Republic of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the subsidiary established in the PRC is 25% for the Track Record Period.

The Company's subsidiaries operating in Hong Kong are eligible for certain tax concessions. The maximum tax concessions eligible for each subsidiary is HK\$20,000, HK\$20,000 and HK\$30,000 for the years ended 31 March 2016, 2017 and 2018 respectively.

The income tax expense for the Track Record Period can be reconciled to the profit before taxation per the consolidated statements of profit or loss as follows:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation	14,803	29,377	30,512	21,189	21,141
Tax at the Hong Kong Profits					
Tax rate of 16.5% (Note)	2,442	4,847	5,034	3,496	3,488
Tax effect of expenses not deductible for tax purpose	8	115	1,346	207	677
Tax effect of income not taxable for tax purpose	(71)	—	—	—	(3)
Tax concession	(20)	(20)	(30)	(30)	—
Tax effect on two-tiered tax rate	—	—	—	—	(165)
Effect of different tax rate operating in other jurisdiction	355	603	345	175	468
Income tax expense for the year/period	2,714	5,545	6,695	3,848	4,465

Note: The income tax rate in the jurisdiction where the operations of the Group substantially based is used.

10. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit for the year/period has been arrived at after charging:					
Directors' remuneration (note 11)	3,425	3,026	3,732	1,862	1,930
Other staff costs					
Salaries, allowances and other benefits	27,462	28,082	35,221	16,770	19,774
Retirement benefits scheme contributions (Note)	2,052	2,335	2,981	1,449	1,565
Total staff cost	32,939	33,443	41,934	20,081	23,269
Less: Amount capitalised in inventories	(23,085)	(24,882)	(30,606)	(14,646)	(16,887)
	<u>9,854</u>	<u>8,561</u>	<u>11,328</u>	<u>5,435</u>	<u>6,382</u>
Auditor's remuneration	160	139	282	59	64
Depreciation of property, plant and equipment	1,032	1,101	1,036	521	569
Less: Amount capitalised in inventories	(79)	(122)	(257)	(108)	(179)
	<u>953</u>	<u>979</u>	<u>779</u>	<u>413</u>	<u>390</u>
Amortisation of intangible asset	26	26	26	13	13
Cost of inventories recognised as an expense	121,849	120,576	150,408	89,044	116,885
Minimum lease payments under operating lease in respect of leasehold land and buildings	<u>547</u>	<u>649</u>	<u>1,964</u>	<u>961</u>	<u>991</u>

Note: Amount excludes the retirement benefits scheme contributions for the directors of the Company which are set out in note 11.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**(a) Directors' and chief executive's emoluments**

Mr. S Chong, who is also chief executive, was appointed as the director of the Company on 5 July 2016 and re-designated as the executive director of the Company on 23 April 2018. Mr. P Chong was appointed as the director of the Company on 9 August 2016 and re-designated as the executive director of the Company on 23 April 2018. Mr. Lam Chi Yuen was appointed as the executive director of the Company on 23 April 2018. Mr. Ting Chi Wai Roy joined the Group and was appointed as the non-executive director of the Company on 23 April 2018.

The remuneration paid or payable to the directors and chief executive of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) by entities comprising the Group were as follows:

	Mr. S Chong	Mr. P Chong	Mr. Lam Chi Yuen	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
For the year ended 31 March 2016				
Fees	—	—	—	—
Salaries, allowances and other benefits	1,030	959	1,084	3,073
Bonus (Note)	86	60	152	298
Retirement benefits scheme contributions	18	18	18	54
	<u>1,134</u>	<u>1,037</u>	<u>1,254</u>	<u>3,425</u>
For the year ended 31 March 2017				
Fees	—	—	—	—
Salaries, allowances and other benefits	1,030	890	1,052	2,972
Retirement benefits scheme contributions	18	18	18	54
	<u>1,048</u>	<u>908</u>	<u>1,070</u>	<u>3,026</u>

	Mr. S Chong	Mr. P Chong	Mr. Lam Chi Yuen	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended 31 March 2018				
Fees	—	—	—	—
Salaries, allowances and other benefits	1,390	1,014	1,274	3,678
Retirement benefits scheme contributions	18	18	18	54
	<u>1,408</u>	<u>1,032</u>	<u>1,292</u>	<u>3,732</u>

	Mr. S Chong	Mr. P Chong	Mr. Lam Chi Yuen	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 September 2017 (unaudited)				
Fees	—	—	—	—
Salaries, allowances and other benefits	695	505	635	1,835
Retirement benefits scheme contributions	9	9	9	27
	<u>704</u>	<u>514</u>	<u>644</u>	<u>1,862</u>

	Mr. S Chong	Mr. P Chong	Mr. Lam Chi Yuen	Mr. Ting Chi Wai Roy	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 September 2018					
Fees	—	—	—	—	—
Salaries, allowances and other benefits	729	508	666	—	1,903
Retirement benefits scheme contributions	9	9	9	—	27
	<u>738</u>	<u>517</u>	<u>675</u>	<u>—</u>	<u>1,930</u>

Note: The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

The emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

(b) **Employees' emoluments**

The five highest paid individuals included three directors whose emoluments are included in the disclosures in (a) above for the Track Record Period. The emoluments of the remaining two individuals for the year ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2017 (unaudited) and 2018 are as follows:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Salaries, allowances and other benefits	1,014	1,018	1,318	538	677
Bonus (Note)	148	83	47	151	227
Retirement benefits scheme contributions	36	36	33	18	18
	<u>1,198</u>	<u>1,137</u>	<u>1,398</u>	<u>707</u>	<u>922</u>

Note: The discretionary bonus is determined by reference to the duties and responsibilities of the relevant individual within the Group and the Group's performance.

The emoluments of the highest paid employees who are not directors of the Company were within the following band:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	number of employees	number of employees	number of employees	number of employees (unaudited)	number of employees
Nil to HK\$1,000,000	2	2	2	2	2

During the Track Record Period, no emoluments were paid by the Group to any of the directors of the Company or the chief executive of the Group or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Track Record Period.

12. DIVIDENDS

During the year ended 31 March 2016, KNT and HYG declared interim dividends of HK\$14,550,000 and HK\$7,462,000, respectively, to the then shareholders. During the year ended 31 March 2017, KNT declared an interim dividend of HK\$21,000,000 to its then shareholders. The dividend payable was settled through the amounts due from directors.

The rate of dividends and number of shares ranking for the above dividends are not presented as such information is not considered meaningful having regard to the purpose of this report.

During the year ended 31 March 2018 and the six months ended 30 September 2018, the Company declared dividends of HK\$24,000,000 (HK\$24,000 per share) and HK\$9,000,000 (HK\$9,000 per share), respectively, to the Controlling Shareholders. The dividend payable was settled through the amounts due from directors.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data.

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Earnings:					
Earnings for the purpose of calculating earnings per share (profit for the year/period attributable to the owners of the Company)	12,089	23,832	23,817	17,341	16,676
Number of shares:					
Number of ordinary shares for the purpose of calculating earnings per share	416,000,000	416,000,000	416,000,000	416,000,000	416,000,000

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the reorganisation and the capitalisation issue as described in Appendix IV to this prospectus has been effective on 1 April 2015.

No diluted earnings per share for the Track Record Period was presented as there were no potential ordinary shares in issue during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and building	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
COST						
As at 1 April 2015	6,623	3,137	2,357	3,621	1,900	17,638
Additions	—	240	12	418	124	794
Written off	—	(10)	—	(45)	—	(55)
Exchange realignment	—	(134)	—	(88)	(2)	(224)
As at 31 March 2016	6,623	3,233	2,369	3,906	2,022	18,153
Additions	—	780	—	386	—	1,166
Written off	—	—	—	(20)	—	(20)
Exchange realignment	—	(203)	—	(128)	(7)	(338)
As at 31 March 2017	6,623	3,810	2,369	4,144	2,015	18,961
Additions	—	824	151	760	—	1,735
Disposal/written off	—	(581)	—	(472)	(1,900)	(2,953)
Exchange realignment	—	422	—	230	13	665
As at 31 March 2018	6,623	4,475	2,520	4,662	128	18,408
Additions	—	355	—	920	—	1,275
Disposal/written off	—	(65)	—	(6)	—	(71)
Exchange realignment	—	(411)	—	(215)	(11)	(637)
As at 30 September 2018	6,623	4,354	2,520	5,361	117	18,975
DEPRECIATION						
As at 1 April 2015	1,490	2,773	2,347	2,573	760	9,943
Provided for the year	166	80	7	392	387	1,032
Eliminated on written off	—	(7)	—	(44)	—	(51)
Exchange realignment	—	(118)	—	(67)	—	(185)
As at 31 March 2016	1,656	2,728	2,354	2,854	1,147	10,739
Provided for the year	166	107	5	413	410	1,101
Eliminated on written off	—	—	—	(20)	—	(20)
Exchange realignment	—	(160)	—	(98)	(1)	(259)
As at 31 March 2017	1,822	2,675	2,359	3,149	1,556	11,561
Provided for the year	165	198	34	514	125	1,036
Eliminated on disposal/written off	—	(576)	—	(469)	(1,615)	(2,660)
Exchange realignment	—	264	—	172	6	442
As at 31 March 2018	1,987	2,561	2,393	3,366	72	10,379
Provided for the period	83	127	17	327	15	569
Eliminated on disposal/written off	—	(65)	—	(6)	—	(71)
Exchange realignment	—	(230)	—	(155)	(7)	(392)
As at 30 September 2018	2,070	2,393	2,410	3,532	80	10,485
CARRYING VALUES						
As at 31 March 2016	4,967	505	15	1,052	875	7,414
As at 31 March 2017	4,801	1,135	10	995	459	7,400
As at 31 March 2018	4,636	1,914	127	1,296	56	8,029
As at 30 September 2018	4,553	1,961	110	1,829	37	8,490

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land and building	Over the shorter of the lease terms or 50 years
Plant and machinery	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles	20%

The Group's leasehold land and building with carrying value of HK\$4,967,000, HK\$4,801,000, HK\$4,636,000 and HK\$4,553,000 respectively, were pledged to secure certain banking facilities granted to the Group as at 31 March 2016, 2017 and 2018 and 30 September 2018.

15. INTANGIBLE ASSET

	<u>Golf membership</u>
	<i>HK\$'000</i>
Cost	
At 1 April 2015, 31 March 2016,	
31 March 2017, 31 March 2018 and 30 September 2018	<u>520</u>
Amortisation	
At 1 April 2015	260
Provided for the year	<u>26</u>
At 31 March 2016	286
Provided for the year	<u>26</u>
At 31 March 2017	312
Provided for the year	<u>26</u>
At 31 March 2018	<u>338</u>
Provided for the period	<u>13</u>
At 30 September 2018	<u>351</u>
Carrying values	
At 31 March 2016	<u>234</u>
At 31 March 2017	<u>208</u>
At 31 March 2018	<u>182</u>
At 30 September 2018	<u>169</u>

The golf membership is amortised over 20 years.

16. INVENTORIES

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	14,568	17,527	22,290	17,329
Work in progress	6,388	7,621	13,841	14,213
Finished goods	809	213	41	404
	<u>21,765</u>	<u>25,361</u>	<u>36,172</u>	<u>31,946</u>

17. TRADE RECEIVABLES

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	<u>9,283</u>	<u>21,123</u>	<u>20,762</u>	<u>55,472</u>

Credit terms of 0-90 days are granted by the Group to customers upon delivery of goods.

The following is an ageing analysis of trade receivables of the Group presented based on the invoice dates, which are approximate to the dates of delivery of goods on which revenue was recognised, at the end of each reporting period:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	5,975	17,947	9,440	23,244
31 to 60 days	1,279	61	7,071	21,721
61 to 90 days	1,141	1,917	2,620	8,054
91 to 180 days	772	640	479	775
181 to 365 days	27	83	1,152	1,677
Over 365 days	89	475	—	1
	<u>9,283</u>	<u>21,123</u>	<u>20,762</u>	<u>55,472</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributed to customers and credit term granted to customers are reviewed regularly. 53%, 69%, 67% and 82% of the trade receivables as at 31 March 2016, 2017 and 2018 and 30 September 2018 respectively, that are neither past due nor impaired, have no history of defaulting on payments in the past and have good settlements records with the Group.

Included in the Group's trade receivables balance were trade receivables with aggregate carrying amount of HK\$4,665,000, HK\$6,475,000, HK\$6,784,000 and HK\$10,071,000 as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively, which were past due at the end of each reporting period. The Group had not provided for impairment loss as at 31 March 2016, 2017 and 2018 before the initial application of HKFRS 9 on 1 April 2018 as the Group considered such balances could be recovered based on historical experience or have been subsequently settled. Moreover, the management of the Group did not aware of any significant change in credit quality of the trade receivable. Thus, the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

The following is an ageing analysis of trade receivables which were past due but not impaired at the end of each reporting period based on number of days overdue:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	2,679	4,400	4,291	7,791
31 to 60 days	1,128	267	1,069	285
61 to 90 days	702	976	132	189
91 to 180 days	62	282	140	472
181 to 365 days	94	78	1,152	1,333
Over 365 days	—	472	—	1
	<u>4,665</u>	<u>6,475</u>	<u>6,784</u>	<u>10,071</u>

No interest is charged on the trade receivables.

Before the application of HKFRS 9 on 1 April 2018, the Group has policy regarding impairment losses on trade receivables which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the current creditworthiness and the past collection history of each customer. No allowance for bad and doubtful debt was provided and no balance of provision for bad and doubtful debt had been recognised as at 31 March 2016, 2017 and 2018.

Upon the application of HKFRS 9 on 1 April 2018, the Group applies simplified approach to provide for ECL of trade receivables and amount due from Veromia Limited prescribed by HKFRS 9. To measure the ECL, trade receivables and amounts due from Veromia Limited have been assessed individually.

Impairment assessment on trade receivables and amount due from Veromia Limited subject to ECL model

As part of the Group's credit risk management, the Group applies internal credit rating for its customers. The debtors are assessed individually by reference to past default experience and current past due exposure of the debtor, and an analysis of the debtor's current financial position.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in Hong Kong and the United States of America, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. Such forward-looking information is used by the management of the Group to assess both the current as well as the forecast direction of conditions at the reporting date. The grouping is regularly reviewed by the management of the Group to ensure relevant information about specific debtors is updated.

Since the application of HKFRS 9 on 1 April 2018, there has been no change in the estimation techniques or significant assumptions made.

Based on the assessment by the management of the Group, management of the Group considers the ECL for trade receivables, which is estimated based on the ECL rate of 0.1% to 2.1% based on the grouping of default risk over the debtors, and amount due from Veromia Limited, which is estimated based on the ECL rate of 0.1%, are insignificant as at 1 April 2018 and 30 September 2018.

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group				The Company		
	As at 31 March			As at 30 September	As at 31 March		As at 30 September
	2016	2017	2018	2018	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	103	109	113	87	—	—	—
Other tax receivables	694	1,275	1,139	1,602	—	—	—
Prepayments	141	169	195	17	—	—	—
Deposits paid to suppliers	—	1,375	1,768	152	—	—	—
Other deposits	99	612	80	90	—	—	10
Deferred share issue cost	—	—	2,263	3,222	—	2,263	3,222
Prepaid listing expenses	—	962	280	629	962	280	629
Total	<u>1,037</u>	<u>4,502</u>	<u>5,838</u>	<u>5,799</u>	<u>962</u>	<u>2,543</u>	<u>3,861</u>

19. AMOUNTS DUE FROM RELATED COMPANIES AND DIRECTORS/AMOUNT DUE TO A RELATED PARTY/AMOUNT DUE TO A SUBSIDIARY

(a) Amounts due from related companies

Name of related companies	Notes	As at					Maximum amount outstanding during			
		1 April	31 March			30 September	the year ended 31 March			the six months ended 30 September
			2015	2016	2017	2018	2016	2017	2018	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Veromia Limited	1	9,859	10,983	10,979	1,328	568	14,844	13,393	12,806	1,665
KNT 3-D Lenticular Manufacturer Limited	2	—	70	—	—	—	70	480	70	—
JFMC Limited	3	408	1,881	—	—	—	1,931	1,881	—	—
		<u>10,267</u>	<u>12,934</u>	<u>10,979</u>	<u>1,328</u>	<u>568</u>				

Notes:

1. Mr. S Chong is the director and sole shareholder of Veromia Limited, which is a private limited liability company incorporated in the United Kingdom.

The balance is trade in nature. Credit terms of 0-90 days are granted by the Group to Veromia Limited upon delivery of goods.

The following is an ageing analysis presented based on the invoice dates, which are approximate to the dates of delivery of goods on which revenue was recognised, at the end of each reporting period:

	As at 31 March			As at
	2016	2017	2018	30 September
	HK\$'000	HK\$'000	HK\$'000	2018
				HK\$'000
Within 30 days	634	661	175	104
31 to 60 days	647	200	248	107
61 to 90 days	1,106	1,080	905	357
91 to 180 days	2,418	1,322	—	—
181 to 365 days	4,089	2,949	—	—
Over 365 days	2,089	4,767	—	—
	<u>10,983</u>	<u>10,979</u>	<u>1,328</u>	<u>568</u>

22%, 18% and 100%, of the amount due from Veromia Limited as at 31 March 2016, 2017 and 2018, respectively, that are neither past due nor impaired have no history of defaulting on repayments.

Included in the Group's amount due from Veromia Limited balance were receivables with aggregate carrying amount of HK\$8,595,000, HK\$9,037,000, nil and nil as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively, which were past due at the end of each reporting period. The Group had not provided for impairment loss as at 31 March 2016, 2017 and 2018 before initial application of HKFRS 9 on 1 April 2018 as the Group considered such balances could be recovered based on historical experience or have been subsequently settled. The Group does not hold any collateral over these balances.

The following is an ageing analysis which were past due but not impaired at the end of each reporting period based on number of days overdue:

	As at 31 March			As at
	2016	2017	2018	30 September
	HK\$'000	HK\$'000	HK\$'000	2018
				HK\$'000
Within 30 days	1,353	447	—	—
31 to 60 days	528	543	—	—
61 to 90 days	537	332	—	—
91 to 180 days	1,599	1,007	—	—
181 to 365 days	4,578	4,218	—	—
Over 365 days	—	2,490	—	—
	<u>8,595</u>	<u>9,037</u>	<u>—</u>	<u>—</u>

No interest is charged on the amount due from Veromia Limited.

Before the application of HKFRS 9 on 1 April 2018, the Group has policy regarding impairment losses on Veromia Limited, which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the current creditworthiness and the past collection history. No allowance for bad and doubtful debts was provided and no balance of provision for bad and doubtful debts had been recognised as at 31 March 2016, 2017 and 2018.

Upon the application of HKFRS 9 on 1 April 2018, the Group measured loss allowance on amount due from Veromia Limited on lifetime ECL basis. In the opinion of the directors of the Company, the risk of default by Veromia Limited is not significant and the Group assessed that the ECL on the balance is insignificant upon the application of HKFRS 9 on 1 April 2018 and 30 September 2018 and thus no loss allowance provision was recognised. Details of the assessment referred to note 17.

2. The balance is non-trade in nature, unsecured, interest-free and repayable on demand. As at 1 April 2015 and 31 March 2016, the Controlling Shareholders and Mr. Chong Yu Sang, the father of the Controlling Shareholders, were the directors and shareholders of KNT 3-D Lenticular Manufacturer Limited. Mr. Chong Yu Sang resigned as the director of KNT 3-D Lenticular Manufacturer Limited on 25 October 2016 and ceased to be the shareholder of KNT 3-D Lenticular Manufacturer Limited on 1 November 2016.
3. The amount is non-trade in nature, unsecured, interest-free and repayable on demand. As at 1 April 2015, Mr. S Chong was the beneficiary of JFMC Limited, which is a company incorporated in Hong Kong and was appointed as director of JFMC Limited on 22 July 2015. On 1 December 2015, Mr. S Chong transferred the entire interest of JFMC Limited to Mr. Chong Yu Sang and Mr. Chong Yu Sang was appointed as a director of JFMC Limited. On 6 May 2016, Mr. S Chong resigned as a director of JFMC Limited.

(b) Amounts due from directors

Amounts are non-trade nature, unsecured, interest-free and repayable on demand.

	Maximum amount outstanding during							
	the year ended				the six months			
	1 April	As at 31 March		As at 30 September	the year ended 31 March		ended 30 September	
	2015	2016	2017	2018	2018	2016	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. S Chong	28,605	28,763	37,029	29,889	6,569	39,941	44,603	66,115
Mr. P Chong	11,683	609	573	636	—	11,683	862	636
	40,288	29,372	37,602	30,525	6,569	51,624	45,465	66,751
	<u>40,288</u>	<u>29,372</u>	<u>37,602</u>	<u>30,525</u>	<u>6,569</u>	<u>51,624</u>	<u>45,465</u>	<u>66,751</u>

Amounts due from directors are settled subsequent to the end of the reporting period.

(c) Amount due to a related party

Amount is non-trade nature, unsecured, interest-free and repayable on demand.

	As at 1 April	As at 31 March			As at 30 September
	2015	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. Chong Yu Sang	—	—	2,000	—	—

The amount due to a related party was repaid during the year ended 31 March 2018.

(d) Amount due to a subsidiary

Amount is non-trade nature, unsecured, interest-free and repayable on demand.

20. PLEDGED BANK DEPOSIT/BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 0.25% per annum for the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018. The pledged deposit carries fixed interest rate of 0.55% per annum for the year ended 31 March 2016.

During the year ended 31 March 2016, pledged bank deposit represents deposit pledged to a bank to secure banking facilities granted to the Group. The pledged bank deposit was released during the year ended 31 March 2017.

21. TRADE PAYABLES

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	7,584	8,829	7,793	9,199

The credit period on purchase of goods ranged from 0 to 60 days. The ageing analysis of the trade payables of the Group presented based on the invoice dates at the end of each reporting period is as follows:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	6,270	7,398	6,457	6,926
31 to 60 days	410	927	1,237	2,164
61 to 90 days	832	389	65	81
91 to 180 days	44	78	—	—
181 to 365 days	—	8	6	—
Over 365 days	28	29	28	28
	<u>7,584</u>	<u>8,829</u>	<u>7,793</u>	<u>9,199</u>

22A. OTHER PAYABLES AND ACCRUALS

	The Group				The Company		
	As at 31 March			As at 30 September	As at 31 March		As at 30 September
	2016	2017	2018	2018	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other payables and accruals	3,018	3,233	3,780	3,412	—	—	—
Accrued listing expense	—	—	2,841	1,698	—	2,841	1,698
Accrued share issue cost	—	—	857	401	—	857	401
Other tax payables	40	53	494	99	—	—	—
	<u>3,058</u>	<u>3,286</u>	<u>7,972</u>	<u>5,610</u>	<u>—</u>	<u>3,698</u>	<u>2,099</u>

22B. CONTRACT LIABILITIES

	As at 1 April	As at 31 March			As at 30 September
	2015	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contract liabilities on sales of garment products	<u>7,071</u>	<u>4,401</u>	<u>5,135</u>	<u>6,957</u>	<u>2,709</u>

Contract liabilities represent the deposits received from the customers in advance of the transfer of control of garment products to the customers.

For the contract liabilities as at 1 April 2015, 31 March 2016, 2017 and 2018, the entire balances are recognised as revenue to profit or loss during the years ended 31 March 2016, 2017 and 2018 and six months ended 30 September 2018, respectively.

23. BANK BORROWINGS

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unsecured and guaranteed:				
Bank overdrafts	1,942	5,275	5,054	5,269
Bank loans	<u>4,325</u>	<u>7,054</u>	<u>14,527</u>	<u>21,973</u>
	<u>6,267</u>	<u>12,329</u>	<u>19,581</u>	<u>27,242</u>
Secured and guaranteed:				
Bank overdrafts	5,211	3,787	5,850	4,420
Bank loans	<u>13,824</u>	<u>26,641</u>	<u>31,385</u>	<u>27,707</u>
	<u>19,035</u>	<u>30,428</u>	<u>37,235</u>	<u>32,127</u>
Total	<u>25,302</u>	<u>42,757</u>	<u>56,816</u>	<u>59,369</u>

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amounts of bank overdrafts and bank loans based on scheduled repayment dates set out in the loan agreements and classified as current due to repayment on demand clause:				
Within one year	25,302	35,907	50,714	53,643
More than one year, but not more than two years	—	748	764	771
More than two years, but not more than five years	—	2,346	2,400	2,426
More than five years	—	3,756	2,938	2,529
Amounts shown under current liabilities	<u>25,302</u>	<u>42,757</u>	<u>56,816</u>	<u>59,369</u>

The variable-rate bank overdrafts and bank loans of HK\$25,302,000 as at 31 March 2016 bear interest rate ranged from Hong Kong Interbank Offered Rate (“HIBOR”) plus 2.5% to Hong Kong Prime Rate per annum. The variable-rate bank overdrafts and bank loans of HK\$42,757,000, HK\$56,816,000 and HK\$59,369,000 bear interest ranged from Hong Kong Prime Rate minus 3% to Hong Kong Prime Rate per annum as at 31 March 2017 and 2018 and 30 September 2018, respectively.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group’s borrowings are as follows:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
Effective interest rate:				
Variable-rate bank loans	3.06% - 4.5%	2.25% - 5%	2.25% - 5.81%	2.375% - 5.85%
Variable-rate bank overdrafts	5% - 5.25%	5% - 5.25%	5% - 5.25%	5.125% - 5.375%

The Group entered into several banking facilities with banks in Hong Kong. The banking facilities are secured by assets and/ or guaranteed with details as follow:

- (a) Personal guarantees by the Controlling Shareholders and Mr. S Chong’s spouse as at 31 March 2016, 2017 and 2018 and 30 September 2018;

- (b) Leasehold land and building of the Group as at 31 March 2016, 2017 and 2018 and 30 September 2018;
- (c) Properties owned by Mr. P Chong and his spouse as at 31 March 2016, 2017 and 2018 and 30 September 2018;
- (d) Pledged bank deposit as disclosed in note 20 as at 31 March 2016.

As represented by the management of the Group, the pledged of properties by management of the Group and their spouses and personal guarantee provided by management of the Group will be released upon the Listing.

24. SHARE CAPITAL

The share capital as at 1 April 2015 represented the aggregate share capital of KNT, KNT Int'l and HYG.

The share capital as at 31 March 2016 represented the aggregate share capital of KNT and KNT Int'l.

The share capital as at 31 March 2017 represented the aggregate share capital of the Company, KNTGL, KNT and KNT Int'l.

The share capital as at 31 March 2018 and 30 September 2018 represented the share capital of the Company.

Details of the Company's shares are disclosed as follows:

	Number of shares	Share capital <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 5 July 2016 (date of incorporation), 31 March 2017 and 2018 and 30 September 2018	38,000,000	380
Issued and fully paid:		
At 5 July 2016 (date of incorporation) and 31 March 2017	1	—
Issue of shares	999	—
At 31 March 2018 and 30 September 2018	1,000	—

Upon its incorporation, one nil-paid initial share of the Company was allotted and issued to the initial subscriber. On the same day, the said nil-paid initial share of the Company was transferred to Mr. S Chong.

During the year ended 31 March 2018, the Company issued 999 shares to Total Clarity and Strategic Elite in relation to the Reorganisation as disclosed in notes 1(iii), 1(iv) and 1(v), respectively.

25. DERIVATIVE FINANCIAL INSTRUMENT

On 7 August 2015, the Group entered into a US\$/Renminbi ("RMB") structured foreign currency forward contract with a bank pursuant to which (i) no settlement between the Group and the bank when the spot rate is higher than RMB6.205 per US\$ and equal to or lower than RMB6.400 per US\$; (ii) the Group would pay US\$1,000,000 multiply by the rate specified in the contract when the spot rate is higher than RMB6.400 per US\$ on respective determining dates; (iii) the Group would receive US\$1,000,000 multiply by the rate specified in the contract when the spot rate is equal to or lower than RMB6.205 per US\$ on respective determining dates; and (iv) when the spot rate is equal to or lower than RMB6.205 per US\$ on respective determining dates as specified in (iii), the difference between the spot rate and RMB6.205 per US\$ on each determining dates would be accumulated, and when the aggregate difference exceed a factor stated in the contract, the contract would be terminated. The determining dates are scheduled on a monthly basis throughout the contract period and the obligations, if any, will be net settled on the respective determining dates.

Details of contract and the respective fair values at the end of each reporting period are set out as below:

Contract	Contract date	Beginning determining date	Ending determining date	As at 31 March			As at 30 September
				2016	2017	2018	2018
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Structured foreign currency forward	7 August 2015	9 September 2015	9 August 2017	7,070	4,079	—	—
Presented as non-current				2,198	—	—	—
Presented as current				4,872	4,079	—	—
				7,070	4,079	—	—

26. DEFERRED TAX LIABILITIES

The following is the deferred tax liabilities recognised and movements thereon during the Track Record Period:

	<u>Accelerated tax depreciation</u>
	<i>HK\$'000</i>
At 1 April 2015	534
Credit to profit or loss for the year (note 9)	<u>(41)</u>
At 31 March 2016	493
Credit to profit or loss for the year (note 9)	<u>(53)</u>
At 31 March 2017 and 2018	440
Credit to profit or loss for the period (note 9)	<u>(7)</u>
At 30 September 2018	<u><u>433</u></u>

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiary from 1 January 2008 onwards. Deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to retained profits of the PRC subsidiary amounting to HK\$459,000, HK\$261,000, HK\$429,000 and HK\$614,000 as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively, as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not be reversed in the foreseeable future.

27. RELATED PARTY DISCLOSURES

Saved as disclosed elsewhere in the Historical Financial Information, during the Track Record Period, the Group entered into the following transactions with related parties:

Name of related party	Nature of transaction	Year ended 31 March			Six months ended 30 September	
		2016	2017	2018	2017	2018
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Veromia Limited	Sales of finished goods	9,270	6,857	4,543	2,015	1,874
	Purchase of samples	—	14	34	28	—
KNT 3-D Lenticular Manufacturer Limited	Management fee income	240	—	—	—	—
Mr. S Chong and Mr. P Chong	Rental expenses	<u>547</u>	<u>649</u>	<u>1,964</u>	<u>961</u>	<u>991</u>

Compensation of key management personnel

The remuneration of key management personnel was as follows:

	Year ended 31 March			Six months ended 30 September	
	2016	2017	2018	2017	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Short-term benefits	4,041	3,539	5,043	2,327	2,713
Post-employment benefits	<u>72</u>	<u>72</u>	<u>87</u>	<u>42</u>	<u>45</u>
	<u>4,113</u>	<u>3,611</u>	<u>5,130</u>	<u>2,369</u>	<u>2,758</u>

28. RETIREMENT BENEFIT SCHEMES

The Group participates the MPF Scheme for all its qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes the lower of HK\$1,500 or 5% of relevant payroll costs per person to the MPF Scheme, which contribution is matched by the employees.

The employees of the subsidiary in the PRC are members of the pension scheme operated by the PRC government. The relevant PRC subsidiary is required to contribute a certain percentage of the relevant portion of these employees' basis salaries to the pension to fund the benefits.

The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions. During the Track Record Period, the total amounts contributed by the Group to the schemes and costs charged to the profit or loss represents contributions paid or payable to the scheme by the Group at rates specified in the rules of the scheme. The retirement benefits scheme contributions made by the Group amounted to HK\$2,106,000, HK\$2,389,000, HK\$3,035,000, HK\$1,476,000 (unaudited) and HK\$1,592,000 for the years ended 31 March 2016, 2017 and 2018 and six months ended 30 September 2017 (unaudited) and 2018, respectively.

29. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group companies will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes bank borrowings disclosed in note 23, net of cash and cash equivalents, and equity attributable to owner of the Company, comprising issued share capital, retained profits, translation reserve, shareholders distribution reserve, statutory reserve and other reserve.

The management of the Group reviews the capital structure regularly. As part of the review, the directors of the Company consider the cost and the risks associated with each class of the capital. Based on the recommendations of the directors of the Company, the Group will balance its overall capital structure through issue of new shares, issue of new debt and redemption of existing debts.

30. FINANCIAL INSTRUMENTS**Categories of financial instruments**

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
Financial assets				
Loans and receivables (including cash and cash equivalents)	55,607	71,650	74,430	—
Amortised cost	—	—	—	81,724
Financial liabilities				
Amortised cost	35,904	56,819	68,389	71,980
Derivative financial instrument	7,070	4,079	—	—
The Company				
Financial liabilities				
Amortised cost	—	962	2,245	9,485

Financial risk management objectives and policies

The Group's financial instruments include trade receivables, deposits and other receivables, amounts due from related companies, amounts due from directors, pledged bank deposit, bank balances and cash, trade payables, other payables and accruals, amount due to a related party, derivative financial instrument and bank borrowings. The Company's financial instruments include amount due to a subsidiary.

Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risks (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk(i) *Currency risk*

The Group has foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 8.9%, 7.3%, 4.3% and 2.6% of our Group's sales are denominated in foreign currency other than the functional currency of the group entities, whilst almost 8.1%, 7.8%, 5.8% and 5.2% of purchase of goods are denominated in currencies other than the functional currency of the group entities, during the year ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively.

The Group currently does not have a foreign currency hedging policy. However, management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of each reporting period are as follows:

	HK\$				British Pound ("GBP")				Australian Dollar ("AUD")			
	As at 31 March			As at 30 September	As at 31 March			As at 30 September	As at 31 March			As at 30 September
	2016	2017	2018	2018	2016	2017	2018	2018	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	—	—	—	—	—	—	—	—	1,024	826	604	823
Other receivables	90	70	70	72	—	—	—	—	—	—	—	—
Amounts due from related companies	840	—	—	—	10,983	10,979	1,328	568	—	—	—	—
Amounts due from directors	28,763	37,029	29,889	6,569	—	—	—	—	—	—	—	—
Pledged bank deposit	1,005	—	—	—	—	—	—	—	—	—	—	—
Trade payables	3,908	757	608	794	—	—	—	—	—	—	—	—
Other payables and accruals	229	2,180	459	351	—	—	—	—	—	—	—	—
Amount due to a related party	—	2,000	—	—	—	—	—	—	—	—	—	—
Bank borrowings	17,128	29,840	34,607	26,397	—	—	—	—	—	—	—	—

	Euro ("EUR")				RMB			
	As at 31 March			As at 30 September	As at 31 March			As at 30 September
	2016	2017	2018	2018	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	555	718	439	475	—	—	—	—
Amounts due from related companies	—	—	—	—	14	—	—	—
Trade payables	—	—	—	—	—	4,136	2,822	5,729

Sensitivity analysis

Since the exchange rate of HK\$ is pegged to US\$, the Group does not expect significant movement in the US\$/HK\$ exchange rate, therefore HK\$ is not considered in the sensitivity analysis.

The following table details the Group's sensitivity to a 5% increase and decrease in foreign currencies against functional currency of the respective group entities as at 31 March 2016, 2017 and 2018 and 30 September 2018 and all other variables were held constant. The percentage of the sensitivity rate used represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis adjusts their translation at the end of each reporting period for a 5% change in foreign currency rates.

A positive number below indicates an increase in post-tax profit where foreign currencies strengthens 5% against functional currency of the respective group entities for the Track Record Period. For a 5% weakening of foreign currencies against functional currency of the respective group entities, there would be an equal and opposite impact on post-tax profit.

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
GBP	459	458	55	12
AUD	43	34	25	17
EUR	23	30	18	10
RMB	1	(173)	(118)	(120)

In the opinion of management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the exposure at the end of each reporting period does not reflect the exposure during the respective reporting period.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to the Group's interest-free amounts due from related companies/directors as at 31 March 2016, 2017 and 2018 and 30 September 2018, fixed-rate pledged bank deposit as at 31 March 2016 and interest-free amount due to a related party as at 31 March 2017. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings as at 31 March 2016, 2017 and 2018 and 30 September 2018.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of the HIBOR, Hong Kong Best Lending Rate or Hong Kong Prime Rate arising from the Group's floating-rate bank borrowings or other market rates from pledged bank deposit and bank balances.

The Group currently does not have interest rate risk hedging policy. However, management of the Group closely monitors its exposure to future cash flow interest rate risk as a result of change on market interest rate and will consider hedging changes in market interest rates should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of bank borrowings outstanding at the end of each reporting period were outstanding for the whole year. A 50 basis points increase is used for bank borrowings, which represents management's assessment of reasonably possible changes in interest rates as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively.

For bank borrowings, if interest rate increases/decreases by 50 basis points and all other variables were held constant, the post-tax profit for the year/period will decrease/increase by approximately HK\$106,000, HK\$179,000, HK\$237,000 and HK\$124,000 during the years ended 31 March 2016, 2017 and 2018 and the six months ended 30 September 2018, respectively.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year/period.

No sensitivity analysis is provided on bank balances as the Group's management considers that the interest rate fluctuation on bank balances is minimal.

Credit risk

The Group's credit risk is primarily attributable to trade receivables, amounts due from related companies and directors, pledged bank deposit and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the statements of financial position at the end of each reporting period.

For amounts due from directors, in order to minimise the credit risk, management of the Group continuously monitors the settlement status and the level of exposure to ensure that follow-up action is taken to recover overdue debts. In the opinion of the management of the Group, the risk of default by these counterparties is not significant and the Group assessed that the ECL on these balances are insignificant, which is estimated based on the ECL rate of 0.1% upon the application of HKFRS 9 on 1 April 2018 and 30 September 2018 and thus no impairment loss allowance was recognised.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Under HKAS 39, impairment losses are made for irrecoverable amounts. Upon the application of HKFRS 9 on 1 April 2018, the Group applies simplified approach on trade receivable and amount due from Veromia Limited to provide for ECL prescribed by HKFRS 9. To measure the ECL, trade receivables and amounts due from Veromia Limited have been assessed individually with details disclosed in note 17. In addition, the directors of the Company are of the opinion that there was no default occurred on trade receivables aged over 90 days and the balances are still considered fully recoverable due to the management's historical experience on the settlement pattern or record from these debtors. ECL rates used by the management of the Group on trade receivables and amount due from Veromia Limited are disclosed in note 17. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

As at 31 March 2016, 2017 and 2018 and 30 September 2018, the Group had concentration of credit risk as 38.8%, 31.0%, 64.1% and 91.6%, respectively, of the total trade receivables was due from the Group's largest debtor. The Group's concentration of credit risk on the top five largest debtors accounted for 87.3%, 86.5%, 95.3% and 98.9% of the total trade receivables as at 31 March 2016, 2017 and 2018 and 30 September 2018, respectively. The management of the Group considers that the credit risk on amounts due from these customers is insignificant after considering their historical settlement records, credit qualities and financial positions of the counterparties.

For deposits and other receivables, management of the Group makes periodic collective assessment as well as individual assessment on the recoverability of deposits and other receivables based on historical settlement records, past experience, and also available reasonable and supportive forward-looking information starting from 1 April 2018. The management of the Group believes that

there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables deposits. The management of the Group considered that the ECL rate for deposits and other receivables is 0.1% as at 1 April 2018 and 30 September 2018 as there has been no history of default.

The credit risk for pledged bank deposit as at 31 March 2016 and bank balances as at 31 March 2016, 2017 and 2018 and 30 September 2018 is considered as not material as such amount is placed in reputable banks with high credit ratings assigned by international credit-rating agencies. There has been no history of default in relation to these banks and thus the risk of default is regard as low. No loss allowance provision for bank balances was recognised upon application of HKFRS 9.

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains levels of cash and cash equivalents deemed adequate by the management of the Group to finance the Group's and the Company's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other financial liabilities are based on the agreed repayment dates. To the extent that interest rates are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

The table includes both interest and principal cash flows.

The Group

	Weighted average effective interest rate	Repayable on demand	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 March 2016						
<i>Non-derivative financial liabilities</i>						
Trade payables	N/A	1,497	6,087	—	7,584	7,584
Other payables and accruals	N/A	—	3,018	—	3,018	3,018
Bank loans	3.47	18,149	—	—	18,149	18,149
Bank overdrafts	5.18	7,153	—	—	7,153	7,153
		<u>26,799</u>	<u>9,105</u>	<u>—</u>	<u>35,904</u>	<u>35,904</u>
Year ended 31 March 2017						
<i>Non-derivative financial liabilities</i>						
Trade payables	N/A	1,940	6,889	—	8,829	8,829
Other payables and accruals	N/A	—	3,233	—	3,233	3,233
Amount due to a related party	N/A	2,000	—	—	2,000	2,000
Bank loans	3.66	33,695	—	—	33,695	33,695
Bank overdrafts	5.10	9,062	—	—	9,062	9,062
		<u>46,697</u>	<u>10,122</u>	<u>—</u>	<u>56,819</u>	<u>56,819</u>
Year ended 31 March 2018						
<i>Non-derivative financial liabilities</i>						
Trade payables	N/A	103	7,690	—	7,793	7,793
Other payables and accruals	N/A	—	3,780	—	3,780	3,780
Bank loans	4.10	45,912	—	—	45,912	45,912
Bank overdrafts	5.13	10,904	—	—	10,904	10,904
		<u>56,919</u>	<u>11,470</u>	<u>—</u>	<u>68,389</u>	<u>68,389</u>
Six months ended 30 September 2018						
<i>Non-derivative financial liabilities</i>						
Trade payables	N/A	109	9,090	—	9,199	9,199
Other payables and accruals	N/A	—	3,412	—	3,412	3,412
Bank loans	4.34	49,680	—	—	49,680	49,680
Bank overdrafts	5.24	9,689	—	—	9,689	9,689
		<u>59,478</u>	<u>12,502</u>	<u>—</u>	<u>71,980</u>	<u>71,980</u>

The Company

The entire financial liabilities, which represent amount due to a subsidiary, are included in “repayable on demand” time band as at 31 March 2017 and 2018 and 30 September 2018.

The amount included above for variable interest instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

Bank loans with a repayment on demand clause are included in the “repayable on demand” time band in the above maturity analysis. As at 31 March 2016, 2017 and 2018 and 30 September 2018, the aggregate carrying amounts of these bank loans were HK\$18,149,000, HK\$33,695,000, HK\$45,912,000 and HK\$49,680,000, respectively.

Taking into account the Group’s financial position, the management of the Group does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The management of the Group believes that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

For the purpose of managing liquidity risk, management of the Group reviews the expected cash flow information of the Group’s bank loans based on the scheduled repayment dates set out in the bank loans agreements as set out in the table below:

	Weighted average effective interest rate	Less than 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total undiscounted cash flows	Carrying amount
	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans:							
As at 31 March 2016	3.47	18,231	—	—	—	18,231	18,149
As at 31 March 2017	3.66	25,470	1,713	3,577	3,949	34,709	33,695
As at 31 March 2018	4.10	35,486	4,708	3,577	3,055	46,826	45,912
As at 30 September 2018	4.34	42,647	1,690	3,594	2,621	50,552	49,680

The following table details the Group’s liquidity analysis for its derivative financial instrument as at 31 March 2016 and 2017. The table has been drawn up based on the undiscounted contractual cash flows on derivative financial instrument by using the forward rate published by independent financial information agency. The liquidity analysis for the Group’s derivative financial instrument is prepared based on the contractual maturities as the management of the Group considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivative.

	Within 1 year	Over 1 year	Total undiscounted cash flows	Derivative financial instrument - fair value
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 March 2016				
Structured foreign currency forward contract with a bank				
- outflow by net settlement	<u>4,889</u>	<u>2,711</u>	<u>7,600</u>	<u>7,070</u>
As at 31 March 2017				
Structured foreign currency forward contract with a bank				
- outflow by net settlement	<u>4,244</u>	<u>—</u>	<u>4,244</u>	<u>4,079</u>

Fair value of the Group's financial assets and financial liabilities that are measured at amortised cost

The management of the Group considers that the carrying amounts of the financial assets and financial liabilities of the Group recorded at amortised cost in the Historical Financial Information at the end of each reporting period approximate their fair values. Such fair values have been determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Fair value of financial liabilities that are measured at fair value on a recurring basis

The Group's derivative financial instrument is measured at fair value for financial reporting purposes. In estimating the fair value, the Group uses market-observable data to the extent it is available. The following table gives information about how the fair values of the financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liability	Fair value as at				Fair value hierarchy	Valuation techniques and key inputs
	31 March			30 September		
	2016	2017	2018	2018		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Derivative financial instrument	7,070	4,079	—	—	Level 2	Discounted cash flow and option pricing model Key input: Forward exchange rates and its volatility and discount rate

There were no transfers between Level 1 and 2 during Track Record Period.

31. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS

The Group has entered into the International Swaps and Derivatives Association Master Netting Agreements ("ISDA Agreements") with certain banks. The following recognised financial assets and financial liabilities as at 31 March 2016 and 2017 are not offset in the statements of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts:

At 31 March 2016

	Gross amounts presented in the statements of financial position	Related amount not set off in the statements of financial position Financial instruments	Net amount
	HK\$'000	HK\$'000	HK\$'000
Recognised financial assets:			
- Bank balances/pledged bank deposit	<u>1,051</u>	<u>(1,051)</u>	<u>—</u>
Recognised financial liabilities:			
- Derivative financial instrument	<u>(7,070)</u>	<u>1,051</u>	<u>(6,019)</u>

As at 31 March 2017

	Gross amounts presented in the statements of financial position	Related amount not set off in the statements of financial position Financial instruments	Net amount
	HK\$'000	HK\$'000	HK\$'000
Recognised financial assets:			
- Bank balances	<u>31</u>	<u>(31)</u>	<u>—</u>
Recognised financial liabilities:			
- Derivative financial instrument	<u>(4,079)</u>	<u>31</u>	<u>(4,048)</u>

32. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the end of each reporting period, the Group had commitments for future minimum lease payments in respect of factory premises and staff dormitories rented under non-cancellable operating lease which fall due as follows:

	As at 31 March			As at 30 September
	2016	2017	2018	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	<u>404</u>	<u>939</u>	<u>1,040</u>	<u>947</u>

The above operating lease payments represent rental payable by the Group to the Controlling Shareholders for factory premises and staff dormitories. Leases for factory premises and staff dormitories are negotiated and fixed for a term of two to three years.

Certain lease agreements entered into between the Controlling Shareholders and the Group includes a termination clause and the Group can terminate the agreements anytime with six-months' notice period. Accordingly, lease payments after the six-months' notice period are not included in the above commitment.

33. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March 2016, KNT and HYG declared interim dividends of HK\$14,550,000 and HK\$7,462,000, respectively, and during the year ended 31 March 2017, KNT declared an interim dividend of HK\$21,000,000 to its then shareholders. During the year ended 31 March 2018 and the six months ended 30 September 2018, the Company declared an interim dividend of HK\$24,000,000 and HK\$9,000,000, respectively, to its then shareholders. The dividend payable was settled through the amounts due from directors.

During the year ended 31 March 2018, the Group disposed motor vehicles with an aggregate carrying value of approximately HK\$285,000 to the directors of the Company at a total consideration of HK\$995,000, which HK\$815,000 was settled through the amounts due from directors and HK\$180,000 was settled through the amount due to a director.

During the year ended 31 March 2018, a deed of settlement was executed by and entered into between a group entity and the Controlling Shareholders, pursuant to the deed of settlement that amount due to Mr. P Chong of HK\$4,976,000 were novated and assigned to set-off with amount due from Mr. S Chong.

34. MOVEMENT ON GROUP'S LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statements of cash flows as cash flows from financing activities.

	Dividends payable	Accrued share issue cost	Amount due to a director	Non-trade amount due to a related party/ company	Bank loans	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2015	—	—	—	268	21,224	21,492
Financing cash flow						
(Note)	—	—	—	(268)	(4,086)	(4,354)
Finance cost recognised	—	—	—	—	1,011	1,011
Dividends declared	22,012	—	—	—	—	22,012
Settled through the amounts due from directors (note 33)	(22,012)	—	—	—	—	(22,012)
At 31 March 2016	—	—	—	—	18,149	18,149
Financing cash flow						
(Note)	—	—	—	2,000	14,319	16,319
Finance cost recognised	—	—	—	—	1,227	1,227
Dividends declared	21,000	—	—	—	—	21,000
Settled through the amounts due from directors (note 33)	(21,000)	—	—	—	—	(21,000)
At 31 March 2017	—	—	—	2,000	33,695	35,695
Financing cash flow						
(Note)	—	(1,726)	5,156	(2,000)	10,411	11,841
Finance cost recognised	—	—	—	—	1,806	1,806
Share issue cost accrued	—	2,263	—	—	—	2,263
Debited to shareholders' distribution reserve	—	320	—	—	—	320
Dividends declared	24,000	—	—	—	—	24,000

	Dividends payable	Accrued share issue cost	Amount due to a director	Non-trade amount due to a related party/ company	Bank loans	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Settled through the amounts due from directors (note 33)	(24,000)	—	—	—	—	(24,000)
Settled through the amount due to a director (note 33)	—	—	(5,156)	—	—	(5,156)
At 31 March 2018	—	857	—	—	45,912	46,769
Financing cash flow (Note)	—	(1,722)	—	—	2,451	729
Finance cost recognised	—	—	—	—	1,317	1,317
Share issue cost accrued	—	959	—	—	—	959
Debited to shareholders' distribution reserve	—	307	—	—	—	307
Dividends declared	9,000	—	—	—	—	9,000
Settled through the amounts due from directors (note 33)	(9,000)	—	—	—	—	(9,000)
At 30 September 2018	—	401	—	—	49,680	50,081
At 1 April 2017	—	—	—	2,000	33,695	35,695
Financing cash flow (Note)	—	(326)	—	(2,000)	979	(1,347)
Finance cost recognised	—	—	—	—	875	875
Share issue cost accrued	—	306	—	—	—	306
Debited to shareholders' distribution reserve	—	60	—	—	—	60
At 30 September 2017 (unaudited)	—	40	—	—	35,549	35,589

Note: The financing cash flows represented the net amount of proceeds from bank borrowings, advance from a related party, repayment to a related party/company, advance from a director, repayment to a director, share issue cost paid and payment of finance costs.

35. RESERVE OF THE COMPANY

	Accumulated losses
	<i>HK\$'000</i>
At 5 July 2016 (date of incorporation) and 31 March 2017	—
Loss and other comprehensive expenses for the year	(3,400)
At 31 March 2018	(3,400)
Profit and other comprehensive income for the period	1,677
At 30 September 2018	<u>(1,723)</u>
(Unaudited)	
At 1 April 2017	—
Loss and other comprehensive expense for the period	<u>(1,129)</u>
At 30 September 2017	<u>(1,129)</u>

36. PARTICULARS OF SUBSIDIARIES

Particulars of the subsidiaries at the end of each reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operation	Issued and fully paid share capital/ registered capital	Equity interest attributable to the Group as at					Principal activities
				31 March		30 September		the date of report	
				2016	2017	2018	2018		
KNTGL (Note (a))	The BVI 29 April 2016	Hong Kong	US\$1	100%	100%	100%	100%	100%	Investment holding
KNT (Note (b))	Hong Kong 9 February 1993	Hong Kong	Ordinary share HK\$3,000,000	100%	100%	100%	100%	100%	Manufacturing and trading garments
KNT Int'l (Note (b))	Hong Kong 19 July 2012	Hong Kong	Ordinary share HK\$20,000	100%	100%	100%	100%	100%	Investment holding
HYG (Note (c))	PRC 22 January 2003	PRC	Registered capital HK\$16,500,000	100%	100%	100%	100%	100%	Manufacturing and trading garments

Except for KNTGL, which is directly held by the Company, all other subsidiaries are indirectly held by the Company.

Except for HYG, which adopted 31 December as their financial year end date, the Company and all other subsidiaries now comprising the Group have adopted 31 March as their financial year end date.

Notes:

- (a) No statutory audited financial statements have been prepared for KNTGL since its date of incorporation as it was incorporated in a jurisdiction where there is no statutory audit requirements.
- (b) The statutory financial statements of KNT and KNT Int'l for the years ended 31 March 2016 and 2017 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by certified public accountants in Hong Kong, being Integrity CPA Limited and audited by us for the year ended 31 March 2018.
- (c) The statutory financial statements of HYG for the year ended 31 December 2015, 2016 and 2017 were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprise established in the PRC. They were audited by DongGuan JunYe Certified Public Accountants (“東莞市駿業會計師事務所(普通合夥)”), certified public accountants registered in the PRC.

37. SUBSEQUENT EVENTS

Save as disclosed elsewhere in the Historical Financial Information, subsequent events of the Group and detailed as below.

On 31 January 2019, written resolutions of the shareholders of the Company was passed to approve the matters set out in the paragraph headed “Written resolutions of our Shareholders passed on 31 January 2019” in Appendix IV of the Prospectus. It was resolved, among other things:

- (i) the authorised share capital of the Company increased to HK\$100,000,000 divided into 10,000,000,000 shares of the Company of HK\$0.01 each by creation of an additional 9,962,000,000 shares of the Company;
- (ii) conditionally adopted a share option scheme where eligible participants may be granted options entitling them to subscribe for the Company's shares. No share has been granted since the adoption of the scheme. The principal terms of the share option scheme are summarised in the section head “Share Option Scheme” in Appendix IV to the Prospectus; and
- (iii) conditional upon the share premium account of the Company being credited as a result of the offer of the Company's shares, the directors of the Company were authorised to capitalise the amount of HK\$4,159,990 from the amount standing to the credit of the share premium account of the Company and to apply such amount to pay up in full at par 415,999,000 shares of the Company for allotment and issue to the persons whose name appeared on the register of the members of the Company at the close of business on the business day immediately preceding the date of Listing.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of its subsidiaries or the Group in respect of any period subsequent to 30 September 2018.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the accountants' report on the historical financial information of the Group for the Track Record Period (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, the Company's Reporting Accountants, as set out in Appendix I to this prospectus, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

A. STATEMENT OF UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering on the consolidated net tangible assets of the Group as if the Global Offering had taken place on 30 September 2018.

The statement of unaudited pro forma adjusted consolidated net tangible assets of the Group has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the net tangible assets of the Group as at 30 September 2018 or any future dates following the Global Offering.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net tangible assets of the Group as at 30 September 2018 as shown in the Accountants' Report on Historical Financial Information, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2018	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2018	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2018 per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3)
Based on Offer Price of HK\$0.98 per New Share	<u>45,457</u>	<u>73,152</u>	<u>118,609</u>	<u>0.23</u>
Based on Offer Price of HK\$1.26 per New Share	<u>45,457</u>	<u>99,651</u>	<u>145,108</u>	<u>0.28</u>

Notes:

- (1) The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 30 September 2018 is based on net assets attributable to owners of the Company of HK\$45,626,000 and adjustment to intangible asset of HK\$169,000 as extracted from the Accountants' Report set out in Appendix I to this prospectus.
- (2) The estimated net proceeds from the Global Offering are based on 104,000,000 new Shares at Offer Price of lower limit and upper limit of HK\$0.98 and HK\$1.26 per Share, respectively, after taking into account the estimated underwriting fees and other related expenses to be incurred by the Group (excluding listing expenses which have been charged to profit or loss up to 30 September 2018). The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under Share Option Scheme or any Shares which may be issued or repurchased by the Company referred to the section headed "Share capital — General mandate to allot and issue Shares" or the section headed "Share capital — General mandate to repurchase Shares" in this prospectus.
- (3) The unaudited pro forma adjusted consolidated net tangible assets of the Group per Share is arrived at on the basis that 520,000,000 Shares were in issue assuming that the Capitalisation Issue and the Global Offering had been completed on 30 September 2018 and does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which may be granted under Share Option Scheme or any Shares which may be issued or repurchased by the Company referred to the section headed "Share capital — General mandate to allot and issue Shares" or section headed "Share capital — General mandate to repurchase Shares" in this prospectus.
- (4) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group to reflect any trading results or other transactions of the Group entered into subsequent to 30 September 2018.

**B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the text of the independent reporting accountants' assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.

Deloitte.**德勤****INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION****TO THE DIRECTORS OF KNT HOLDINGS LIMITED**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of KNT Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the statement of unaudited pro forma adjusted consolidated net tangible assets of the Group as at 30 September 2018 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 15 February 2019 (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-2 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering as defined in the Prospectus on the Group's financial position as at 30 September 2018 as if the Global Offering had taken place at 30 September 2018. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial information for each of the 3 years ended 31 March 2018 and six months ended 30 September 2018, on which an accountants' report set out in Appendix I to the Prospectus has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the “Code of Ethics for Professional Accountants” issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants’ Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 September 2018 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 February 2019

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 July 2016 under the Companies Law. The Company's constitutional documents consist of its Memorandum of Association and its Articles of Association.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 31 January 2019 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

(a) **Shares**

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND THE CAYMAN ISLANDS COMPANIES LAW

by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(iii) *Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(iv) *Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

Notwithstanding the foregoing, for so long as any shares are listed on the Stock Exchange, titles to such listed shares may be evidenced and transferred in accordance with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares. The register of members in respect of its listed shares (whether the principal register or a branch register) may be kept by recording the particulars required by Section 40 of the Companies Law in a form otherwise than legible if such recording otherwise complies with the laws applicable to and the rules and regulations of the Stock Exchange that are or shall be applicable to such listed shares.

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The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

(v) *Power of the Company to purchase its own shares*

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

The board may accept the surrender for no consideration of any fully paid share.

(vi) *Power of any subsidiary of the Company to own shares in the Company*

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

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(vii) *Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(b) **Directors**

(i) *Appointment, retirement and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

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The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) he is prohibited from being a director by law; or
- (ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ii) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

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The board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount to their nominal value.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(iii) *Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iv) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(v) *Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all

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travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

The board may resolve to capitalise all or any part of any amount for the time being standing to the credit of any reserve or fund (including a share premium account and the profit and loss account) whether or not the same is available for distribution by applying such sum in paying up unissued shares to be allotted to (i) employees (including directors) of the Company and/or its affiliates (meaning any individual, corporation, partnership, association, joint-stock company, trust, unincorporated association or other entity (other than the Company) that directly, or indirectly through one or more intermediaries, controls, is controlled by or is under common control with, the Company) upon exercise or vesting of any options or awards granted under any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting, or (ii) any trustee of any trust to whom shares are to be allotted and issued by the Company in connection with the operation of any share incentive scheme or employee benefit scheme or other arrangement which relates to such persons that has been adopted or approved by the members in general meeting.

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(vi) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(vii) *Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

(viii) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(c) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(d) Alterations to constitutional documents and the Company's name

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

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(e) Meetings of members

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given held in accordance with the Articles.

(ii) *Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

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(iii) Annual general meetings and extraordinary general meetings

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

Extraordinary general meetings may be convened on the requisition of one or more shareholders holding, at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the board or the secretary for the purpose of requiring an extraordinary general meeting to be called by the board for the transaction of any business specified in such requisition. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the board fails to proceed to convene such meeting, the requisitionist(s) himself/herself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the board shall be reimbursed to the requisitionist(s) by the Company.

(iv) Notices of meetings and business to be conducted

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address, by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

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(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers; and

(ee) the fixing of the remuneration of the directors and of the auditors.

(v) ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vi) ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(f) **Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

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A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. Moreover, the members may, at any general meeting, by special resolution remove the auditors at any time before the expiration of his terms of office and shall by ordinary resolution at that meeting appoint another auditor for the remainder of his term. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

(g) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(h) Inspection of corporate records

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

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(i) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(j) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(k) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Company operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding

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company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

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(e) Dividends and distributions

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

(f) Protection of minorities and shareholders' suits

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Disposal of assets

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

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(h) Accounting and auditing requirements

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2011 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 19 July 2016.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

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(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

(n) Register of members

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

(o) Register of Directors and Officers

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

(p) Beneficial Ownership Register

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The beneficial ownership register is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the shares of the Company are listed on the Stock Exchange, the Company is not required to maintain a beneficial ownership register.

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(q) Winding up

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

(r) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and

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thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(s) Take-overs

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(t) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND ITS SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 5 July 2016. Our Company has established its principal place of business in Hong Kong at 30th Floor, EW International Tower, 120 Texaco Road, Tsuen Wan, New Territories, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 4 August 2017, with Mr. S Chong appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Cayman Islands Companies Law and to its constitution comprising the Memorandum and the Articles. A summary of certain provisions of the Memorandum and Articles of our Company and relevant aspects of the Cayman Islands Companies Law is set out in Appendix III to this prospectus.

2. Changes in the share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon its incorporation, one nil-paid Share was allotted and issued to its initial subscriber. On the same day, the said one nil-paid Share was transferred to Mr. S Chong. On 24 August 2017, the one nil-paid Share held by Mr. S Chong was transferred to Strategic Elite and Total Clarity subscribed for one nil-paid Share on the same date. In addition to the above, the following alterations in the share capital of our Company have taken place since the date of incorporation up to the Latest Practicable Date:

- (a) On 24 August 2017, the one nil-paid Share held by Strategic Elite was credited as fully paid as consideration for the transfer by Mr. S Chong of the entire issued share of KNTGL to our Company.
- (b) On 27 October 2017, our Company allotted and issued 112 Shares and 112 Shares credited as fully paid to Strategic Elite (as Mr. S Chong's nominee) and Total Clarity (as Mr. P Chong's nominee), respectively, and credited as fully paid the one nil-paid Share held by Total Clarity as consideration for the transfer by Mr. S Chong and Mr. P Chong of their entire shareholding interests in KNT Int'l to our nominee, KNTGL.
- (c) On 27 October 2017, our Company allotted and issued 492 and 282 Shares credited as fully paid to Strategic Elite (as Mr. S Chong's nominee) and Total Clarity (as Mr. P Chong's nominee), respectively, as consideration for the transfer by Mr. S Chong and Mr. P Chong of their entire shareholding interests in KNT to our nominee, KNTGL.
- (d) On 31 January 2019, the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 Shares of HK\$0.01 each by creation of an additional 9,962,000,000 Shares.

Immediately following completion of the Global Offering and Capitalisation Issue (but not taking into account the Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option(s) which may be granted under the Share Option Scheme), the authorised share capital of our Company will be HK\$100,000,000 divided into 10,000,000,000 Shares, of which 520,000,000 Shares will be allotted and issued fully paid or credited as fully paid and 9,480,000,000 Shares will remain unissued.

Other than pursuant to the general mandates to allot, issue and repurchase Shares as referred to in the paragraph headed “Written resolutions of all the Shareholders passed on 31 January 2019” in this Appendix, the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, our Directors do not have any present intention to allot and issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed above, there has been no alteration in the share capital of our Company within two years immediately preceding the date of this prospectus up to the Latest Practicable Date.

3. Changes in the share capital of our subsidiaries

Our principal subsidiaries are set out in the Accountant’s Report, the text of which is set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Reorganisation and group structure” in this prospectus, there has been no change in the share capital of our subsidiaries during the two years preceding the date of this prospectus up to the Latest Practicable Date.

4. Written resolutions of all the Shareholders passed on 31 January 2019

By written resolutions of all the Shareholders passed on 31 January 2019, among other things:

- (a) our Company approved and adopted the amended and restated Memorandum with immediate effect and the Articles of our Company with effect from the Listing Date;
- (b) the authorised share capital of our Company was increased from HK\$380,000 divided into 38,000,000 Shares to HK\$100,000,000 divided into 10,000,000,000 Shares by the creation of additional 9,962,000,000 Shares, which rank *pari passu* in all respects with the Shares in issue as at the date of such resolutions;
- (c) conditional on (aa) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be allotted and issued pursuant to the Global Offering and the Capitalisation Issue as mentioned in this prospectus, including the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any option(s) to be granted under the Share Option Scheme; (bb) the Offer Price having been duly determined and the execution and delivery of the Hong Kong Underwriting Agreement on the date as specified in this prospectus; and (cc) the obligations of the Underwriters

under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and not being terminated in accordance with the terms of such agreements (or any conditions as specified in this prospectus), in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived before such dates and times) and in any event not later than the date falling 30 days after the date of this prospectus:

- (i) the Global Offering was approved and our Directors were authorised to (aa) allot and issue the Offer Shares pursuant to the Global Offering; (bb) implement the Global Offering and the listing of Shares on the Stock Exchange; and (cc) do all things and execute all documents in connection with or incidental to the Global Offering and the Listing with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
- (ii) the Over-allotment Option was approved;
- (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised to approve any amendment(s) to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;
- (iv) conditional on the share premium account of our Company being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$4,159,990 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 415,999,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of our Company as at the close of business on the business day immediately preceding the Listing Date (or as they may direct) in proportion (as near as possible without involving fractions so that no fraction of a share shall be allotted and issued) to their then existing respective shareholdings in our Company and so that the Shares to be allotted and issued pursuant to this resolution shall rank *pari passu* in all respects with the then existing issued Shares and our Directors were authorised to give effect to such capitalisation;
- (v) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might acquire Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any cash dividend in accordance with the Articles, or upon the exercise of the Over-allotment Option or any option(s) which may be granted under the Share Option

Scheme or under the Global Offering or the Capitalisation Issue, the total number of which Shares shall not exceed 20% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (but excluding the Shares which may be allotted and issued upon the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme) until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first;

- (vi) a general unconditional mandate was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (but excluding the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the option(s) which may be granted under the Share Option Scheme), until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first; and
- (vii) the general unconditional mandate mentioned in sub-paragraph (v) above was extended by the addition to the total number of Shares which may be allotted or agreed to be allotted by our Directors pursuant to such general mandate of an amount representing the total number of Shares repurchased by our Company pursuant to the mandate to repurchase Shares as referred to in sub-paragraph (vi) above, provided that such extended amount shall not exceed 10% of the total number of Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme.

5. Reorganisation

The companies comprising our Group underwent the Reorganisation in preparation for the Listing. Please refer to the section headed “History, Reorganisation and group structure” in this prospectus for further detail.

6. Repurchase by our Company of its own securities

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of its own securities.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to purchase their shares on the Stock Exchange subject to certain restrictions.

(i) *Shareholders' approval*

The Listing Rules provide that all proposed repurchase of shares (which must be fully paid in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to the written resolutions of all the Shareholders passed on 31 January 2019, a general unconditional mandate (the "Repurchase Mandate") was given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or any other stock exchange on which the Shares may be listed and recognised by the SFC and the Stock Exchange for this purpose, Shares representing up to 10% of the total number Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding the Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or the options which may be granted under the Share Option Scheme, and the Repurchase Mandate shall remain in effect until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law(s) to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in effect from time to time.

Any repurchase(s) by us may be made out of profits or out of sums standing to the credit of our Company's share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by its articles of association and subject to the Cayman Islands Companies Law, out of capital. Any premium payable on the repurchase must be provided for out of profits of our Company or out of sums standing to the credit of our Company's share premium account or, if so authorised by its articles of association and subject to the Cayman Islands Companies Law, out of capital.

(iii) *Connected parties*

The Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person", which includes a Director, chief executive or substantial shareholder of our Company or any of the subsidiaries or a close associate of any of them and a core connected person shall not knowingly sell Shares to our Company.

(b) *Reasons for repurchase*

Our Directors believe that it is in the best interests of our Company and our Shareholders as a whole for our Directors to have a general authority from our Shareholders to enable our Company to

repurchase Shares in the market. Such repurchase may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value per Share and/or earnings per Share and will only be made when our Directors believe that such repurchase will benefit our Company and our Shareholders.

(c) ***Funding of repurchase***

In repurchasing Shares, our Company may only apply funds legally available for such purpose in accordance with our Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared to the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of our Group which in the opinion of our Directors are from time to time appropriate for our Group.

The exercise in full of the Repurchase Mandate, on the basis of 520,000,000 Shares in issue immediately after the Listing, would result in up to 52,000,000 Shares being repurchased by our Company during the period in which the Repurchase Mandate remains in force.

(d) ***General***

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates (as defined in the Listing Rules), has any present intention to sell any Share(s) to our Company or our subsidiaries if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as disclosed above, our Directors are not aware of any consequence that would arise under the Takeovers Code as a result of any repurchase pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No core connected person (as defined in the Listing Rules) of our Company has notified our Group that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR COMPANY'S BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of our Group within the two years preceding the date of this prospectus and are or may be material:

- (a) the sale and purchase agreement entered into between Mr. S Chong and our Company dated 24 August 2017 pursuant to which our Company acquired the entire issued share capital of KNTGL in consideration of our Company crediting as fully paid the one nil-paid Share held by Strategic Elite as at 24 August 2017;
- (b) the sale and purchase agreement entered into between Mr. S Chong, Mr. P Chong and our Company dated 27 October 2017 pursuant to which our Company, through its nominee, acquired 10,000 shares in KNT Int'l from each of Mr. S Chong and Mr. P Chong, representing the entire issued share capital of KNT Int'l in consideration of (i) our allotment and issue of 112 Shares to Strategic Elite (as Mr. S Chong's nominee) credited as fully paid; (ii) our allotment and issue of 112 Shares to Total Clarity (as Mr. P Chong's nominee) credited as fully paid; and (iii) our Company crediting as fully paid the one nil-paid Share held by Total Clarity as at 27 October 2017 (the "**KNT Int'l SPA**");
- (c) the tax indemnity dated 27 October 2017 executed by Mr. S Chong and Mr. P Chong in favour of our Company pursuant to the KNT Int'l SPA in respect of certain tax liabilities of our Group;
- (d) the sale and purchase agreement entered into between Mr. S Chong, Mr. P Chong and our Company dated 27 October 2017 pursuant to which our Company, through its nominee, acquired 1,908,000 shares and 1,092,000 shares in KNT from Mr. S Chong and Mr. P Chong respectively, representing the entire issued share capital of KNT in consideration of (i) our allotment and issue of 492 Shares to Strategic Elite (as Mr. S Chong's nominee) credited as fully paid; and (ii) our allotment and issue of 282 Shares to Total Clarity (as Mr. P Chong's nominee) credited as fully paid (the "**KNT SPA**");
- (e) the tax indemnity dated 27 October 2017 executed by Mr. S Chong and Mr. P Chong in favour of our Company pursuant to the KNT SPA in respect of certain tax liabilities of our Group;
- (f) the Deed of Non-competition;
- (g) the Deed of Indemnity;

- (h) the cornerstone investment agreement dated 12 February 2019 entered into among our Company, the Joint Global Coordinators and Mr. Cheng Kwok Woo, details of which are included in the section headed “Cornerstone investors” in this prospectus;
- (i) the cornerstone investment agreement dated 12 February 2019 entered into among our Company, the Joint Global Coordinators and Mr. Lam Wing Chuen, details of which are included in the section headed “Cornerstone investors” in this prospectus;
- (j) the cornerstone investment agreement dated 12 February 2019 entered into among our Company, the Joint Global Coordinators and Ms. Ng Suk Fan, details of which are included in the section headed “Cornerstone investors” in this prospectus; and
- (k) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

(a) *Trademark*

As at the Latest Practicable Date, our Group had registered the following trademark:

No.	Trademark	Registration number	Registered owner	Place of registration	Class	Date of registration	Expiry date
1.	KNT	304199770	KNT	Hong Kong	25,35	7 July 2017	6 July 2027

(b) *Domain names*

As at the Latest Practicable Date, our Group had registered the following domain names:

Domain name	Registered owner	Date of registration	Expiry date
knt.com.hk	KNT	26 April 1999	N/A
knt.com.cn	HYG	7 January 2002	7 January 2025
kntholdings.com	Our Company	28 July 2018	29 July 2019

Information contained in the above websites do not form part of this prospectus.

Save as disclosed above, there are no trademarks, patents or other intellectual property rights which are material in relation to the business of our Group.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUBSTANTIAL SHAREHOLDERS**1. Directors' service contracts**

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date and may be terminated by either party by giving not less than three calendar months' notice in writing. In certain other circumstances, the service contract can also be terminated by us, including but not limited to certain breaches of our Directors' obligations under the contract or certain misconducts. The appointment of our executive Directors is also subject to the provisions of retirement and rotation of Directors under the Articles. The salary of each executive Director after each financial year is subject to adjustment as determined by our Remuneration Committee and approved by a majority of the members of the Board (excluding our Director whose salary is under review).

Each of our non-executive Director and independent non-executive Directors has entered into a letter of appointment with our Company for a period of three years commencing from the Listing Date and may be terminated by either party by giving at least three months' notice. The appointments of the non-executive Director and independent non-executive Directors are also subject to the provisions of retirement and rotation of Directors under the Articles. Pursuant to the terms of the letters of appointment, the annual director's fee payable to our non-executive Director is HK\$180,000 and the annual director's fee payable to each of our independent non-executive Directors, namely Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan, is HK\$180,000, HK\$180,000, HK\$180,000 and HK\$360,000, respectively.

2. Directors' remuneration

Our Company's policies concerning remuneration of executive Directors are as follows:

- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on our Director's experience, responsibility, workload, the time devoted to our Group, individual performance and the performance of our Group; and
- (ii) non-cash benefits may be provided at the discretion of the Board to our Directors under their remuneration package.

The aggregate remuneration paid (including salaries, allowances, benefits in kind, bonuses (if any) and retirement benefits scheme contributions) granted by our Group to our Directors in respect of the three years ended 31 March 2018 and the six months ended 30 September 2018 were approximately HK\$3.4 million, HK\$3.0 million, HK\$3.7 million and HK\$1.9 million, respectively. Details of our Directors' remuneration are set out in the Accountant's Report in Appendix I to this prospectus.

Under the arrangements currently in force, the aggregate remuneration (including benefits in kind but excluding any discretionary bonus, if any, payable to any Director) payable by our Group to our Directors (including our independent non-executive Directors) for the year ending 31 March 2019 are expected to be approximately HK\$4.3 million.

None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 March 2018 and the six months ended 30 September 2018 (i) as an inducement to join or upon joining any member of our Group; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.

There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 March 2018 and the six months ended 30 September 2018.

3. Disclosure of Directors' interests

Immediately following completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) and the Capitalisation Issue, the interests or short positions of our Directors and the chief executives of our Company in the Shares, underlying shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO), or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, in each case once the Shares are listed on the Stock Exchange, will be as follows:

Long positions in the Shares of our Company

Name of Director	Capacity/ Nature of interest	Number of Shares (Note 1)	Percentage of shareholding interest
Mr. S Chong	Interest in a controlled corporation	235,950,000 (L) (Note 3)	45.375% (Note 2, 3)
Mr. P Chong	Interest in a controlled corporation	154,050,000 (L) (Note 4)	29.625% (Note 2, 4)

Notes:

- The letter "L" denotes the person's long position in the relevant Shares.
- The relevant percentages have been calculated by reference only to the aggregate number of Shares expected to be in issue on the Listing Date. We have therefore assumed that 520,000,000 Shares will be in issue on the Listing Date.
- Strategic Elite is owned as to 100% by Mr. S Chong. Accordingly, Mr. S Chong is deemed to be interested in all the Shares owned by Strategic Elite by virtue of the SFO.
- Total Clarity is owned as to 100% by Mr. P Chong. Accordingly, Mr. P Chong is deemed to be interested in all the Shares owned by Total Clarity by virtue of the SFO.

4. Substantial shareholders

So far as is known to our Directors, immediately following completion of the Global Offering (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme) and the Capitalisation Issue, the following persons (not being a Director or chief executive of our Company) will have an interest or a short position in Shares or underlying shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name	Capacity/Nature of interest	Number of Shares (Note 1)	Percentage of shareholding interest (Note 2)
Strategic Elite	Beneficial Owner	235,950,000 (L)	45.375%
Ms. Lok Pui Yee, Fanny (駱佩宜女士)	Interest of spouse	235,950,000 (L) (Note 3)	45.375%
Total Clarity	Beneficial Owner	154,050,000 (L)	29.625%
Ms. Tsang Kit Fong (曾潔芳女士)	Interest of spouse	154,050,000 (L) (Note 4)	29.625%

Notes:

1. The letter “L” denotes the person’s long position in the relevant Shares.
2. The relevant percentages have been calculated by reference only to the aggregate number of Shares expected to be in issue on the Listing Date. We have therefore assumed that 520,000,000 Shares will be in issue on the Listing Date.
3. Ms. Lok Pui Yee, Fanny (駱佩宜女士) is the spouse of Mr. S Chong and is deemed to be interested in all the Shares indirectly held or interested in by Mr. S Chong through Strategic Elite pursuant to the SFO.
4. Ms. Tsang Kit Fong (曾潔芳女士) is the spouse of Mr. P Chong and is deemed to be interested in all the Shares indirectly held or interested in by Mr. P Chong through Total Clarity pursuant to the SFO.

5. Disclaimers

Save as disclosed in this prospectus:

- (a) none of our Directors or chief executives of our Company has any interests and short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have

taken under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;

- (b) so far as is known to any of our Directors or chief executive of our Company, no person will, immediately following the completion of the Global Offering and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;
- (c) none of our Directors nor any of the persons listed in the paragraph headed “E. Other information — 8. Qualifications and consents of experts” in this section is interested, directly or indirectly, in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of our Directors or the persons listed in the paragraph headed “E. Other information — 8. Qualifications and consents of experts” in this section is materially interested in any contract or arrangement with our Group subsisting at the date of this prospectus which is unusual in its nature or conditions or which is significant in relation to the business of our Group;
- (e) none of our Directors has entered or has proposed to enter into any service agreements with our Company or any member of our Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation); and
- (f) so far as is known to our Directors, none of our Directors or their associates or any shareholder of our Company (which to the knowledge of our Directors owns 5% or more of the issued share capital of our Company) has any interest in any of the five largest customers or five largest suppliers of our Group.

D. SHARE OPTION SCHEME**1. Summary of terms of the Share Option Scheme****(a) Purpose of the Share Option Scheme**

The purpose of this Share Option Scheme is to enable the Board to grant options to Eligible Persons (as defined below) as incentives or rewards for their contribution or potential contribution to our Group and to recruit and retain high caliber Eligible Persons and attract human resources that are valuable to the Group.

(b) Who may join

Subject to the provisions in the Share Option Scheme, our Directors may at any time and from time to time within a period of ten (10) years commencing from the date of adoption of the Share Option Scheme at their absolute discretion and subject to such terms, conditions, restrictions or limitations as they may think fit offer, at the consideration of HK\$1.00 per option, to grant option to any person belonging to the following classes of participants (the “**Eligible Person(s)**”):

- (i) any employee or proposed employee (whether full time or part time, including any director) of any member of the Group or invested entity; and
- (ii) any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder or other participants who contributes to the development and growth of our Group or any invested entity.

(c) Maximum number of Shares

- (i) Notwithstanding anything to the contrary herein, the maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company shall not, in aggregate, exceed 30% of the total number of Shares in issue from time to time.
- (ii) The total number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of our Company shall not in aggregate exceed 52,000,000 Shares, being 10% of the total number of Shares (assuming no options are granted under the Share Option Scheme) in issue on the Listing Date (the “**Scheme Limit**”) unless approved by our Shareholders pursuant to paragraph (iv) below. Options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company shall not be counted for the purpose of calculating the Scheme Limit.

- (iii) Our Company may seek separate approval of the Shareholders in general meeting for refreshing the Scheme Limit provided that such limit as refreshed shall not exceed 10% of the total number of Shares (assuming no options are granted under the Share Option Scheme) in issue as at the date of the approval of the Shareholders on the refreshment of the Scheme Limit. Options previously granted under the Share Option Scheme or any other share option schemes of our Company (including options outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option scheme of our Company or exercised) will not be counted for the purpose of calculating the limit as refreshed.

For the purpose of seeking the approval of Shareholders, a circular containing the information as required under the Listing Rules shall be sent by our Company to the Shareholders.

- (iv) Our Company may seek separate approval of our Shareholders in general meeting for granting options beyond the Scheme Limit provided that the Options in excess of the Scheme Limit are granted only to Eligible Persons specifically identified by our Company before such approval is sought and that the proposed grantee(s) and his close associates (or his associates if the proposed grantee is a connected person) shall abstain from voting in the general meeting. For the purpose of seeking the approval of the Shareholders, our Company shall send a circular to the Shareholders containing a generic description of the specified proposed grantees of such options, the number and terms of the options to be granted, the purpose of granting such options to the proposed grantees with an explanation as to how the terms of options serve such purpose and any other information as required under the Listing Rules.

(d) *Maximum entitlement of each Eligible Person*

No option shall be granted to any Eligible Person if any further grant of options would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including such further grant would exceed 1% of the total number of Shares in issue from time to time (the “**Participant Limit**”), unless:

- (i) such grant has been duly approved, in the manner prescribed by the relevant provisions of Chapter 17 of the Listing Rules, by resolution of the Shareholders in general meeting, at which the Eligible Person and his close associates shall abstain from voting;
- (ii) a circular regarding the grant has been dispatched to the Shareholders in a manner complying with, and containing the information specified in, the relevant provisions of Chapter 17 of the Listing Rules (including the identity of the Eligible Person, the number and terms of the options to be granted and options previously granted to such Eligible Person); and
- (iii) the number and terms (including the subscription price) of such option are fixed before our Shareholders’ approval is sought.

(e) *Grant of options to connected persons*

- (i) Any grant of options to any Director, chief executive, or substantial shareholder (excluding the proposed director or chief executive) of our Company or any of their respective associates shall be approved by all the independent non-executive Directors (excluding any Independent Non-Executive Director who is any offeree of an option) and shall comply with the relevant provisions of Chapter 17 of the Listing Rules.
- (ii) Where an option is to be granted to a substantial shareholder or an independent non-executive Director (or any of their respective associates), and such grant will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other share option schemes of our Company in the 12-month period up to and including the date of such grant: (1) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issue at the relevant time of grant; and (2) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant, in excess of HK\$5 million (or such other amount as may from time to time be specified by the Stock Exchange), such grant shall not be valid unless: (aa) a circular containing the details of the grant has been dispatched to the Shareholders in a manner complying with, and containing the matters specified in, the relevant provisions of Chapter 17 of the Listing Rules (including, in particular, a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee of an option) to the independent Shareholders as to voting); and (bb) the grant has been approved by the independent Shareholders in general meeting (taken on a poll), at which the proposed grantee, his associates and all core connected persons of our Company shall abstain from voting in favour of the grant.
- (iii) Where any change is to be made to the terms of any option granted to a substantial shareholder or an independent non-executive Director (or any of their respective associates), such change shall not be valid unless the change has been approved by the Shareholders in general meeting as required under sub-paragraph (ii) above.

(f) *Time of acceptance and exercise of an option*

An offer of grant of an option may be accepted by an Eligible Person within the date as specified in the offer letter issued by our Company, being a date not later than 21 days inclusive of, and from, the date upon which it is made, by which the Eligible Person must accept the offer or be deemed to have declined it, provided that such date shall not be more than ten years after the date of adoption of the Share Option Scheme or after the termination of the Share Option Scheme, and no such offer may be accepted by a person who ceases to be an Eligible Person after the offer has been made.

An offer shall be deemed to have been accepted on the date when the duly signed duplicate comprising acceptance of the offer by the Eligible Person, together with a payment in favour of our Company of HK\$1.00 per option by way of consideration for the grant thereof is delivered to our Company. Such consideration shall in no circumstances be refundable. Subject to the rules of the Share Option Scheme, option may be exercised in whole or in part by the grantee at any time before the expiry of the period to be determined and notified by our Board to the grantee which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten-year period.

(g) ***Performance targets***

There is no performance target that has to be achieved or minimum period in which an option must be held before the exercise of any option save as otherwise imposed by our Board in the relevant offer of options.

(h) ***Subscription price for Shares***

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as determined by our Board, and shall be at least the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date (the "Offer Date"), which must be a trading day, on which our Board passes a resolution approving the making of an offer of grant of an option to an Eligible Person; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the Offer Date.

(i) ***the nominal value of a Share on the Offer Date***

Where an option is to be granted, the date of our Board meeting at which the grant was proposed shall be taken to be the date of the offer of such option. For the purpose of calculating the subscription price, where an option is to be granted less than five trading days after the listing of the Shares on the Stock Exchange, the new issue price shall be taken to be the closing price for any Business Day within the period before listing.

(j) ***Ranking of Shares***

The Shares to be allotted and issued upon the exercise of an option shall be subject to our Company's constitutional documents for the time being in force and shall rank *pari passu* in all respects with the fully-paid Shares in issue of our Company as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

(k) ***Restrictions on the time of grant of options***

No offer of an option shall be made and option shall be granted after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of our Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's result for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for our Company to publish an announcement of its results for any year or half-year or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option shall be granted.

(l) ***Period of the Share Option Scheme***

Subject to earlier termination by our Company in general meeting or by our Board, the Share Option Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the Share Option Scheme, after which period no further option shall be granted. All options granted and accepted and remaining unexercised immediately prior to expiry of the Share Option Scheme shall continue to be valid and exercisable in accordance with the terms of the Share Option Scheme.

(m) ***Rights on cessation of employment***

Where the grantee of an outstanding option ceases to be an Eligible Person for any reason other than his serious illness, death, retirement in accordance with his contract of employment or service or the termination of his contract of employment or service on one or more of the grounds specified in paragraph (w)(iv) below, the grantee may exercise his outstanding options within 3 months following the date of such cessation, and any such options not exercised shall lapse and determine at the end of the said period of 3 months.

(n) ***Rights on dismissal***

If the grantee of an option is an Eligible Person and ceases to be an Eligible Person by reason of a termination of his contract of employment or service on any one or more grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option (to the extent not already exercised) will lapse automatically on the date of cessation of being an Eligible Person.

(o) ***Rights on death***

Where the grantee of an outstanding option dies before exercising the option in full or at all, the option may be exercised in full or in part (to the extent not already exercised) by his personal representative(s) within 12 months from the date of death or such period extended by the Board.

(p) ***Rights on a general offer***

If a general or partial offer is made to all our Shareholders (other than the offeror and/ or any person controlled by the offeror and/or any person acting in association or concert with the offeror), our Directors shall as soon as practicable notify the option holder accordingly. An option holder shall be entitled to exercise his outstanding options in whole or in part within fourteen (14) days of receipt of such notice. To the extent that any option has not been so exercised, it shall upon the expiry of such period lapse and determine.

(q) ***Rights on winding-up***

If notice is given of a general meeting of our Company at which a resolution will be proposed for the voluntary winding-up of our Company, our Company shall forthwith give notice thereof to all option holders and each option holder shall be entitled, at any time not later than two (2) Business Days prior to the proposed general meeting of our Company to exercise his outstanding options in whole or in part. Our Company shall as soon as possible and in any event no later than one (1) Business Day prior to the date of such general meeting, allot and issue such number of Shares to the option holders which fall to be issued on such exercise. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up.

(r) ***Rights on compromise or arrangement between our Company and its creditors***

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all option holders on the same date as it gives notice of the meeting to our Shareholders and our Company's creditors, and thereupon each option holder shall be entitled, at any time not later than two (2) Business Days prior to the proposed meeting of our Company, to exercise his outstanding options in whole or in part. Our Company shall as soon as possible and in any event no later than one (1) Business Day prior to the date of such general meeting, allot and issue such number of Shares to the option holders which fall to be issued on such exercise. Subject thereto, all Options then outstanding shall lapse and determine upon such compromise or arrangement becoming effective.

(s) ***Reorganisation of capital structure***

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation issue, rights issue, subdivision or consolidation of shares or reduction of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction), our Company shall (if applicable) make corresponding alterations (if any), in accordance with Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplemental guidance issued by the Stock Exchange on 5 September 2005) to:

- (i) the number or nominal amount of Shares comprised in each Option for the time being outstanding; and/or

- (ii) the subscription price; and/or
- (iii) the Scheme Limit; and/or
- (iv) the Participant Limit;

as the auditors or the independent financial adviser to the Company shall certify in writing to the Board to be in their opinion fair and reasonable, provided that:

- (a) the aggregate Subscription Price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such adjustment;
- (b) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) no adjustment will be required in circumstances when there is an issue of Shares as consideration in a transaction; and
- (d) any adjustment shall be made in accordance with the provisions of Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including but not limited to the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes).

In addition, in respect of any such adjustments, other than any made on a capitalisation issue, the auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provisions of the Listing Rules.

(t) ***Cancellation of options***

Our Board may cancel an option granted but not exercised with the approval of the option holder. Any such options cancelled by our Company cannot be re-granted to the same Eligible Person; the issue of new options must be made under the Share Option Scheme with available unissued options (excluding the cancelled options) within the Scheme Limit.

(u) ***Termination of the Share Option Scheme***

Our Company, by resolution in general meeting, or our Board may at any time terminate the operation of the Share Option Scheme and in such event no further option will be offered but in all other respects the provision of the Share Option Scheme shall remain in full force and effect. All options granted and accepted and remaining unexercised immediately prior to such termination shall continue to be valid and exercisable in accordance with their terms and the terms of the Share Option Scheme.

(v) *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable or transferable, and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (whether legal or beneficial) in favour of any third party over or in relation to any option. Any breach of the foregoing shall entitle our Company to cancel any outstanding option or part thereof granted to such grantee.

(w) *Lapse of option*

The right to exercise an option (to the extent not already exercised) shall lapse immediately upon the earliest of:

- (i) the expiry of the option period to be determined and notified by our Board to the grantee;
- (ii) the expiry of the periods as referred to in sub-paragraphs (l), (n), (o), (p) and (q) respectively;
- (iii) subject to sub-paragraph (p), the date of the commencement of the winding-up of our Company;
- (iv) the date on which the grantee ceases to be an Eligible Person by reason of the termination of his contract of employment or service on any one or more grounds that he has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally or has been convicted of any criminal offence involving his integrity or honesty; and
- (v) the date on which the Directors cancel any outstanding option or part thereof on the ground the grantee commits a breach of sub-paragraph (v) of the Share Option Scheme.

(x) *Alterations to the Share Option Scheme*

- (i) The Share Option Scheme may be amended or altered in any respect to the extent allowed by the Listing Rules by resolution of our Board except that the following alterations must first be approved by a resolution of the Shareholders in general meeting:
 - (i) the purpose of the Share Option Scheme;
 - (ii) the definitions of “Eligible Person”, “Option Period” and “Scheme Period”;
 - (iii) the Scheme Limit;
 - (iv) the Participant Limit;
 - (v) the minimum period for which an option must be held before it can be exercised;

- (vi) the statement as to performance targets that must be achieved before an option may be exercised;
- (vii) the amount payable on acceptance of an option and the period within which it must be paid for such purpose;
- (viii) the basis of determination of the subscription price;
- (ix) the rights to be attached to the Shares to be issued upon the exercise of options;
- (x) the circumstances under which options will automatically lapse;
- (xi) the adjustment made in the event of any alterations of the capital structure of our Company;
- (xii) the cancellation of options granted but not exercised;
- (xiii) the effect on existing options of an early termination of the Share Option Scheme;
- (xiv) the transferability of options;
- (xv) this paragraph (x);
- (xvi) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted to the advantage of such option holders; and
- (xvii) any change to the authority of the Directors in relation to any alterations to the terms of the Share Option Scheme.

The amended terms of the Share Option Scheme or the options shall comply with Chapter 17 of the Listing Rules.

- (ii) Notwithstanding the other provisions of the Share Option Scheme, the Share Option Scheme may be altered in any respect by resolution of our Board without the approval of the Shareholders or the grantee(s) to the extent such amendment or alteration is required by the Listing Rules or any guideline issued by the Stock Exchange from time to time.
- (iii) Our Company must provide to all grantees all details relating to changes in the terms of the Share Option Scheme during the life of the Share Option Scheme immediately upon such changes taking effect.

(y) ***Conditions***

The Share Option Scheme is conditional upon:

- (i) the passing of the necessary resolutions to approve and adopt the Share Option Scheme;
- (ii) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares in issue and the Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme; and
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions referred to above are not satisfied on or before the date falling thirty (30) days after the date of this prospectus, the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

2. Present status of the Share Option Scheme

(a) ***Approval and adoption of the rules of the Share Option Scheme***

The rules of the Share Option Scheme, the principal terms of which are set out above, were approved and adopted by all of our Shareholders on 31 January 2019. The provisions of the Share Option Scheme comply with Chapter 17 of the Listing Rules in all material respects.

(b) ***Application for approval***

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares to be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme. The total number of Shares in respect of which options may be granted under the Scheme and any other share option scheme(s) of our Company shall not exceed 52,000,000 Shares, being 10% of the total number of Shares in issue as at the Listing Date unless our Company obtains the approval of the Shareholders in general meeting for refreshing the said 10% limit under the Share Option Scheme, provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company will not be counted for the purpose of calculating the 10% limit above mentioned.

(c) ***Grant of option***

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

E. OTHER INFORMATION**1. Tax and other indemnities**

Each of Strategic Elite, Total Clarity, Mr. S Chong and Mr. P Chong (the “**Indemnifiers**”) has, pursuant to the Deed of Indemnity referred to in the paragraph headed “B. Further information about our Company’s business — 1. Summary of material contracts” in this section, given indemnity in favour of our Company (for ourselves and as trustee for each of our subsidiaries) from and against, among other things, any tax liabilities which might be payable by any member of our Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received before the Effective Date (as defined below), save:

- (a) to the extent that provision has been made for such taxation in the audited accounts of our Group for each of the three years ended 31 March 2018 and the six months ended 30 September 2018 as set out in Appendix I to this prospectus;
- (b) to the extent that such taxation claim arises or is incurred as a result of any retrospective change in law or regulations or practice by the Hong Kong Inland Revenue Department or any other tax or government authorities in any part of the world coming into force after the date of the Deed of Indemnity or to the extent such taxation claim arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect;
- (c) to the extent that the liability for such taxation is caused by the act or omission of, or transaction voluntarily effected by, any member of our Group which is carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the date on which the conditions stated in the section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus being fulfilled on or before the date as stated therein (the “**Effective Date**”);
- (d) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the date of the Deed of Indemnity or carried out, made or entered into pursuant to a legally binding commitment created before the Effective Date; and
- (e) to the extent of any provisions or reserve made for taxation in the audited accounts of our Group up to 30 September 2018 which is finally established to be an over-provision or an excessive reserve as set out in Appendix I to this prospectus.

Further, pursuant to the Deed of Indemnity, the Indemnifiers have given indemnity in respect of, among other matters, any liability for Hong Kong estate duty, if any, which might be incurred by any member of our Group by reason of any transfer of property to any of the members of our Group on or before the Effective Date. Our Directors have been advised that no material liability for estate duty is likely to fall on any member of our Group in the Cayman Islands, Hong Kong, the PRC and the BVI, being jurisdictions in which the companies comprising our Group are incorporated.

In addition, pursuant to the Deed of Indemnity, the Indemnifiers have agreed and undertaken to jointly and severally indemnify the members of our Group and each of them and at all times keep the same indemnified on demand from and against:

- (a) any and all losses, damages, claims, penalties and any other liabilities that any member of our Group may suffer as a result of or in connection with the title defects in relation to our production facility and staff dormitory rented by HYG as production facility and, in the event that HYG is forced to relocate such production facility, any and all losses, damages, costs, expenses and any other liabilities that any member of our Group may suffer or incur as a result of or in connection with such relocation as detailed in the section headed “Business — Land and property interests — Leased properties — Title defect in relation to the Leased Properties” in this prospectus; and
- (b) any and all claims, damages, losses, costs, expenses, fines, actions and proceedings whatsoever and howsoever arising at any time whether present or in the future as a result of or in connection with:
 - (i) any alleged or actual violation or non-compliance by any member of our Group with any laws, regulations or administrative orders or measures in Hong Kong and any other jurisdiction on or before the Effective Date;
 - (ii) any and all expenses, payments, sums, outgoing, fees, demands, claims, actions, proceedings, judgments, damages, losses, costs (including but not limited to, legal and other professional costs), charges, contributions, liabilities, fines, penalties which any member of our Group may incur, suffer or accrue, directly or indirectly from or on the basis of or in connection with any failure, delay or defects of corporate or regulatory compliance under, or any breach of any provision of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) or any other applicable laws, rules and regulations by any member of our Group on or before the Effective Date;
 - (iii) any irregularities in relation to any corporate documents of any member of our Group; and
 - (iv) any actual litigation, arbitrations, claims (including counter-claims), complaints, demands and/or legal proceedings whether of criminal, administrative, contractual, tortious nature or otherwise instituted by or against our Company and/or any member of our Group arising from any act, non-performance, omission or otherwise of our Company or any member of our Group on or before the Effective Date.

2. Litigation

During the Track Record Period and as at the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as our Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

3. Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules. The Sole Sponsor's fee in relation to the Listing is approximately HK\$4.8 million.

The Sole Sponsor has made an application on our Company's behalf to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus. All necessary arrangements have been made for the Shares to be admitted into CCASS.

4. Preliminary expenses

The preliminary expenses relating to the incorporation of our Company are approximately HK\$45,000 and are payable by our Company.

5. No material adverse change

Saved as disclosed in this prospectus, our Directors confirm that there has been no material adverse change in our Group's financial or trading position since 30 September 2018 (being the date on which the latest audited consolidated financial information of our Group was prepared).

6. Promoter

Our Company does not have any promoter (as defined in the Listing Rules).

7. Taxation of holders of Shares**(a) *Hong Kong***

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration or, if higher, the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

(b) *Cayman Islands*

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) *Consultation with professional advisers*

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. **Qualifications and consents of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this prospectus:

Name	Qualifications
Innovax Capital Limited	Licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Conyers Dill & Pearman	Legal advisers to our Company as to Cayman Islands laws
JunHe LLP	Legal advisers to our Company as to PRC laws
Ipsos Limited	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Property valuer

Each of the experts named above has given and has not withdrawn their respective written consent to the issue of this prospectus with copies of their reports, letters, opinions or summaries of opinions (as the case may be) and the references to their names included herein in the form and context in which they respectively appear.

None of the experts named above has any shareholding interest in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

9. **Compliance adviser**

We have appointed Innovax Capital Limited as the compliance adviser upon Listing in compliance with Rule 3A.19 of the Listing Rules. Further details of the appointment are set out in the section headed “Directors and senior management — Compliance adviser” in this prospectus.

10. Particulars of Selling Shareholders

The names, addresses and descriptions of Strategic Elite and Total Clarity, being the Selling Shareholders offering the Sale Shares for sale under the International Offering are as follows:

(A) Name:	Strategic Elite Limited
Address:	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
Description:	An investment holding company incorporated in the BVI with limited liability
Sale Shares:	15,730,000 Shares
Interest of our Directors in the Sale Shares:	Strategic Elite is owned as to 100% by Mr. S Chong, an executive Director and a Controlling Shareholder
(B) Name:	Total Clarity Investments Limited
Address:	Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands
Description:	An investment holding company incorporated in the BVI with limited liability
Sale Shares:	10,270,000 Shares
Interest of our Directors in the Sale Shares:	Total Clarity is owned as to 100% by Mr. P Chong, an executive Director and a Controlling Shareholder

11. Binding effect

This prospectus shall have the effect, in an application is made in pursuance of it, of rendering all persons concerned bound by all of the provisions (other than the penalty provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

12. Exemption from requirement of a property valuation report

As no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets, this prospectus is exempt from compliance with the requirements of section 342(1)(b) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, which requires a valuation report with respect to all of our interests in land or buildings, in reliance under section 6(2) of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

13. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong). In case of any discrepancies between the English language version and Chinese language version of this prospectus, the English language version shall prevail.

14. Miscellaneous

- (a) Within the two years immediately preceding the date of this prospectus:
 - (i) same as disclosed in the sections headed “History, Reorganisation and group structure” and “Financial information” in this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) save as disclosed in the section headed “Underwriting” in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of our Company or any of our subsidiaries; and
 - (iv) same as disclosed in the section headed “Underwriting” in this prospectus, no commission has been paid or payable subscribing, agreeing to subscribe or procuring subscription or agreeing to procure subscription for any shares in our Company or any of our subsidiaries;
- (b) no founder, management or deferred Shares nor any debenture in our Company or any of our subsidiaries have been issued or agreed to be issued;
- (c) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (d) the principal register of members of our Company will be maintained in the Cayman Islands by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Tricor Investor Services Limited. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company’s share registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;

- (e) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (f) our Company has no outstanding convertible debt securities or debentures;
- (g) none of the persons whose names are listed in the paragraph headed “8. Qualifications and consents of experts” under this Appendix:
 - (i) is interested beneficially or non-beneficially in any shares in any member of our Group; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group; and
- (h) there is no restriction affecting the remittance of profits or repatriation of capital into Hong Kong and from outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW and GREEN** Application Forms;
- (b) the written consents referred to in “Statutory and general information — E. Other information — 8. Qualifications and consents of experts” in Appendix IV to this prospectus;
- (c) a copy of each of the material contracts referred to in “Statutory and general information — B. Further information about our Company’s business — 1. Summary of material contracts” in Appendix IV to this prospectus; and
- (d) the statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Robertsons at 57/F, The Center, 99 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountant’s Report for the three years ended 31 March 2018 and the six months ended 30 September 2018 prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the report on the unaudited pro forma financial information prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of our Group for the three years ended 31 March 2018 and the six months ended 30 September 2018;
- (e) the letter of advice prepared by Conyers Dill & Pearman, our legal advisers as to Cayman Islands laws, summarising certain aspects of the Cayman Islands Companies Law referred to in Appendix III to this prospectus;
- (f) the Cayman Islands Companies Law;
- (g) the rules of the Share Option Scheme;

- (h) the material contracts referred to in “Statutory and general information — B. Further information about our Company’s business — 1. Summary of material contracts” in Appendix IV to this prospectus;
- (i) the written consents referred to in “Statutory and general information — E. Other information — 8. Qualifications and consents of experts” in Appendix IV to this prospectus;
- (j) the service contracts and the letters of appointment referred to in “Statutory and general information — C. Further information about our Directors and substantial shareholders” in Appendix IV to this prospectus;
- (k) the Ipsos Report;
- (l) the legal opinions issued by JunHe LLP, our legal advisers as to PRC laws;
- (m) the fair rent opinion issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited; and
- (n) the statement of particulars of the Selling Shareholders.



KNT

KNT HOLDINGS LIMITED

嘉藝控股有限公司*