



JUSTIN ALLEN HOLDINGS LIMITED

捷隆控股有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code : 1425

Sole Sponsor



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Sole Global Coordinator



國泰君安國際
GUOTAI JUNAN INTERNATIONAL

Joint Bookrunners and Joint Lead Managers



國泰君安國際
GUOTAI JUNAN INTERNATIONAL



第一上海
FIRST SHANGHAI GROUP



富強證券
FORTUNE (HK) SECURITIES

GLOBAL OFFERING

IMPORTANT

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



JUSTIN ALLEN HOLDINGS LIMITED 捷隆控股有限公司 (incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

| | | |
|---|----------|--|
| Number of Offer Shares under the Global Offering | : | 312,500,000 Shares (subject to reallocation and the Over-allotment Option) |
| Number of International Offer Shares | : | 281,250,000 Shares (subject to reallocation and the Over-allotment Option) |
| Number of Hong Kong Offer Shares | : | 31,250,000 Shares (subject to reallocation) |
| Offer Price | : | Not more than HK\$0.50 per Offer Share and expected to be not less than HK\$0.40 per Offer Share, plus brokerage of 1.00%, 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 | : | 1425 |

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FORTUNE (HK) SECURITIES

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 under "Appendix VI — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" to this prospectus, have been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of Hong Kong (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 as to the contents of this prospectus or any of the other documents referred to above.

The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on 25 November 2019. The Offer Price will be not more than HK\$0.50 per Offer Share and is currently expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.50 per 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 is lower than HK\$0.50 per Offer Share.

The Sole Global Coordinator (acting for itself and on behalf of the Underwriters) may, with the consent of our Company, may reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published on the websites of the Stock Exchange at www.hkexnews.hk and our Company at www.justinallengroup.com as soon as practicable but in any event, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on 25 November 2019, the Global Offering will not proceed and will lapse.

Before making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" in this prospectus.

Prospective investors of the Hong Kong Offer Shares should note that the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) if certain events shall occur prior to 8:00 a.m. on the day on which trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

19 November 2019

EXPECTED TIMETABLE ^(Note 1)

If there is any change in the following expected timetable of the Global Offering, we will issue an announcement on the respective websites of our Company at www.justinallengroup.com and the Stock Exchange at www.hkexnews.hk.

| | |
|--|---|
| Latest time to complete electronic applications under the White Form eIPO service through the designated website at www.eipo.com.hk ^(Note 2) | 11:30 a.m. on Friday, 22 November 2019 |
| Application lists of the Hong Kong Public Offering open ^(Note 3) | 11:45 a.m. on Friday, 22 November 2019 |
| Latest time to lodge WHITE and YELLOW Application Forms ^(Note 3) and to give electronic application instruction to HKSCC | 12:00 noon on Friday, 22 November 2019 |
| Latest time to complete payment of White Form eIPO applications by effecting internet banking transfer(s) or PPS payment transfer(s). | 12:00 noon on Friday, 22 November 2019 |
| Application lists of the Hong Kong Public Offering close ^(Note 3) | 12:00 noon on Friday, 22 November 2019 |
| Expected Price Determination Date ^(Note 4) | Monday, 25 November 2019 |
| Announcement of the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocation of the Hong Kong Offer Shares to be published on the website of our Company at www.justinallengroup.com and the website of the Stock Exchange at www.hkexnews.hk on or before | Wednesday, 27 November 2019 |
| Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable) to be available through a variety of channels (see the section headed "How to apply for Hong Kong Offer Shares — 11. Publication of results" in this prospectus) from | Wednesday, 27 November 2019 |

EXPECTED TIMETABLE *(Note 1)*

Results of allocations in the Hong Kong Public

Offering will be available at www.iporesults.com.hk
(alternatively: English [https://www.eipo.com.hk/en/
Allotment](https://www.eipo.com.hk/en/Allotment); Chinese [https://www.eipo.com.hk/zh-hk/
Allotment](https://www.eipo.com.hk/zh-hk/Allotment)) with a “search by ID Number/Business

Registration Number” function from Wednesday, 27 November 2019

Despatch/Collection of share certificates in respect
of wholly or partially successful applications
pursuant to the Hong Kong Public Offering

on or before ^(Note 5 & 6) Wednesday, 27 November 2019

Despatch/Collection of refund cheques in respect of
wholly or partially successful applications if the
Offer Price is less than the price payable on
application (if applicable) and wholly or partially
unsuccessful applications pursuant to the Hong
Kong Public Offering on or before ^(Note 5)

Wednesday, 27 November 2019

Despatch of **White Form** e-Refund payment instructions
and refund cheques in respect of wholly or partially
unsuccessful applications pursuant to the Hong Kong
Public Offering on or before ^(Note 5 & 6)

Wednesday, 27 November 2019

Dealings in Shares on the Stock Exchange expected to

commence at 9:00 a.m. on Thursday, 28 November 2019

Notes:

1. All times and dates refer to Hong Kong local times and dates unless otherwise stated.
2. You will not be permitted to submit your application through the designated website at www.eipo.com.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 before 11:30 a.m., you will be permitted to continue the application process (by completing payment of application money) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a “black” rainstorm warning signal or a tropical cyclone warning signal number 8 or above is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 22 November 2019, the application lists will not open on that day. For further details of the effect of bad weather on the opening of the application lists, please refer to the paragraph headed “How to apply for Hong Kong Offer Shares — 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. The Offer Price is expected to be determined by agreement between our Company and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 25 November 2019. The Offer Price will be not more than HK\$0.50 per Offer Share and is currently expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.50 per Offer Share, together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.50 per Offer Share.

EXPECTED TIMETABLE *(Note 1)*

The Sole Global Coordinator (acting for itself and on behalf of the Underwriters) may, with the consent of us, reduce the number of the Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time before the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.justinallengroup.com, not later than the morning of the last day for lodging applications under the Hong Kong Offer.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 25 November 2019, the Global Offering will not proceed and will lapse.

5. Applicants who apply with **WHITE** Application Forms or through **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering and have provided all information required by their Application Forms, may collect their refund cheques and share certificates (as applicable) in person from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 27 November 2019. Applicants being individuals who are eligible for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend by their authorised representatives bearing a letter 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) documents acceptable to our Hong Kong Branch Share Registrar.

Applicants who apply with **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares under the Hong Kong Public Offering, and have provided all information required by their Application Forms, may collect their refund cheques (where relevant) in person but may not collect their share certificates, which will be deposited into CCASS for credit to 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.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post and at the own risk of the applicants shortly after the expiry of the time for collection at the date of despatch of refund cheque as described in the paragraph headed “How to apply for Hong Kong Offer Shares — 14. Despatch/collection of share certificates and refund monies” in this prospectus.

6. e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications if the Offer Price is less than the maximum price per Hong Kong Offer Share payable on application. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party to facilitate your refund. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of your refund cheque or may invalidate your refund cheque. Further information is set out in the section headed “How to apply for the Hong Kong Offer Shares” in this prospectus. Applicants who apply through the **White Form eIPO** service and paid their applications monies through single bank account may have refund monies (if any) despatched to their application payment bank account, in the form of e-Refund payment instructions. Applicants who apply through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) despatched to the address as specified in their application instructions to the **White Form eIPO** Services Provider, in the form of refund cheques, by ordinary post at their own risk.

For further details of the structure of the Global Offering, including its conditions, please refer to the section headed “Structure of the Global Offering” in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by our Company solely in connection with the Global Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Global Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances.

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 or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of their respective directors, officers, representatives or advisers or any other person involved in the Global Offering. Information contained on our website, located at www.justinallengroup.com, does not form part of this prospectus.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Since this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

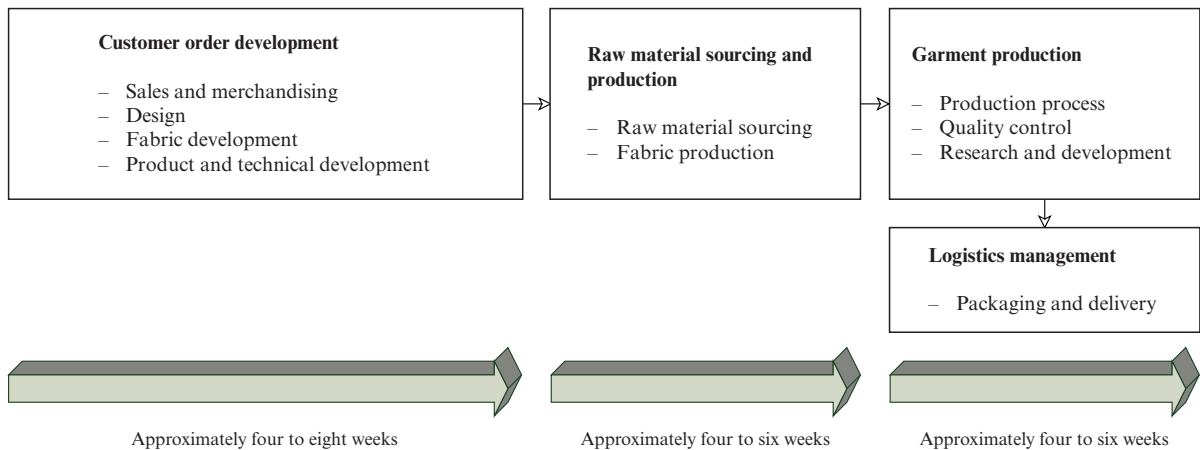
OVERVIEW

Established in Hong Kong in 1983, our Group primarily engages in the business of OEM garment manufacturing specialising in the production of sleepwear and loungewear products. We have a vertically integrated business operation which comprises raw materials sourcing and greige fabric production, product development which may involve advising on the product designs and the use of fabrics, conducting key garment production processes with our own production facilities and carrying out quality control at various key production stages and on finished garment products. As such, we are capable of offering one-stop apparel solutions comprising, fabric development, product development, raw materials sourcing, garment manufacturing, quality control and logistics management to our customers. We have production facilities in each of Phnom Penh, Cambodia and Henan province, the PRC. Our Cambodia Factory and Henan Factory commenced production in 2011 and 2014, respectively. We also started our fabric production in our Henan Factory in 2015 where we produced greige fabric mainly as a raw material for our sleepwear and loungewear production as well as for sales to third-party garment manufacturers.

OUR BUSINESS MODEL

There are four major steps in our business model, namely (i) customer order development; (ii) raw material sourcing and production; (iii) garment production; and (iv) logistics management.

The flowchart below illustrates the flow of operations of our business process:



SUMMARY

OUR PRODUCTS

Our garment products can be categorised into the following main categories: (i) sleepwear products; and (ii) loungewear products. During the Track Record Period, our revenue generated from sales of our sleepwear products was approximately HK\$376.8 million, HK\$411.5 million, HK\$435.8 million and HK\$142.0 million, which accounted for approximately 80.5%, 78.4%, 71.6% and 66.2% of our total revenue, respectively. During the Track Record Period, our revenue generated from sales of our loungewear products was approximately HK\$78.9 million, HK\$93.6 million, HK\$154.4 million and HK\$68.1 million, which accounted for approximately 16.9%, 17.8%, 25.4% and 31.7% of our total revenue, respectively. Our business and operating results are subject to seasonal fluctuations. During the Track Record Period, we typically generated higher revenue from sales of our products to our customers in winter season.

The table below sets out our revenue by product and service for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|-----------------------------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------------|--------------|----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Sleepwear products | 376,787 | 80.5 | 411,547 | 78.4 | 435,834 | 71.6 | 138,912 | 75.0 | 141,978 | 66.2 |
| Loungewear products | 78,882 | 16.9 | 93,568 | 17.8 | 154,379 | 25.4 | 40,487 | 21.9 | 68,090 | 31.7 |
| Greige fabric | 4,558 | 1.0 | 8,465 | 1.6 | 9,619 | 1.6 | 4,215 | 2.3 | 4,380 | 2.0 |
| Processing services <i>(Note)</i> | 7,636 | 1.6 | 11,272 | 2.2 | 8,554 | 1.4 | 1,594 | 0.8 | 153 | 0.1 |
| Total | 467,863 | 100.0 | 524,852 | 100.0 | 608,386 | 100.0 | 185,208 | 100.0 | 214,601 | 100.0 |

Note: Our revenue from processing service mainly represented manufacturing fees from other third-party garment manufacturers for which we acted as subcontractors to provide garment production service.

The table below shows our revenue by our customers' geographical location for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|--------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------------|--------------|----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| U.S. | 326,148 | 69.7 | 385,271 | 73.4 | 417,353 | 68.6 | 121,156 | 65.4 | 138,970 | 64.8 |
| U.K. | 94,723 | 20.2 | 69,517 | 13.2 | 83,467 | 13.7 | 24,345 | 13.1 | 35,179 | 16.4 |
| Ireland | 28,342 | 6.1 | 34,652 | 6.6 | 62,360 | 10.3 | 20,543 | 11.2 | 24,112 | 11.2 |
| Spain | 6,656 | 1.4 | 15,675 | 3.0 | 27,033 | 4.4 | 13,354 | 7.2 | 8,856 | 4.1 |
| PRC | 5,998 | 1.3 | 13,182 | 2.5 | 16,882 | 2.8 | 4,519 | 2.4 | 4,533 | 2.1 |
| Canada | — | — | — | — | — | — | — | — | 2,951 | 1.4 |
| Cambodia | 5,996 | 1.3 | 6,555 | 1.3 | 1,291 | 0.2 | 1,291 | 0.7 | — | — |
| Total | 467,863 | 100.0 | 524,852 | 100.0 | 608,386 | 100.0 | 185,208 | 100.0 | 214,601 | 100.0 |

During the Track Record Period, we mainly sold our sleepwear and loungewear products to our Apparel Retail Brand Customers based in the U.S., U.K., Ireland, Spain and Canada which, through their retail networks, resold such products to their retail customers. In addition, we sold our greige fabric to other third-party garment manufacturers based in the PRC during the Track Record Period.

SUMMARY

Sales volume and average selling price

The table below sets out the sales volume and average selling price of our products for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|---------------------------------|--------------------------------|-----------------------|--------------|-----------------------|--------------|-----------------------|----------------------------------|-----------------------|--------------|-----------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price | Sales volume | Average selling price |
| | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) |
| Sleepwear products (pieces) | 13,747 | 27.4 | 13,865 | 29.7 | 14,189 | 30.7 | 4,678 | 29.7 | 4,436 | 32.0 |
| Loungewear products (pieces) | 1,690 | 46.7 | 2,042 | 45.8 | 3,780 | 40.8 | 1,110 | 36.5 | 1,860 | 36.6 |
| Greige fabric (metres) | 662 | 6.9 | 1,145 | 7.4 | 1,408 | 6.8 | 605 | 7.0 | 592 | 7.4 |

For the three years ended 31 December 2018 and the five months ended 31 May 2019, the sales volume of our garment products amounted to approximately 15.4 million pieces, 15.9 million pieces, 18.0 million pieces and 6.3 million pieces, respectively and the sales volume of our greige fabric, which we sold to other third-party garment manufacturers based in the PRC, amounted to approximately 0.7 million metres, 1.1 million metres, 1.4 million metres and 0.6 million metres, respectively.

Gross profit and gross profit margin

The following table below sets out our gross profit and gross profit margin by type of products and services for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|----------------------------|--------------------------------|---------------------|----------------|---------------------|----------------|---------------------|----------------------------------|---------------------|---------------|---------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | 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) | | | | | | | | | |
| Sleepwear products | 97,649 | 25.9 | 109,623 | 26.6 | 120,637 | 27.7 | 38,123 | 27.4 | 37,575 | 26.5 |
| Loungewear products | 20,592 | 26.1 | 21,367 | 22.8 | 46,903 | 30.4 | 12,208 | 30.2 | 20,662 | 30.3 |
| Greige fabric | 68 | 1.5 | 271 | 3.2 | 442 | 4.6 | 164 | 3.9 | 284 | 6.5 |
| Processing services (Note) | 586 | 7.7 | 749 | 6.6 | 752 | 8.8 | 128 | 8.0 | 10 | 6.5 |
| Total | 118,895 | 25.4 | 132,010 | 25.2 | 168,734 | 27.7 | 50,623 | 27.3 | 58,531 | 27.3 |

Note: Our revenue from processing services mainly represented manufacturing fees from other third-party garment manufacturers for which we acted as subcontractors to provide garment production service.

Our gross profit for the three years ended 31 December 2018 and the five months ended 31 May 2019 was approximately HK\$118.9 million, HK\$132.0 million, HK\$168.7 million and HK\$58.5 million, respectively. Our gross profit margin for the same years/period was approximately 25.4%, 25.2%, 27.7% and 27.3%, respectively.

For further details, please refer to the paragraph headed “Financial information — Description of selected items from consolidated statements of comprehensive income — Gross profit and gross profit margin” in this prospectus.

SUMMARY

OUR PRODUCTION FACILITIES

We have two garment manufacturing facilities, namely our Cambodia Factory, a leased property, and our Henan Factory, a self-owned property, which commenced production in 2011 and 2014, respectively. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the estimated utilisation rate for garment production in our Cambodia Factory was approximately 72.7%, 69.6%, 94.2% and 90.9% respectively. For the three years ended 31 December 2018 and the five months ended 31 May 2019, the estimated utilisation rate for garment production in our Henan Factory was approximately 84.1%, 67.8%, 93.0% and 100.0% respectively, and the estimated utilisation rate for fabric production in the same factory during the same period was approximately 81.5%, 87.8%, 94.3% and 108.7% respectively. During the Track Record Period, we also outsourced the production of some of our garment products and certain fabric production processes to subcontractors. Our Group places strong emphasis on product quality and has a stringent quality control process over the course of our entire production processes. In addition to garment production in our Cambodia Factory and Henan Factory, we conduct weaving and knitting of greige fabric in our Henan Factory. For further details of our production processes, please refer to the paragraph headed “Business — Our business model” in this prospectus.

IMPACT OF U.S. TRADE RESTRICTIONS AND BREXIT ON OUR GROUP

Impact of U.S. Trade Restrictions on our Group

In light of the recent tensions involving the Sino-U.S. trade war, our business is likely to be adversely affected by trade restrictions that may be implemented as a result of the negotiations between these countries. Based on our historic financial data, the revenue generated from our garment products that were produced in the PRC and exported to the U.S. for the three years ended 31 December 2018 and the five months ended 31 May 2019 accounted for approximately 45.5%, 35.3%, 32.6% and 33.2% of our total revenue, respectively and approximately 65.2%, 48.2%, 47.5% and 51.2%, of our revenue generated from the U.S., respectively. The PRC and the U.S. began to impose additional tariff on each other's goods. The latest tariff was implemented on 1 September 2019 when the U.S. government imposed 15% tariffs on products on the list (the “**Product List**”) to be imported from the PRC to the U.S. (the “**15% Tariffs**”). As advised by our U.S. Legal Advisers, since 1 September 2019 and up to the Latest Practicable Date, all of our sleepwear and loungewear products produced in the PRC and exported to the U.S. are on the Product List, and hence, are subject to the 15% Tariffs. Depending on the latest development of the trade negotiations between the U.S. and the PRC, the level and number of products subject to tariffs may change over time. Despite the imposition of the 15% Tariffs on our products and the recent tensions involving the Sino-U.S. trade war, our Directors confirm that (i) Target had not cancelled any orders placed with us since the imposition of the 15% Tariffs on 1 September 2019 and up to the Latest Practicable Date; and (ii) our Directors believe that our Group would not experience any decline in orders from Target for the first quarter of 2020, compared with the orders we received for the first quarter of 2019.

We are advised by our U.S. Legal Advisers that we will not be the party responsible for the payment of any tariffs as we ship our products to our U.S. customer on a FOB basis. As such, our U.S. customer is the importer of record and is responsible for payment of any tariffs. Therefore, our U.S. customer may pass the increase in their costs partially or entirely on to us, which will likely have an adverse impact on our business operations and financial condition. During the Track Record Period, all of our products exported to the U.S. from the PRC were sold to Target. Assuming that (i) the 15% Tariffs will remain at the same tariff rate; (ii) Target is to fully pass on the effect of the 15% Tariffs for our products imported from the PRC on a FOB basis to our Group; and (iii) all of our products manufactured in the PRC and shipped to Target in the U.S. are on the Product List, for illustrative purpose only, the potential financial impact of the 15% Tariffs on us would be approximately HK\$5.0 million for the period from 1 October to 31 December 2019, based on our Group's confirmed orders from Target involving products imported from the PRC on a FOB basis for the same period. Assuming that the 15% Tariffs was effective on 1 January 2019, for illustrative purpose only, the financial impact of the 15% Tariffs on us would be approximately HK\$27.1 million for the year ending 31 December 2019, based on our Group's actual sales with Target for the five months ended 31 May 2019 and our Group's confirmed orders from Target for the seven months ending 31 December 2019, involving products imported from the PRC on a FOB basis. Our Directors believe that such impact on us would be reduced for the year ending 31 December 2020 due to the implementation of the contingency plan.

SUMMARY

In order to minimise the financial and operational impact on our Group, our Group has prepared a contingency plan whereby our Group will gradually switch the country of production of products that are produced in the PRC and exported to the U.S. from the PRC to other countries such as Vietnam and Cambodia which are not subject to the 15% Tariffs or other tariffs imposed by the U.S. which may be relevant to our business. Our Group anticipates that we will move such production to subcontractors located in Vietnam in the short run. Our Directors confirm that by comparing the average cost of production of our major sleepwear and loungewear products produced by our Henan Factory with the quotations we have obtained for similar products from the selected subcontractors located in Vietnam, there would not be any significant difference for our production costs. Therefore, our Directors consider that there would not be any significant impact on our Group's business operation and financial performance after moving our production to subcontractors located in Vietnam as part of the contingency plan.

As our Vietnam Factory is currently expected to be completed by the first quarter of 2021, our Directors believe that our Group would have an additional production facility as part of our contingency plan so as to minimise any negative impact of any imposition of tariffs which may have on us if the trade tension persists in the long run. Our Directors consider that this contingency plan will be able to mitigate any effect that any tariffs (if imposed) may have on us in the long run as our U.S. Legal Advisers has confirmed that even if the raw materials of a product are sourced from the PRC, as long as the country of production of that product is not the PRC, then such product will not be subject to the 15% Tariffs. As our Directors believe that our Group's contingency plan above will be able to mitigate any effect against our Group in the long run even if our products will be subject to any tariffs in the future, our Directors consider, and the Sole Sponsor concurs, that even though the majority of our products are delivered to the U.S., our Group's business operations will not be materially affected in the long run.

Impact of Brexit on our Group

Further, our Group's business may also be affected by Brexit as the revenue that we generated from our customers based in the U.K. amounted to approximately HK\$94.7 million, HK\$69.5 million, HK\$83.5 million and HK\$35.2 million, representing approximately 20.2%, 13.2%, 13.7% and 16.4% of our total revenue for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. Our Industry Consultant has predicted that the CAGR of consumer spending on clothing and footwear in the U.K. during the period between 2018 and 2023 could decrease to approximately -1.4% if the U.K. exits the EU without a trade agreement (compared with the expected CAGR of approximately 2.7% for the same period if the U.K. agrees to exit the EU with a trade agreement prior to them exiting the EU). However, our Directors believe that Brexit will not have a material adverse impact on our Group's business or our sustainability as (i) the impact of Brexit on the clothing and footwear business in the U.K. is low as shown by the relatively low decrease in the projected CAGR following Brexit; and (ii) our products are essential products for which the consumers' demand will remain relatively stable. Additionally, our Directors confirm that there was not any decrease in our Group's aggregate sales to Customer A for the period from 1 June 2019 to 30 September 2019, as compared with the aggregate sales to the same customer for the same period in 2018. Our Directors further confirm that Customer A had not cancelled any orders placed with us since June 2019 and up to the Latest Practicable Date.

OUR CUSTOMERS

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total revenue was approximately HK\$467.9 million, HK\$524.9 million and HK\$608.4 million and HK\$214.6 million, respectively. The revenue attributable to our five largest customers was approximately HK\$458.7 million, HK\$509.6 million, HK\$594.0 million and HK\$211.9 million, which accounted for approximately 98.0%, 97.0%, 97.6% and 98.8% of our total revenue, respectively, during the same periods. Three, four, four and four of our five largest customers during the Track Record Period were Apparel Retail Brand Customers. Please refer to paragraph headed "Business — Sales — Our customers" in this prospectus for further details.

During the Track Record Period, Target was our largest customer and Customer A was our second largest customer. Target is a department store retailer based in the U.S. and listed on the New York Stock Exchange. Customer A is a multinational fashion retailer headquartered in Ireland and is part of a company listed on the London Stock Exchange. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from our sales to Target accounted for approximately 69.3%, 72.9%,

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67.8% and 64.0% of our total revenue, respectively, and our revenue generated from our sales to Customer A accounted for approximately 22.4%, 19.0%, 26.2% and 29.1% of our total revenue, respectively. During the Track Record Period, our revenue generated from our sales to Target and Customer A in aggregate amounted to approximately HK\$429.3 million, HK\$482.4 million, HK\$572.2 million and HK\$199.8 million, which accounted for 91.7%, 91.9%, 94.0% and 93.1% of our total revenue, respectively.

Our Directors expect that our reliance on Target and Customer A may further decline, taking into account our Group's business strategies in relation to the vertical and horizontal expansion plans of our fabric and garment production capacities and further diversification of our customer and revenue base.

OUR SUPPLIERS

During the Track Record Period, our suppliers mainly consisted of (i) suppliers of raw materials; and (ii) subcontractors. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our purchases from our five largest suppliers amounted to approximately HK\$121.9 million, HK\$102.3 million, HK\$132.2 million and HK\$52.2 million, respectively, which accounted for approximately 40.0%, 33.2%, 35.9% and 38.9% of our total purchases, respectively, during the same periods. Please refer to the paragraph headed "Business — Our suppliers" in this prospectus for further details.

Due to the limited production capacities of our Henan Factory and Cambodia Factory, we outsourced the production of some of our garment products as well as certain fabric production processes such as dyeing and finishing to subcontractors during the Track Record Period. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our subcontracting costs were approximately HK\$62.9 million, HK\$62.7 million, HK\$88.7 million and HK\$32.2 million, which accounted for approximately 20.6%, 20.3%, 24.1% and 24.0% of our total purchases, respectively.

PRICING POLICY

We adopt a cost-plus pricing strategy which takes into account a number of factors when we determine the price of our products. Such factors include (i) costs of raw materials; (ii) size of orders; (iii) technical production requirements; (iv) production lead time; (v) product design; and (vi) other costs of production.

MARKET AND COMPETITION

According to the Industry Consultant, the competitive landscapes of the sleepwear and loungewear OEM manufacturing industries in the PRC and Cambodia are fairly fragmented. The top 10 PRC manufacturers captured approximately 10.3% of the total sleepwear and loungewear sales in the PRC in 2017. There were over 50 sleepwear and loungewear manufacturers in Cambodia in 2017 and the majority of them were small and medium sized players. For further details of the industry in which we operate, please refer to the section headed "Industry overview" in this prospectus.

OUR COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths have contributed to our success and differentiated us from our competitors:

- our vertical integration allows us to become a one-stop apparel solutions provider;
- we have cultivated long-term business relationships with most of our Apparel Retail Brand Customers;
- we have strong design and fabric development capabilities;
- we have a stringent quality control process which ensures high product quality; and
- we have an experienced management team with a proven track record.

SUMMARY

For details of our competitive strengths, please refer to the paragraph headed “Business — Our competitive strengths” in this prospectus.

OUR BUSINESS STRATEGIES

Our Directors intend to achieve our objectives by leveraging on our Group’s competitive strengths and adopting the following business strategies:

- vertical expansion of our fabric production capability;
- horizontal expansion of our garment production capability;
- further diversification of our customer and revenue base; and
- adjustment in our product mix.

For further details of our business strategies, please refer to the paragraph headed “Business — Our business strategies” in this prospectus.

HIGHLIGHTS OF RISK FACTORS

Our operation results are mainly subject to several risk factors which can be categorised into the following areas: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to conducting business in Cambodia; (v) risks relating to the Global Offering and our Shares; and (vi) risks relating to certain statements in this prospectus. For further details relating to these risks, please refer to the section headed “Risk factors” in this prospectus. Our Directors believe our major risks include the following:

- our Group relied heavily on Target during the Track Record Period;
- we do not enter into long-term contracts with our Apparel Retail Brand Customers;
- our success depends on our customers’ ability to market and sell their products manufactured by us;
- during the Track Record Period, we relied significantly on our sales derived from our customers based in the U.S. and any event negatively affecting the U.S. could have an adverse effect on our business, financial condition, results of operations and future operations;
- any labour shortages, increased labour costs or other factors affecting labour supply for our production;
- our business, reputation, financial condition and results of operations may be materially and adversely affected by the performance of or disruption in supply from our subcontractors;
- future price increases in raw materials or changes in the supply of raw materials may materially and adversely affect our business, financial condition and results of operations; and
- we are exposed to foreign exchanges risks.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

During the Track Record Period, our Group was subject to: (i) a labour dispute initiated by our former employee in the PRC in November 2017, which has already been settled; and (ii) a litigation case initiated in December 2016 by Mr. Kwok, one of our Pre-IPO Investors, in which he alleged Mr. Tam and Mrs. Tam, among others, for not managing the affairs of our Company including historical dividend payment arrangements in his

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interests. The case was sought to be struck out by our Company, JAL, Mr. Tam and Mrs. Tam, as respondents and subsequently Mr. Kwok withdrew the case, which was approved by the Hong Kong High Court in May 2017. In addition, Mr. Kwok signed a deed of confirmation in February 2019 confirming the withdrawal of such case.

During the Track Record Period, our Group had certain non-compliance incidents including: (i) our failure to contribute the required payments under the MPF scheme for Mr. Tam, Mrs. Tam and a former director of JAL; and (ii) our failure to register and make social insurance and housing provident fund contributions for certain employees of Henan Kaiyu.

For further details relating to the legal proceedings and non-compliance matters of our Group, please refer to the paragraph headed “Business — Legal proceedings and non-compliance” in this prospectus.

SUMMARY FINANCIAL INFORMATION AND OPERATING DATA

Consolidated statements of profit or loss and other comprehensive income

| | For the year ended 31 December | | | For the five months ended | |
|-----------------------------------|--------------------------------|---------------|---------------|---------------------------|---------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | | | | <i>(unaudited)</i> | |
| Revenue | 467,863 | 524,852 | 608,386 | 185,208 | 214,601 |
| Cost of sales | (348,968) | (392,842) | (439,652) | (134,585) | (156,070) |
| Gross profit | 118,895 | 132,010 | 168,734 | 50,623 | 58,531 |
| Other income | 10,425 | 2,128 | 2,088 | 883 | 855 |
| Other gains and losses | 313 | 2,899 | (1,020) | 1,624 | 2,270 |
| Selling and distribution expenses | (31,691) | (30,859) | (43,662) | (12,508) | (13,252) |
| Administrative expenses | (38,610) | (38,473) | (48,104) | (17,082) | (20,834) |
| Finance costs | (2,502) | (4,016) | (5,802) | (1,936) | (2,833) |
| Listing expenses | — | (500) | (16,878) | (3,751) | (10,104) |
| Profit before tax | 56,830 | 63,189 | 55,356 | 17,853 | 14,633 |
| Income tax expense | (11,031) | (11,778) | (13,131) | (4,774) | (4,233) |
| Profit for the year/period | <u>45,799</u> | <u>51,411</u> | <u>42,225</u> | <u>13,079</u> | <u>10,400</u> |

Revenue

During the Track Record Period, our revenue was principally generated from sales of our sleepwear and loungewear products. For the three years ended 31 December 2018 and the five months ended 31 May 2019, we recorded revenue of approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million and HK\$214.6 million, respectively.

Our revenue increased by approximately HK\$57.0 million or 12.2% from approximately HK\$467.9 million for the year ended 31 December 2016 to approximately HK\$524.9 million for the year ended 31 December 2017 mainly due to the increase in our sales to Target by approximately HK\$58.3 million or 18.0%. Such increase was mainly due to the increase in the average selling price of our sleepwear products sold to Target by approximately 12.8% and the increase in the sales volume of our loungewear products sold to Target by approximately 13.1%. In response to the increase in production costs and cost of raw materials of certain sleepwear products sold to Target, we increased the selling price of those sleepwear products sold to Target in order to maintain our gross profit margin. As a result, the average selling price of our sleepwear products sold to Target increased. The increase in the sale volume of our loungewear products sold to Target was as a result of the change of product mix ordered by Target.

SUMMARY

Our revenue increased by approximately HK\$83.5 million or 15.9% from approximately HK\$524.9 million for the year ended 31 December 2017 to approximately HK\$608.4 million for the year ended 31 December 2018 which was mainly attributable to the increase in sales of our sleepwear products to Customer A by approximately HK\$59.8 million or 60.0% compared to the year ended 31 December 2017. Such increase was primarily due to the increase in sales volume by approximately 38.0% as well as the average selling price by approximately 15.9% of the sleepwear products sold to Customer A. We increased our sales to Customer A for the year ended 31 December 2018 when compared to that for the year ended 31 December 2017 so as to reduce the level of customer concentration and to diversify our revenue geographically. In response to the increase in production costs and cost of raw materials of certain sleepwear products sold to Customer A, we increased the selling price of those sleepwear products in order to maintain our gross profit margin. As a result, the average selling price of our sleepwear products sold to Customer A increased.

Our revenue increased by approximately HK\$29.4 million or 15.9% from approximately HK\$185.2 million for the five months ended 31 May 2018 to approximately HK\$214.6 million for the five months ended 31 May 2019 mainly due to the increase in revenue from our loungewear products by approximately HK\$27.6 million and the increase in our sales of sleepwear products by approximately HK\$3.0 million to Customer F, our new Apparel Retail Brand Customer.

For further details, please refer to the paragraph headed “Financial information — Description of selected items from consolidated statements of comprehensive income — Revenue” in this prospectus.

Profit for the year

Our net profit for the three years ended 31 December 2018 and the five months ended 31 May 2019 was approximately HK\$45.8 million, HK\$51.4 million, HK\$42.2 million and HK\$10.4 million, respectively.

Our net profit increased by approximately HK\$5.6 million or 12.2% from approximately HK\$45.8 million for the year ended 31 December 2016 to approximately HK\$51.4 million for the year ended 31 December 2017 which was in line with the increase in our revenue by approximately HK\$57.0 million or 12.2% from approximately HK\$467.9 million for the year ended 31 December 2016 to approximately HK\$524.9 million for the year ended 31 December 2017. Our net profit decreased by approximately HK\$9.2 million or 17.9% from approximately HK\$51.4 million for the year ended 31 December 2017 to approximately HK\$42.2 million for the year ended 31 December 2018 which was mainly attributable to the increase in listing expenses by approximately HK\$16.4 million for the year ended 31 December 2018. Our net profit decreased by approximately HK\$2.7 million or 20.6% from approximately HK\$13.1 million for the five months ended 31 May 2018 to approximately HK\$10.4 million for the five months ended 31 May 2019 which was mainly attributable to the increase in listing expenses of approximately HK\$6.3 million being recognised for the five months ended 31 May 2019.

SUMMARY

Selected consolidated statements of cash flows

| | For the year ended 31 December | | | For the five months ended 31 May | |
|---|--------------------------------|----------------------|----------------------|-------------------------------------|----------------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | <i>(unaudited)</i> | |
| Cash and cash equivalents at beginning of the year | 29,145 | 29,669 | 41,595 | 41,595 | 23,204 |
| Operating cash flows before movements in working capital | 70,370 | 77,072 | 73,874 | 25,352 | 22,537 |
| Net cash (used in)/from operating activities | (242,226) | (72,128) | 6,990 | 20,057 | 52,378 |
| Net cash (used in)/from investing activities | (28,975) | (16,913) | (14,466) | (1,016) | 6,820 |
| Net cash from/(used in) financing activities | <u>272,048</u> | <u>100,696</u> | <u>(10,618)</u> | <u>(11,711)</u> | <u>(58,227)</u> |
| Net increase/(decrease) in cash and cash equivalents | 847 | 11,655 | (18,094) | 7,330 | 971 |
| Effect of foreign exchange rate | <u>(323)</u> | <u>271</u> | <u>(297)</u> | <u>200</u> | <u>114</u> |
| Cash and cash equivalents at end of the year | <u><u>29,669</u></u> | <u><u>41,595</u></u> | <u><u>23,204</u></u> | <u><u>49,125</u></u> | <u><u>24,289</u></u> |

Our net cash used in operating activities for the two years ended 31 December 2017 were approximately HK\$242.2 million and HK\$72.1 million, respectively and our net cash from operating activities for the year ended 31 December 2018 was approximately HK\$7.0 million. Our net cash used in operating activities of approximately HK\$242.2 million for the year ended 31 December 2016 was primarily resulted from the profit before tax of approximately HK\$56.8 million, offset by (i) an increase in trade and other receivables of approximately HK\$251.4 million; (ii) an increase in inventories of approximately HK\$41.3 million; and (iii) income tax paid of approximately HK\$10.2 million.

Our net cash used in operating activities of approximately HK\$72.1 million for the year ended 31 December 2017 was primarily resulted from the profit before tax of approximately HK\$63.2 million, offset by (i) an increase in trade and other receivables of approximately HK\$100.3 million; and (ii) a decrease in trade and other payables of approximately HK\$37.2 million.

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Selected consolidated statements of financial position

| | As at 31 December | | | As at |
|----------------------------------|-------------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Non-current assets | <u>215,062</u> | <u>220,690</u> | <u>203,618</u> | <u>211,319</u> |
| Current assets | <u>256,490</u> | <u>230,587</u> | <u>274,617</u> | <u>223,180</u> |
| Non-current liabilities | <u>8,099</u> | <u>5,301</u> | <u>2,762</u> | <u>6,443</u> |
| Current liabilities | <u>225,009</u> | <u>151,461</u> | <u>275,955</u> | <u>211,489</u> |
| Net current assets/(liabilities) | <u>31,481</u> | <u>79,126</u> | <u>(1,338)</u> | <u>11,691</u> |
| Total equity | <u>238,444</u> | <u>294,515</u> | <u>199,518</u> | <u>216,567</u> |

Our Group recorded net current liabilities of approximately HK\$1.3 million as at 31 December 2018 as compared to our net current assets of approximately HK\$79.1 million as at 31 December 2017. Such change was primarily due to (i) the increase in trade and other payables of approximately HK\$49.8 million mainly resulted from the increase in payables to import-export corporations; and (ii) the increase in amounts due to shareholders of approximately HK\$107.9 million as a result of the acquisition of Castle Eagle and Power Summit by our Group from Mr. Tam, who was the beneficial owner of Castle Eagle and Power Summit at the time of the acquisitions, at a consideration of approximately HK\$111.1 million as part of the Reorganisation. The said acquisitions were in substance a deemed distribution to Mr. Tam. Please refer to the paragraph headed “History and development — The Reorganisation” in this prospectus for further details. The decrease in our net assets from approximately HK\$294.5 million as at 31 December 2017 to approximately HK\$199.5 million as at 31 December 2018 was mainly due to the decrease in non-current assets from approximately HK\$220.7 million as at 31 December 2017 to approximately HK\$203.6 million as at 31 December 2018 as a result of the decrease in investment property from approximately HK\$24.3 million as at 31 December 2017 to nil as at 31 December 2018 and the increase in current liabilities from approximately HK\$151.5 million to approximately HK\$276.0 million which was explained above, which was offset by the increase in current assets from HK\$230.6 million as at 31 December 2017 to HK\$274.6 million as at 31 December 2018, as a result of the increase in inventories and trade and other receivables due to increase in revenue during the year.

Our Group recorded net current assets of approximately HK\$11.7 million as at 31 May 2019 as compared to net current liabilities of approximately HK\$1.3 million as at 31 December 2018. The change from a net current liability position to a net current asset position of our Group was mainly attributable to the decrease in current liabilities. The decrease in current liabilities was mainly attributable to (i) the decrease in amount due to Strategic King, the ultimate holding company of our Group and one of our Controlling Shareholders, from approximately HK\$13.2 million as at 31 December 2018 to nil as at 31 May 2019, as a result of the payment of dividend to Strategic King; together with the effect of (ii) the decrease in amounts due to shareholders from approximately HK\$110.8 million as at 31 December 2018 to approximately HK\$53.9 million as at 31 May 2019 as a result of the repayment to Mr. Tam.

SUMMARY

Key financial ratios *(Note 1)*

| | For the year ended/as at 31 December | | | For the five months ended/as at 31 May 2019 |
|-----------------------------------|---|------|------|---|
| | 2016 | 2017 | 2018 | |
| Liquidity ratios | | | | |
| Current ratio | 1.1 | 1.5 | 1.0 | 1.1 |
| Quick ratio | 0.8 | 0.9 | 0.6 | 0.5 |
| Capital adequacy ratios | | | | |
| Gearing ratio (%) <i>(Note 2)</i> | 41.0 | 25.2 | 13.7 | 21.7 |
| Debt to equity ratio (%) | 27.3 | 11.1 | 2.1 | 10.5 |
| Interest coverage | 23.7 | 16.7 | 10.5 | 6.2 |
| Profitability ratios | | | | |
| Return on total assets (%) | 9.7 | 11.4 | 8.8 | 5.8 |
| Return on equity (%) | 19.2 | 17.5 | 21.2 | 11.6 |
| Net profit margin (%) | 9.8 | 9.8 | 6.9 | 4.8 |

Notes:

- 1: Please refer to the paragraph headed “Financial information — Financial ratios” in this prospectus for the basis of calculation of such financial ratios.
- 2: The gearing ratio is calculated based on the total interest bearing borrowings divided by the total equity as at the end of each reporting period and multiplied by 100%.

LISTING EXPENSES

The total Listing expenses amounted to approximately HK\$52.6 million, of which approximately nil, HK\$0.5 million, HK\$16.9 million, and HK\$10.1 million was recognised in our consolidated statements of profit or loss for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. We expect to further recognise approximately HK\$10.5 million in our consolidated statements of profit or loss, and approximately HK\$14.6 million as a deduction in equity.

DIVIDEND

Our Company had not declared any dividends during the Track Record Period. On 30 August 2019, our Company declared a dividend of approximately HK\$15 million. JA Overseas had declared and paid approximately HK\$8.5 million, approximately HK\$24.7 million, approximately HK\$14.7 million and nil as dividend for the three years ended 31 December 2018 and the five months ended 31 May 2019 respectively to its then shareholders. After completion of the Listing, our Directors, may at its discretion, declare dividends to our Shareholders in the future after taking into account our results of operations, earnings, financial condition, cash requirements and availability, contractual arrangements and other factors as it may deem relevant at such time. We do not have any specific dividend policy nor any pre-determined dividend pay out ratio.

RECENT DEVELOPMENT AND NO MATERIAL ADVERSE CHANGE

In the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and is listed on the New York Stock Exchange. It has over 3,500 stores in the U.S. and 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from Customer F for over 600,000 units of sleepwear products, of which we had delivered approximately 134,000 units during the five months ended 31 May 2019 and our Group recognised approximately HK\$3.0 million in respect of the sales and

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delivery of these units as revenue for the five months ended 31 May 2019. We expect to deliver the rest of the orders to Customer F throughout 2019 according to the delivery schedule agreed with Customer F. Our Group had continued to conduct business with our Apparel Retail Brand Customers, namely Target, Customer A, Marks and Spencer plc and Customer C after 31 May 2019 and up to the Latest Practicable Date.

As at 31 May 2019, our Group had an amount of approximately HK\$53.5 million due to Mr. Tam, one of our Controlling Shareholders, of which approximately HK\$50.0 million had been repaid by way of a bank loan obtained by us as at the Latest Practicable Date. Our Group intends to utilise its internal financial resources for the repayment of the outstanding balance in full on or before the Listing. Taking into account the financial resources available to us including cash flow from operating activities, our Directors are of the view that we have sufficient working capital to repay the outstanding amount owed to Mr. Tam, and such event would not have material impact on our Group's financial position and financial performance.

Having considered all relevant factors, including but not limited to the impact of the Sino-U.S. trade war and Brexit on our Group, our Directors confirm that there had been no material adverse change in our financial condition or trading position or prospects since 31 May 2019 and up to the date of this prospectus, and there is no event since 31 May 2019 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

USE OF PROCEEDS

Assuming an Offer Price of HK\$0.45 per share (being the mid-point of the Offer Price Range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$88.0 million. We intend to apply such net proceeds in the following manner:

- (i) approximately HK\$65.3 million or 74.2% will be used to enhance our fabric production facilities by establishing a spinning mill in our Henan Factory as our vertical expansion plan. For further details of such expansion please refer to the paragraph headed "Business — Our business strategies — Vertical expansion of our fabric production" in this prospectus. The net proceeds of (a) approximately HK\$18.0 million will be used to fund the construction work of the spinning mill at our Henan Factory; and (b) approximately HK\$38.8 million will be used for the purchase of 76 sets of basic spinning machines which are required for the commencement of production of the spinning mill in the first phase; and (c) approximately HK\$8.5 million will be used for the purchase of 16 sets of more advanced spinning machines which allow our Group to produce a wider variety of yarn in the second phase;
- (ii) approximately HK\$20.0 million or 22.7% will be used for setting up a new garment production factory in Vietnam which will have a size and scale similar to our Cambodia Factory; and
- (iii) approximately HK\$2.7 million or 3.1%, will be used to fund our working capital and for general corporate purposes.

If our Offer Price is set at HK\$0.5 per Offer Share (being the high-end of the indicative Offer Price) or HK\$0.4 per Offer Share (being the low-end of the indicative Offer Price) or any price in between, we intend to apply the net proceeds to the above purposes on a pro-rata basis. If the Over-allotment Option is exercised in full or in part, we intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro-rata basis.

SUMMARY

STATISTICS OF THE GLOBAL OFFERING

| | Based on the indicative Offer Price of HK\$0.40 per Offer Share | Based on the indicative Offer Price of HK\$0.50 per Offer Share |
|--|--|--|
| Market capitalisation of the Shares expected to be in issue following the completion of the Capitalisation Issue and the Global Offering (<i>Note 1</i>) | HK\$500 million | HK\$625 million |
| Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share (<i>Note 2</i>) | HK\$0.23 | HK\$0.26 |

Notes:

1. The calculation of the market capitalisation is based on 1,250,000,000 Shares expected to be in issue following the completion of the Capitalisation Issue and the Global Offering.
2. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share has been arrived at after making the adjustments referred to the section headed “Unaudited pro forma financial information” in Appendix II to this prospectus and on the basis of 1,150,584,826 Shares in issue assuming that the Capitalisation Issue and the Global Offering have been completed on 30 September 2018 but takes no account of any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme or any Shares which may be granted and issued or repurchased by our Company pursuant to the general mandate and the Repurchase Mandate.

OUR SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option), Strategic King will be directly interested in approximately 67.1% of the total number of issued Shares. Since Strategic King, which is owned as to 90% by Mr. Tam and 10% by Mrs. Tam, will continue to control more than 30% of the voting power at general meetings of our Company, each of Strategic King, Mr. Tam and Mrs. Tam will be our Controlling Shareholder upon Listing.

From May 2012 to February 2013, JA Overseas entered into the subscription agreements with five Pre-IPO Investors pursuant to which they subscribed for a total of 1,267 shares in JA Overseas, representing approximately 10.6% of its then entire issued share capital, for a total consideration of HK\$15.2 million. Upon completion of the share swap between our Company and the Pre-IPO Investors, and the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option), the Pre-IPO Investors will hold approximately 7.9% of the enlarged issued share capital of our Company. For further details relating to the Pre-IPO Investments and the background of the Pre-IPO Investors, please see the paragraph headed “History and development — Pre-IPO Investments” in this prospectus.

DEFINITIONS

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

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| “Apparel Retail Brand Customer(s)” | customer(s) which have their own apparel or clothing brands for sale to their customer(s) |
| “Application Forms” | the WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s) or, where the context so requires, any of them |
| “Articles” or “Articles of Association” | the articles of association of our Company (as amended from time to time), conditionally adopted with effect from the Listing Date, a summary of which is set out in Appendix IV to this prospectus |
| “Asia Dragon” | Asia Dragon Holdings Limited, a Pre-IPO Investor |
| “Audit Committee” | the audit committee of the Board |
| “Board” or “Board of Directors” | the board of directors of our Company |
| “Business Day(s)” or “business day(s)” | any day (other than a Saturday, Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours |
| “BVI” | the British Virgin Islands |
| “Cambodia” | the Kingdom of Cambodia |
| “Cambodia Factory” | our factory conducting garment production in Phnom Penh, Cambodia, the premises of which is leased from an Independent Third Party |
| “Cambodia Legal Advisers” | Heng & Partners Law Group, the legal advisers to our Company as to laws of Cambodia |
| “Capitalisation Issue” | the issue of 937,488,053 Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company as referred to in the paragraph headed “A. Further information about our Group — 3. Resolutions in writing of all Shareholders passed on 17 October 2019” in Appendix V to this prospectus |

DEFINITIONS

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| “Castle Eagle” | Castle Eagle Investments Limited (堡鷹投資有限公司), a limited liability company incorporated in the BVI on 28 October 2013 and an indirectly wholly-owned subsidiary of our Company |
| “Cayman Companies Law” or “Companies Law” | the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended or supplemented 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 participant or a 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 Participant” | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| “Chairman” | the chairman of our Board |
| “China” or “PRC” | the People’s Republic of China excluding, for the purposes of this prospectus only, Hong Kong, Macau and Taiwan |
| “Companies Ordinance” | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time |
| “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 or supplemented from time to time |
| “Company” or “our Company” | Justin Allen Holdings Limited (捷隆控股有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 31 May 2013 |
| “Connected Persons” | 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 collectively refers to Mr. Tam, Mrs. Tam and Strategic King |

DEFINITIONS

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| “Co-lead Managers” | collectively, Business Securities Limited, Ever-Long Securities Company Limited, Grand China Securities Limited, HTF Securities Limited, Joincap Securities Limited, Tongfang Securities Limited and Yuanyin Securities Limited |
| “Deed of Indemnity” | the deed of indemnity dated 17 October 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), particulars of which are set out in “Other Information — 1. Estate duty, tax and other indemnities” in Appendix V to this prospectus |
| “Deed of Non-Competition” | the deed of non-competition dated 17 October 2019 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries), particulars of which are set out in the section headed “Relationship with Controlling Shareholders — Deed of Non-Competition” in this prospectus |
| “Director(s)” | the director(s) of our Company |
| “Euro” | the lawful currency of the Eurozone |
| “Euromonitor” or “Industry Consultant” | Euromonitor International Limited, an independent consulting firm which was commissioned by us to prepare the Euromonitor Report |
| “Euromonitor Report” | the industry report provided by Euromonitor |
| “Extreme Conditions” | extreme conditions caused by a super typhoon as announced by the Government of Hong Kong |
| “Fuhui” | Fuhui Investments Limited, a JA Overseas Former Shareholder |
| “GBP” | Pound sterling, the lawful currency of the United Kingdom |
| “Global Offering” | the Hong Kong Public Offering and the International Offering |
| “Great Metro” | Great Metro Limited, a JA Overseas Former Shareholder |
| “GREEN Application Form(s)” | the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited |

DEFINITIONS

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| “Group”, “our Group”, “we”, “our” or “us” | our Company and its subsidiaries or, where the context so requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the business operated by such subsidiaries or their predecessors (as the case may be) |
| “Henan Factory” | our factory conducting fabric and garment production in Henan Province, the PRC |
| “Henan Kaiyu” | Henan Kaiyu Spinning, Weaving & Apparel Ltd. (河南凱豫紡織服裝有限公司), a limited liability company established in the PRC on 1 June 2011 and an indirectly non wholly-owned subsidiary of our Company |
| “HK\$”, “HKD”, “Hong Kong dollars”, “HK dollars” or “cents” | Hong Kong dollars and cents respectively, the lawful currency of Hong Kong |
| “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 |
| “Hong Kong” or “HK” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong Legal Counsel” | Mr. Chan Chung, a barrister-at-law of Hong Kong and legal adviser to our Company as to certain aspects of Hong Kong law relating to our Group |
| “Hong Kong Offer Share(s)” | the 31,250,000 Shares being initially offered for subscription pursuant to the Hong Kong Public Offering, subject to reallocation |
| “Hong Kong Public Offering” | the offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, on and subject to the terms and conditions set out in the section headed “Structure of the Global Offering” in this prospectus and the Application Forms |
| “Hong Kong Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Hong Kong Underwriters” | the underwriters of the Hong Kong Public Offering listed in the paragraph headed “Underwriting — Underwriters — Hong Kong Underwriters” in this prospectus |

DEFINITIONS

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| “Hong Kong Underwriting Agreement” | the underwriting agreement dated 18 November 2019, relating to the Hong Kong Public Offering and entered into by, among others, the Sole Global Coordinator, the Hong Kong Underwriters and our Company as further described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering” in this prospectus |
| “IFRS” | International Financial Reporting Standards |
| “International Offering” | the offer of the International Offer Shares by the International Underwriters for and on behalf of our Company to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States at the Offer Price, on and subject to the terms and conditions under the International Underwriting Agreement, as further described in the section headed “Structure of the Global Offering” in this prospectus |
| “International Offer Share(s)” | the 281,250,000 Shares being initially offered for subscription pursuant to International Offering, subject to reallocation and the Over-allotment Option |
| “Independent Third Party(ies)” | person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not our connected persons as defined under the Listing Rules |
| “International Underwriters” | the underwriters of the International Offering |
| “International Underwriting Agreement” | the underwriting agreement which is expected to be entered into on or around 25 November 2019, relating to the International Offering and to be entered into by, among others, the Sole Global Coordinator, the International Underwriters and our Company as further described in the paragraph headed “Underwriting — Underwriting arrangements and expenses — The International Offering” in this prospectus |
| “Issuing Mandate” | a general unconditional mandate to allot, issue and deal with Shares with an aggregate number of Shares not exceeding the aggregate of 20% of the number of issued Shares as enlarged by the Capitalisation Issue and the Global Offering pursuant to the resolutions of the Shareholders dated 17 October 2019 |

DEFINITIONS

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| “JAIC” | Justin Allen Investment (China) Limited (凱威投資(中國)有限公司) (formerly known as Hindex Limited (亨迪有限公司)), a limited liability company incorporated in Hong Kong on 27 July 2011 and an indirectly wholly-owned subsidiary of our Company |
| “JAL” | Justin Allen Limited (凱威有限公司) (formerly known as Winning Ways Limited), a limited liability company incorporated in Hong Kong on 1 March 1983 and an indirectly wholly-owned subsidiary of our Company |
| “JASH” | Shanghai Jielong Trading Co., Ltd. (上海捷隆貿易有限公司), a limited liability company established in the PRC on 9 June 2006 and an indirectly wholly-owned subsidiary of our Company |
| “JA Hong Kong” | Justin Allen Hong Kong Limited, a limited liability company incorporated in Hong Kong on 14 January 2016 and an indirectly wholly-owned subsidiary of our Company |
| “JA Overseas” | Justin Allen Overseas Limited (凱威海外有限公司) (formerly known as Justin Allen Hong Kong Limited), a limited liability company incorporated in the BVI on 26 April 2012 and a directly wholly-owned subsidiary of our Company |
| “JA Overseas Former Shareholder(s)” | Great Metro, Mr. Lam, Fuhui and Ms. YK Leung, collectively, former shareholders of JA Overseas |
| “Jie Wei Cambodia” | Jie Wei (Cambodia) Garment Factory Limited, a limited liability company incorporated in Cambodia on 9 February 2011 and an indirectly wholly-owned subsidiary of our Company |
| “Joint Bookrunners” | Guotai Junan Securities (Hong Kong) Limited, First Shanghai Securities Limited and Fortune (HK) Securities Limited |
| “Joint Lead Managers” | Guotai Junan Securities (Hong Kong) Limited, First Shanghai Securities Limited and Fortune (HK) Securities Limited |
| “Latest Practicable Date” | 11 November 2019, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus |

DEFINITIONS

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| “Listing” | the listing of the Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Date” | the date, expected to be on or about 28 November 2019, on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended or supplemented from time to time |
| “Main Board” | the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange |
| “Memorandum” or “Memorandum of Association” | the memorandum of association of our Company (as amended from time to time), conditionally adopted on 17 October 2019 with effect from the Listing Date |
| “MPF” | Mandatory Provident Fund |
| “MPFSO” | Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) |
| “MOF” | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| “MOFCOM” | the Ministry of Commerce of the PRC (中華人民共和國商務部) |
| “Mr. Kwok” | Mr. Kwok Wai Ming, a Pre-IPO Investor |
| “Mr. Lam” | Mr. Lam Hak Man, a JA Overseas Former Shareholder |
| “Mr. Raymond Tam” | Mr. Tam Kwok Hee (談國禧先生), a Pre-IPO Investor and a member of our senior management and the brother of Mr. Tam |
| “Mr. Tam” | Mr. Tam Kwok Pui (談國培先生), our founder, Chairman, our executive Director, our Controlling Shareholder and the spouse of Mrs. Tam |
| “Mrs. Tam” | Ms. Yeung Suk Foon Paulina (楊淑歡女士), our executive Director, our Controlling Shareholder and the spouse of Mr. Tam |

DEFINITIONS

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| “Ms. Helen Tam” | Ms. Tam Sau Ching (談秀貞女士), the sister of Mr. Tam |
| “Ms. LY Leung” | Ms. Leung Lai Yi, a Pre-IPO Investor |
| “Ms. YK Leung” | Ms. Leung Yin Kui, a JA Overseas Former Shareholder |
| “NDRC” | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| “Nomination Committee” | the nomination committee of the Board |
| “NPC” | National People’s Congress (全國人民代表大會) |
| “NPC Standing Committee” | the Standing Committee of National People’s Congress (全國人民代表大會常務委員會) |
| “NSSF” | the National Social Security Fund of Cambodia |
| “Offer Price” | the final offer price per Offer Share (exclusive of brokerage of 1.00%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.5 and expected to be not less than HK\$0.4 and such price to be determined in the manner further described in the paragraph headed “Structure of the Global Offering — Determination of the Offer Price” in this prospectus |
| “Offer Shares” | the Hong Kong Offer Shares and the International Offering Shares together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option |
| “Over-allotment Option” | the option to be granted by us to the Sole Global Coordinator, exercisable by it on behalf of the International Underwriters pursuant to the International Underwriting Agreement |
| “PBOC” | the People’s Bank of China (中國人民銀行) |
| “Power Summit” | Power Summit Investments Limited, a limited liability company incorporated in BVI on 16 May 2012 and an indirectly wholly-owned subsidiary of our Company |
| “PRC Government or State” | the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them |

DEFINITIONS

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| “PRC Legal Advisers” | AllBright Law Offices, the legal advisers of our Company as to the laws of the PRC |
| “Pre-IPO Investments” | the investments made to our Group by the Pre-IPO Investors |
| “Pre-IPO Investor(s)” | True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon and Ms. LY Leung, who made the Pre-IPO Investments |
| “Price Determination Agreement” | the agreement to be entered into by the Sole Global Coordinator (on behalf of the Underwriters) and our Company on the Price Determination Date to record and fix the Offer Price |
| “Price Determination Date” | the date, expected to be on or about 25 November 2019, on which the Offer Price will be determined, or such later time as the Sole Global Coordinator (on behalf of the Underwriters) and our Company may agree |
| “Regulation S” | Regulation S under the U.S. Securities Act |
| “Remuneration Committee” | the remuneration committee of the Board |
| “Reorganisation” | the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the section headed “History and development” in this prospectus |
| “Repurchase Mandate” | a general unconditional mandate given to our Directors to exercise all powers to repurchase shares with a total nominal value of not more than 10% of the aggregate nominal value of our share capital pursuant to the written resolutions of our shareholders dated 17 October 2019 |
| “RMB” or “Renminbi” | the lawful currency of the PRC |
| “SAFE” | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| “SAIC” | the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局), being formed into State Administration for Market Regulation (國家市場監督管理總局) |
| “SAT” | the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| “SFC” | the Securities and Futures Commission of Hong Kong |

DEFINITIONS

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| “SFO” or “Securities and Futures Ordinance” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time |
| “Shareholder(s)” | holder(s) of Shares |
| “Share(s)” | ordinary shares in the capital of our Company with nominal value of HK\$0.01 each |
| “Share Option Scheme” or “Scheme” | the share option scheme of our Company, conditionally approved and adopted by our Company on 17 October 2019, the principal terms of which are summarised in the paragraph headed “B. Further information about the business of our Group — 6. Share Option Scheme” in Appendix V to this prospectus |
| “Sole Global Coordinator” | Guotai Junan Securities (Hong Kong) Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO |
| “Sole Sponsor” | Guotai Junan Capital Limited, a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO |
| “State Council” | the State Council of the PRC (中華人民共和國國務院) |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “Strategic King” | Strategic King Holdings Limited, a limited liability company incorporated in the BVI on 13 July 2011 and one of the Controlling Shareholders |
| “Target” | Target Corporation, a U.S. based department store retailer listed on the New York Stock Exchange |
| “Track Record Period” | the three years ended 31 December 2018 and the five months ended 31 May 2019 |
| “True Glory” | True Glory Company Limited, a Pre-IPO Investor |
| “Underwriters” | the Hong Kong Underwriters and International Underwriters |
| “Underwriting Agreement(s)” | the Hong Kong Underwriting Agreement and International Underwriting Agreement |

DEFINITIONS

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| “U.K.” or “United Kingdom” | the United Kingdom of Great Britain and Northern Ireland |
| “U.S.” or “United States” | the United States of America |
| “US\$”, “USD” or “US dollars” | United States dollars, the lawful currency of the United States |
| “U.S. Legal Advisers” | Hogan Lovells, the legal advisers of our Company as to the laws of the U.S. |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder |
| “Vietnam Factory” | our new garment production factory intended to be set up in Vietnam |
| “VND” | Vietnamese Dong, the lawful currency of the Socialist Republic of Vietnam |
| “ WHITE Application Form(s)” | the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the applicant’s or applicants’ own name(s) |
| “ WHITE Form eIPO ” | the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of WHITE Form eIPO at www.eipo.com.hk |
| “ White Form eIPO Service Provider” | Computershare Hong Kong Investor Services Limited |
| “Xuchang Gaoshi” | Xuchang Gaoshi Garment Co., Ltd (許昌高時服裝有限公司), an indirectly wholly-owned subsidiary of our Company which was inactive during the Track Record Period |
| “Xuchang Yuzhong” | Xuchang Yuzhong Textile Co., Ltd (許昌豫中紡織有限公司), a company holding 25% interests in Henan Kaiyu and a connected person at the subsidiary level of the Group upon Listing |
| “ YELLOW Application Form(s)” | the application form(s) for use by the public who require(s) such Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS |
| “%” | percent |

GLOSSARY OF TECHNICAL TERMS

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|-----------------------------------|---|
| “apparel” | articles of wearable clothing and garments |
| “apparel supply chain management” | provision of services in the entire production process from design to delivery, and the precise scope of involvement depends on a company’s in-house capabilities, ranging from design to sourcing to manufacturing |
| “ASEAN” | the Association of Southeast Asia Nations |
| “CAGR” | compound annual growth rate |
| “CTM” | cut, trim and manufacture, and in such arrangement customers often provide the entire input regarding materials and design for production in order to outsource business |
| “EVFTA” | EU-Vietnam Free Trade Agreement |
| “GDP” | gross domestic product |
| “FOB” | “free on board” a trade term meaning the seller includes all charges at a designated port of departure for the delivery of goods to the buyer at which the risk of loss is transferred from the seller to buyer |
| “greige fabric” | unfinished material that comes from a weaving or knitting machine and has not been fully bleached or dyed; and typically woven from cotton or polyester |
| “loungewear” | includes all kinds of comfortable casualwear made with soft fabrics, such as tracksuits, onesies, hoodies, utility-style trousers, trainers and super-soft knits |
| “OBM” | an original brand manufacturer, a company that sells an entire product made by a second company or including a component from a second company sources as its own branded product |
| “ODM” | an original design manufacturer, a company that designs and manufactures a product, as specified which is subsequently rebranded |
| “OEM” | an original equipment manufacturer, which refers to a company that manufactures a product in accordance with its customer’s designs which ultimately will be branded by its customer for sale |
| “R&D” | research and development |
| “sleepwear” | includes sleepwear which are designed to be worn indoors/in bed including pyjama separates, sets and robes |

RISK FACTORS

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 most of our operations are conducted in the PRC and Cambodia and are governed by legal and regulatory environments which in some respects may differ from that which prevail in other countries. The business, financial conditions and results of our operations or future prospects of our Group could be adversely and materially affected by any of the following risks and uncertainties. This prospectus contains certain forward-looking statements regarding our plans, objectives, expectations, and intentions which involve risks and uncertainties. Our Group's actual results could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below as well as those discussed elsewhere in this prospectus. The trading price of the Shares could decline due to any of these risks and investors may lose all or part of their investment.

Our operation results are mainly subject to several risk factors which can be categorised into the following areas: (i) risks relating to our business; (ii) risks relating to our industry; (iii) risks relating to conducting business in the PRC; (iv) risks relating to conducting business in Cambodia; (v) risks relating to the Global Offering and our Shares; and (vi) risks relating to certain statements in this prospectus, and are summarised below:

RISKS RELATING TO OUR BUSINESS

Our Group relied heavily on Target and Customer A during the Track Record Period

During the Track Record Period, our Group derived a significant portion of our revenue from sales to our two largest customers, namely Target and Customer A. Target, our largest customer, is a department store retailer based in the U.S. and listed on the New York Stock Exchange. Customer A, our second largest customer, is a multinational fashion retailer headquartered in Ireland and is part of a company listed on the London Stock Exchange. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from our sales to Target amounted to approximately HK\$324.4 million, HK\$382.7 million, HK\$412.7 million and HK\$137.3 million respectively, which accounted for approximately 69.3%, 72.9%, 67.8%, and 64.0% of our total revenue, respectively. Our trade receivables from Target as at 31 December 2016, 2017 and 2018, and as at 31 May 2019 accounted for approximately 75.9%, 65.0%, 38.1% and 2.6% of our trade receivables, respectively. We have established a direct business relationship with Target since 2004. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from our sales to Customer A was approximately HK\$104.9 million, HK\$99.7 million, HK\$159.5 million and HK\$62.5 million respectively, which accounted for approximately 22.4%, 19.0%, 26.2% and 29.1% of our total revenue, respectively. Our trade receivables from Customer A as at 31 December 2016, 2017 and 2018, and as at 31 May 2019 accounted for approximately 16.1%, 20.5%, 44.8% and 28.4% of our total trade receivables as at the same dates, respectively.

RISK FACTORS

For our relationship with Target and Customer A, please refer to the paragraph headed “Business — Our relationship with Target and Customer A” in this prospectus for further details.

Since we have not entered into long term contracts with Target or Customer A, we cannot assure you that Target or Customer A will continue to conduct business with us at same or increased levels or at all nor can we assure you that Target or Customer A is able to settle the payment of the orders they place in accordance with the agreed credit term or at all. If Target or Customer A chooses to source products from alternative suppliers or substantially reduces the purchase quantity from us, there is no assurance that we will be able to obtain new purchase orders from new or existing customers in a timely manner. Even if new orders are obtained, these orders may not be on comparable or better commercial terms than those terms provided by Target or Customer A. In such circumstances, our business and financial condition would be materially and adversely affected.

We agreed to the extension of credit term for Target due to a change in Target’s credit policy in 2017 after taking into account Target’s credit history as well as our business relationship with Target. Target may continue to change the terms including the credit term offered to our Group that may not be acceptable by us or may not be favourable to us in the future, and such change may adversely affect our financial performance and results of operations. We cannot guarantee that we will not be exposed to such changes in the future, and that Target may terminate its business relationship with us if we are unable to accept those changes.

Our business, financial performance and results of operations will likely be adversely affected by the Sino-U.S. trade war, the global trade policies and trade protection measures

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, restrictions, sanctions, boycotts and other measures which are beyond our control. The impact of bilateral or multilateral agreements intended to restrict global trade could significantly affect apparel manufacturers such as our Group.

In light of the recent tensions involving the Sino-U.S. trade war, our business is likely to be adversely affected by trade restrictions that may be implemented as a result of the negotiations between these countries. The PRC and the U.S. began to impose additional tariff on each other’s goods. The latest tariff was implemented on 1 September 2019 when the U.S. government imposed 15% tariffs on products on the list (the “**Product List**”) to be imported from the PRC to the U.S. (the “**15% Tariffs**”). Depending on the latest development of the trade negotiations between the U.S. and the PRC, the level and number of products subject to tariffs may change over time.

During the Track Record Period and up to the Latest Practicable Date, our products were produced in the PRC, Cambodia and Vietnam and currently the majority of our Group’s products for export to the U.S. are produced in either Vietnam or in the PRC. Based on our historic financial data, the revenue generated from our garment products that were produced in the PRC and exported to the U.S. for the three years ended 31 December

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2018 and the five months ended 31 May 2019 accounted for approximately 45.5%, 35.3%, 32.6% and 33.2%, of our total revenue, respectively and approximately 65.2%, 48.2%, 47.5% and 51.2% of our revenue generated from the U.S., respectively.

As advised by our U.S. Legal Advisers, since 1 September 2019 and up to the Latest Practicable Date, all of our sleepwear and loungewear products produced in the PRC and exported to the U.S. are on the Product List, and hence are subject to the 15% Tariffs. We are also advised by our U.S. Legal Advisers that we will not be the party responsible for the payment of any tariffs as we ship our products to our U.S. customer on a FOB basis and our U.S. customer is the importer of record and is responsible for payment of any tariffs. Therefore, our U.S. customer may pass the increase in their costs partially or entirely on to us, which will likely have an adverse impact on our business operations and financial condition. During the Track Record Period, all of our products exported to the U.S. from the PRC were sold to Target. Assuming that (i) the 15% Tariffs will remain at the same tariff rate; (ii) Target is to fully pass on the effect of the 15% Tariffs on our products imported from the PRC on a FOB basis to our Group; and (iii) all of our products manufactured in the PRC and shipped to Target in the U.S. are on the Product List, for illustrative purpose only, the potential financial impact of the 15% Tariffs on us would be approximately HK\$5.0 million for the period from 1 October to 31 December 2019, based on our Group's confirmed orders from Target involving products imported from the PRC on a FOB basis for the same period. Assuming that the 15% Tariffs was effective on 1 January 2019, for illustrative purpose only, the financial impact of the 15% Tariffs on us would be approximately HK\$27.1 million for the year ending 31 December 2019, based on our Group's actual sales with Target for the five months ended 31 May 2019 and our Group's confirmed orders from Target for the seven months ending 31 December 2019, involving products imported from the PRC on a FOB basis. Our Directors believe that such impact on us would be reduced for the year ending 31 December 2020 due to the implementation of the contingency plan. For further details of the impact of the Sino U.S. trade war on our Group, please refer to sections headed "Business — Our Business Strategies — Horizontal expansion of our garment production capacity, and "Financial Information — Impact of Trade Restrictions and Brexit on our Group" of this prospectus.

In order to minimise the financial and operational impact on our Group, our Group has prepared a contingency plan whereby our Group will gradually switch the country of production of products that are produced in the PRC and exported to the U.S. from the PRC to other countries such as Vietnam and Cambodia which are not subject to the 15% Tariffs or other tariffs imposed by the U.S. which may be relevant to our business. Our Group anticipates that we will move such production to subcontractors located in Vietnam in the short run. The successful implementation of our contingency plan in moving our production to Vietnam may be influenced by various other factors, including the availability of sufficient resources such as funding, logistics arrangement and corresponding operational and management systems, and the ability and willingness of subcontractors to commence production on a timely basis at competitive prices and to provide us with various forms of support. Some of the above factors are beyond our control. In particular, we cannot assure you that we can successfully implement the contingency plan smoothly within the targeted timeframe. We may not be able to secure new competent subcontractors to substitute our production in the PRC, and our existing

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subcontractors may be unable to reserve sufficient production capacity for us. Our Group may also be subject to additional costs in implementing the contingency plan as the new subcontractors may charge us a higher subcontracting fee. Ineffective implementation of the contingency plan and the additional costs which may be incurred in the implementation will likely have an adverse impact on our business operations and financial condition.

In addition, if new quotas, higher tariffs or other trade barriers are introduced or imposed, apparel manufacturers such as our Group may have to slow down the anticipated increase in exports to major markets such as the U.S. or Europe. Our business in foreign markets requires us to respond to rapid changes in global trade policies in a timely and effective manner. Any change described above may have a material adverse effect on our business, growth prospects, financial performance and results of operations.

We do not enter into long-term contracts with our Apparel Retail Brand Customers

Generally, we do not enter into long-term contracts with our Apparel Retail Brand Customers. Instead, we sell our products to our Apparel Retail Brand Customers based on individual purchase orders on an order-by-order basis. Therefore, the orders from our Apparel Retail Brand Customers may vary from period to period. We cannot assure you that our Apparel Retail Brand Customers will continue to place orders with us in the future in the same volume as compared with the previous periods. There is also no assurance that the purchase volume or purchase price of our customers' orders will meet our estimations which we use to make budget plan for procurement of raw materials. If we are unable to find replacement orders, our business, financial performance and results of operations would be materially and adversely affected.

Our success depends on our customers' ability to market and sell their products manufactured by us

During the Track Record Period, our major customers mainly comprised Apparel Retail Brand Customers. Consequently, our business and results of operations are directly affected by the end customers' demand for their products that were supplied by us. Changes in consumer preferences are beyond our control and will affect the demand for certain products supplied by us. We may not be able to anticipate and respond to such changes in consumer preferences in a timely manner. If the sales of our major customers' products, which are supplied by us decrease or do not grow as we expect, our customers may decrease the volume or purchase price of their orders, which could materially and adversely affect our business, financial condition and results of operations.

During the Track Record Period, we relied significantly on our sales derived from our customers based in the U.S. and any event negatively affecting the U.S. could have an adverse effect on our business, financial condition, results of operations and future operations

During the Track Record Period, most of our revenue was derived from our sales to our customers based in the U.S. which accounted for approximately 69.7%, 73.4%, 68.6% and 64.8% of our total revenue, respectively. The current administration of the U.S. government (the "**Administration**") has made substantial changes to domestic and international policies, including but not limited to, the withdrawal of the U.S. from the

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Trans Pacific Partnership Agreement and the entry ban on citizens of several Muslim-majority countries. The Administration may adopt and implement further changes to current international policies which may bring uncertainty to the global economy and/or political environment and our business, financial performance and results of operations and prospects may be adversely affected.

Brexit may have adverse consequences for our business, financial condition, operating results and our ability to implement our growth strategies

Our Group faces potential risks associated with the result of the referendum, which took place on 23 June 2016, pursuant to which the U.K. electorate voted in favour of its withdrawal from the EU (“**Brexit**”). The outcome of the referendum, the timing, terms and implications of an eventual Brexit remain highly uncertain. The terms of the U.K.’s withdrawal from the EU, as well as the relationship between the U.K. and the EU following the U.K.’s withdrawal, including any transitional arrangements, may have significant consequences for our business, particularly with respect to the sales of our products to the customers based in the U.K. and our ability to grow our U.K. business.

Our Group has conducted business with customers in the U.K. during the Track Record Period. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from customers based in the U.K. was approximately HK\$94.7 million, HK\$69.5 million, HK\$83.5 million and HK\$35.2 million representing approximately 20.2%, 13.2%, 13.7% and 16.4% of our total revenue, respectively. Our Industry Consultant has predicted that the CAGR of consumer spending on clothing and footwear in the U.K. during the period between 2018 and 2023 could decrease to approximately -1.4% if the U.K. leaves the EU without a trade agreement (compared with the expected CAGR of approximately 2.7% for the same period if the U.K. agrees to a trade agreement prior to them leaving the EU).

There can be no assurances as to the extent to which trade restrictions or new regulatory burdens may be imposed on our UK sales following Brexit. The nature of the arrangements that will be put in place to define the relationship between the UK and the EU following Brexit, the extent to which the UK will continue to apply laws that are based on EU legislations and the consequential impact on our business, operating results and financial condition remain highly uncertain. The GBP experienced a significant decline in exchange rate against most major currencies, including the Euro and Hong Kong dollars. There can be no assurances as to whether these declines will persist in a manner that adversely affects our sales to the UK or, more broadly, our financial condition and operating results.

Our future expansion plans are subject to uncertainties and risks

We have set out our future plans in the section headed “Future plans and use of proceeds” in this prospectus. The implementation of these future plans requires us to effectively and efficiently manage our sales, marketing, procurement, new factory construction and other aspects of our operations. If we fail to effectively and efficiently implement our future plans, we may not be successful in achieving desirable and profitable results. Even if we effectively and efficiently implement our future plans, there may be other

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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 related environmental laws, rules and regulations or any delays or difficulties in obtaining the necessary licences and approvals from the government. Our business, financial condition, results of operations and growth prospects may be materially and adversely affected if our future expansion plans fail to achieve positive results.

We plan to expand our production capacity by setting up a new garment production factory in Vietnam and a new spinning mill production facility in our Henan Factory. For details, please refer to the paragraph headed “Business — Our business strategies” in this prospectus. However, we cannot assure you that this new factory or production facility will be completed on time, or at all. If we are unable to obtain relevant government approvals for any reason, or if we encounter any unforeseen difficulties in the course of the construction, the construction may be significantly delayed and we may not be able to complete the new factory or production facility on time. In such event, our business, prospects and growth strategies would be materially and adversely affected.

We grant credit term to our customers, and our working capital and cash flow position may be adversely affected if our customers fail to settle or delay their payments

Our financial position and profitability are dependent on the creditworthiness of our customers and their ability to settle payments in a timely manner. Currently, we grant credit term to our customers up to 120 days, depending on factors such as the past payment history and the length of our business relationships with the relevant customers. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total trade receivables were HK\$93.2 million, HK\$81.8 million, HK\$51.8 million and HK\$11.7 million, respectively, while our average trade receivables turnover days were 57 days, 61 days, 40 days and 22 days, respectively. However, there is no assurance that we will not encounter doubtful debts in the future due to a slowdown of industry growth, our customers’ deteriorating financial condition or otherwise. There is also no assurance that our allowance for doubtful debts on trade, bills and other receivables is sufficient to cover the actual losses on our receivables in the future. Should we experience any unexpected delays or difficulties in collecting receivables from our customers, our cash flows, financial condition and results of operations may be materially and adversely affected.

Any labour shortages, increased labour costs or other factors affecting labour supply for our production

We rely on skilled workers to a significant extent as our production process is labour intensive in nature. Our business performance relies on the steady supply of relatively low labour cost in Cambodia and the PRC. Our direct labour costs accounted for approximately 16.7%, 15.7%, 13.9% and 15.6% of the total cost of sales for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. There is no guarantee that our supply of labour will not be disrupted or that our labour costs will not increase. If we fail to retain our existing labour resources and/or recruit sufficient labour in a timely manner, we may not be able to accommodate sudden increases in demand for our products.

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Labour costs are affected by the demand for and supply of labour and economic factors such as the inflation rate and costs of living. Labour costs may further increase in the future due to a shortage of skilled labour and growing industry demands. The failure to identify and recruit replacement staff immediately following the unexpected loss of skilled workers could reduce our competitiveness. In addition, we expect continued increases in labour costs in the PRC as well as the minimum wage requirements in Cambodia and other markets where we currently operate. In these circumstances, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not be able to maintain stable operation of our fabric production facilities

We rely on our fabric production facilities to a significant extent as our business requires the production of greige fabric as raw materials for our garment production. Stable operation of our fabric production facilities are crucial to the success of our business. There is no guarantee that our fabric production facilities will not be disrupted and could be maintained efficiently and in a timely manner if disrupted. Any prolonged disruption to our fabric production facilities may materially and adversely affect our business operation and hence, our financial condition.

We may not be able to maintain an effective quality control system

The performance and quality of our products are critical to the success of our business. These factors depend significantly on the effectiveness of our quality control system, which in turn, depends on a number of factors, including the design of the system, the machineries used, the quality of our staff and related training programmes and our ability to ensure that our employees adhere to our quality control policies and guidelines. We are subject to various codes of conduct relating to occupational health and safety and environmental conditions imposed by our customers, and our customers require us to implement an internal quality control system in order to ensure that the requirements as stipulated in their respective codes of conduct have been complied with. For details of our quality control and the codes of conduct of certain major customers, please refer to the paragraph headed “Business — Our business model — Quality control” in this prospectus. We cannot assure you that our quality control system will continue to be effective. Any significant failure in or deterioration of the efficacy of our quality control systems could result in losing our customers, which could in turn have a material adverse effect on our business, reputation, financial condition and results of operation.

Our business, reputation, financial condition and results of operations may be materially and adversely affected by the performance of or disruption in supply from our subcontractors

During the Track Record Period, we outsourced the production of some of our garment products as well as certain fabric production process to subcontractors with factories in the PRC and Vietnam to supplement our capacity. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our subcontracting costs incurred represented approximately 20.6%, 20.3%, 24.1% and 24.0% of our total purchases, respectively. For details, please refer to the paragraph headed “Business — Our subcontractors” in this prospectus.

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However, the products processed by any of our subcontractors may not be delivered to us in a timely manner or be of satisfactory quality. If our subcontractors do not perform satisfactorily, decide to substantially reduce the production capacity allocated to us, substantially increase the prices of their services or terminate their business relationships with us, we may need to replace our subcontractors which provide processing services complying our quality requirement and delivery schedule or take other remedial actions which could increase our costs of operations.

Failure or delays in deliveries could materially and adversely affect our business, reputation, financial condition and results of operations

We coordinate logistics to deliver finished products from our production factories to the designated ports of shipment or forwarders of our customers. Delivery disruptions to transport operators may occur due to reasons beyond our control, including transportation bottlenecks, typhoons, floods, earthquakes and other natural disasters and labour strikes, and could lead to delayed or lost deliveries. In addition, our products may be subject to theft or damage by third parties. If our products are not delivered to the designated logistics provider of our customers on time, or are damaged or lost during delivery, we may have to pay compensation to our customers and could lose certain customers. In that event, our business, reputation, financial condition and results of operations could be materially and adversely affected.

We recorded net current liabilities in the past

As at 31 December 2018, we had net current liabilities of approximately HK\$1.3 million, compared to our net current assets of approximately HK\$79.1 million as at 31 December 2017. The change from a net current asset position as at 31 December 2017 to a net current position as at 31 December 2018 was mainly due to (i) the increase in the trade and other payables of approximately HK\$49.8 million; and (ii) the increase of the amount due to shareholders by approximately HK\$107.9 million as a result of the acquisition of Castle Eagle and Power Summit by our Group from Mr. Tam, who was the beneficial owner of Castle Eagle and Power Summit at the time of the acquisitions, at a consideration of approximately HK\$111.1 million as part of the Reorganisation. The said acquisitions were in substance a deemed distribution to Mr. Tam. There can be no assurance that we will not have a net current liability position in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our planned expansion plans and our business operations.

We are exposed to risks of obsolete and slow-moving inventory which may adversely impact our cash flow and liquidity

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our inventories amounted to approximately HK\$86.6 million, HK\$91.0 million, HK\$109.1 million and HK\$124.3 million and our average inventory turnover days were 69 days, 82 days, 83 days and 113 days, respectively. The demand for our loungewear and sleepwear products is highly depended on consumers' preferences, which are beyond our control. If we cannot manage our inventory level efficiently in the future, our liquidity and cash flow may be adversely affected. Further, if we fail to produce products to meet our customers'

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requirements in the future, the volume of obsolete and slow-moving inventory may increase and we may need to either sell off such inventory at a lower price or make provision for such inventory, in the event of which our financial position and results of operations may be materially and adversely affected.

Our success depends upon our key management personnel. Our inability to attract, retain and motivate qualified personnel could materially and adversely affect our business, results of operations and prospects

Our Directors believe that our success depends, to a significant extent, on the capability, expertise and continued services of our executive Directors and senior management. In particular, we rely on Mr. Tam and Mrs. Tam, our executive Directors, who have over 35 years of experience in the garment industry. For details of their expertise and experience, please refer to section headed “Directors and senior management” in this prospectus.

If Mr. Tam or Mrs. Tam or any other member of our senior management is unable or unwilling to continue in their present positions, we may not be able to identify and recruit replacements in a timely manner or at an acceptable cost, or at all. 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, who include experienced design and product development staff, and sales and merchandising staff, 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.

Future price increases in raw materials or changes in the supply of raw materials may materially and adversely affect our business, financial condition and results of operations

During the Track Record Period, our raw materials mainly comprised yarn, fabric and accessories such as buttons, hangers and labels and accounted for a substantial amount of our total purchases. Our raw materials accounted for approximately 79.4%, 79.7%, 75.9% and 76.0% of our total purchases for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. The price of cotton, being the major component of yarn which is for production of greige fabric, can be volatile and affected by factors such as weather, industry demand and supply. For details, please refer to the paragraph headed “Financial information — Major factors affecting our results of operations and financial condition — Sensitivity analysis” in this prospectus. During the Track Record Period, we did not undertake any hedging activities or any other strategy to minimise our exposure to the possible price fluctuation of raw materials. We cannot assure you that we can fully pass the increased cost in raw materials on to our customers. Future price increases in raw materials or changes in the supply of raw materials may materially and adversely affect our business, financial condition and results of operation.

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We are exposed to foreign exchange risks

Costs incurred during our production are mainly denominated in RMB and US\$ while payments received from our customers are mainly denominated in US\$. We are therefore exposed to foreign exchange risks as the exchange rates at the time we receive our payments from our customers may be substantially different from those when we are required to make payments to our suppliers. For the three years ended 31 December 2018 and the five months ended 31 May 2019, approximately 79.5%, 64.2%, 73.8% and 76.8% of our payments to our suppliers were denominated in RMB, while the remaining balance of which was denominated in US\$ or HK\$. For the three years ended 31 December 2018 and the five months ended 31 May 2019, approximately 98.7%, 97.5%, 97.2% and 97.9% of payments received by us from our customers were denominated in US\$. Any future exchange rate volatility relating to RMB or US\$ may give rise to uncertainties in the value of our operating costs or profits. In addition, if exchange rate fluctuations cause our cost of sales to increase, we may not be able to adjust our selling price, which would negatively affect our profits. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our Group had experienced a loss of HK\$6.8 million, a gain of HK\$6.9 million, a loss of HK\$11.2 million and a gain of HK\$6.6 million as a result of exchange rate difference arising on translation of foreign operations. Consequently, our financial condition may be adversely affected.

The non-recurring nature of government grant could materially and adversely affect our business, financial condition and results of operations

During the Track Record Period, our Group received a government grant from the PRC government to support the operation of our Henan Factory. For the two years ended 31 December 2017, our Group received government grant of approximately HK\$8.4 million and HK\$0.1 million, respectively, representing approximately 18.4% and 0.2% of our net profit for the same periods, respectively. Please refer to the paragraph headed “Financial information — Description of selected items of consolidated statements of comprehensive income — Other income” in this prospectus for further details. Our Group did not receive any government grant for the year ended 31 December 2018 and the five months ended 31 May 2019. We cannot assure you that we will be able to receive government grant in the future. As government grant contributed to certain portion of our profitability during the Track Record Period, the non-recurring nature of government grant to us may affect our Group’s profitability. Hence, our Group’s business, financial condition and results of operations could be affected as a result of the non-recurring nature of government grants.

We relied on the import-export corporations to handle export arrangements during the Track Record Period, and may be required to engage them to handle the same in the future. If the import-export corporations do not fully comply with the relevant import-export regulations, our Group’s operational and financial condition may be adversely affected

During the Track Record Period, our Group engaged two import-export corporations for export services from the PRC to overseas. For further details, please refer to the paragraph headed “Business — Sales — Export arrangements” in this prospectus.

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Although we possess the relevant licenses to export our products to our customers, we rely on import-export corporations in handling our Group's export arrangements, as it is sometimes considered to be more cost efficient for these import-export corporations to provide the export services. We cannot assure you that the import-export corporations engaged by us will fully comply with the import-export regulations. If the import-export corporations we engage do not fully abide by such regulations, our Group may be subject to certain penalty imposed by the relevant regulatory bodies. As a result, our Group's operational and financial condition may be adversely affected.

Dividends declared in the past are not an indication of our Group's future dividend policy

For the three years ended 31 December 2018 and for the five months ended 31 May 2019, one of our subsidiaries, namely JA Overseas, declared dividends in the amount of approximately HK\$8.5 million, HK\$24.7 million and HK\$14.7 million and nil, respectively. However, there is no assurance that our Group will declare dividends in the future. The declaration, payment and amount of any future dividends are subject to the recommendation of our Board and its discretion depending on our results of operations, earnings, financial condition, cash requirements and availability, contractual arrangements and other factors as it may deem relevant at such time. For further details, please refer to the paragraph headed "Financial information — Dividend" in this prospectus.

Our operations may be subject to transfer pricing adjustment

We have adopted transfer pricing arrangements among our subsidiaries in Hong Kong, the PRC and Cambodia to regulate intra-group trades. Our Group's tax position may be subject to review and possible challenge by the relevant government authorities and any possible change or challenge in laws.

If our tax position is subject to review and possible challenge by Hong Kong, PRC and/or Cambodia tax authorities or there is a change in the tax policy and relevant tax laws in Hong Kong, the PRC and/or Cambodia, it may adversely affect our Group's financial position and results of operation. The tax authorities may challenge our Group's transfer pricing policy. If the relevant tax authorities later finds that the transfer prices and terms that our Group has applied are not appropriate, such authority may require our Group to re-assess the transfer prices and re-allocate the income or adjust the taxable income. Any such reallocation or adjustment could result in a higher overall tax liability for our Group and may adversely affect the business, financial condition and results of operations of our Group.

We have records of non-compliance with certain Hong Kong regulatory compliance

We have been previously been involved with non-compliance incidents with certain statutory requirements in the Mandatory Provident Fund Scheme Ordinance. For further details, please refer to the paragraph headed "Business — Legal proceedings and compliance — Non-compliance" for further details.

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There is no assurance that the relevant authorities would not take any enforcement action against our Group companies and/or Directors in relation to the non-compliance incidents. In the event that such enforcement action is taken, our business and financial condition and results of operations of our Group may be adversely affected.

Failure to comply with relevant regulations relating to social insurance and housing provident fund may subject us to penalty

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) and the Regulations on the Administration of Housing Provident Funds (《住房公積金管理條例》), we are required to make contributions to the social insurance plans and the housing provident fund under the relevant PRC laws and regulations for our employees. For details relating to these relevant laws and regulations, please refer to the paragraph headed “Regulatory overview — Labour, social insurance and housing funds” in this prospectus.

In the event that the penalties are imposed on our Group, or other administrative sanction is ordered by the relevant PRC authorities against us, for our failure to make full contributions to social insurance and/or housing provident fund for our employees, such penalties or administration sanction could adversely affect our financial condition and reputation.

Our plan to expand our production capacities in the PRC and Vietnam may result in increase in depreciation and operating expenses and may adversely affect our financial results and conditions

We estimate that the capital expenditure we expect to incur on expanding our production capacities including the purchase of land use rights, construction of building facilities and purchasing machineries and equipment in the PRC and Vietnam by the second quarter of 2021 will amount to approximately HK\$85.3 million. Depreciation of property, plant and equipment is calculated using a straight-line method to allocate their costs to their residual values over their estimated useful life. With the intended construction of production facilities and purchase of machineries and equipment for our expansion plan, we estimate that we will incur additional depreciation expenses of approximately HK\$2.0 million and HK\$4.6 million, respectively, and there will be a potential increase in staff costs by approximately HK\$22.1 million and HK\$4.0 million, respectively, for the first year of production of the Vietnam Factory and the spinning mill in relation to our proposed expansion plan. Such additional depreciation expenses and staff costs will be recognised in our profit or loss over the estimated useful period, which in turn may adversely affect our financial results and conditions. Please refer to the paragraph headed “Business — Our business strategies — Expansion of our production facilities” in this prospectus for further details of our proposed expansion plan.

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Change in product mix sold and pricing of our products may adversely and materially affect our business, financial condition and results of operations

Our results of operations are affected by the product mix sold and pricing of our products, which, in turn, are determined by factors such as prevailing market conditions, our customers' brand positioning, product design, cost of raw materials, production costs as well as market competition.

We provided various sleepwear and loungewear products in terms of materials and styles in order to meet up with the change in customer preferences, during the Track Record Period. In addition, given that we principally manufacture products according to our customers' specifications, there is no standard selling price for our products. The average selling price of our products is affected by a number of factors, including, (i) costs of raw materials; (ii) size of orders; (iii) product design and technical requirements of production; (iv) type of fabric; (v) production lead time; and (vi) production and labour costs. We may not be able to control our cost of the production and hence may not be able to continue to attract customers at competitive prices. Any failure on our part to continue to monitor and optimise our product mix and pricing in response to changes in market conditions, consumer preferences and fashion trends, may adversely and materially affect our business, financial condition and results of operations.

Our business, financial condition and results of operations may be materially and adversely affected by seasonality

Demand for our products is seasonal. Seasonality fluctuations may affect our revenue. As such, our operating results during our peak season in terms of amount of revenue between August to October should not be taken as an indication of our performance for the entire financial year. Hence, prospective investors should be aware of these seasonal fluctuations when making any comparison of our operating results.

Our development of new designs and new production of fabric may fail to achieve our desired results and our business, financial condition, and prospects may be materially and adversely affected

The success of our business is dependent upon, amongst others, our ability to continuously develop, in a timely fashion, new products through our design and development to meet our customers' requirements, introduce new product designs to cater to our customers' preferences and enhance our competitiveness in the future. We plan to further leverage our competitive strengths in our design and fabric development capabilities and enhance our innovation in product design and fabric production capabilities. For more details, please refer to the paragraph headed "Business — Our business model" in this prospectus. We cannot assure you that our product development and research efforts will result in the development of popular product designs or innovative fabric production or will be completed in the desired time or will have the desired results. In addition, we cannot assure you that we possess, or will acquire, sufficient capabilities in designing and developing the new product designs. If we fail to achieve successful results in

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our design and development efforts, or if customer demand for our new products falls short of our expectations, our time and resources could be wasted which may materially and adversely affect our business, financial condition and prospects.

We are exposed to product liability claims and product recall

Defects or quality issues with our products expose us to product liability claims. We cannot guarantee that all products produced by us are defect-free. We cannot assure that our business will not be materially and adversely affected by a successful product liability claim against us and/or request by our customers to undertake a product recall. Should there be any product liability claim against us and/or product recall, we may incur significant costs and expenses to defend ourselves against such claims and/or settling such claims. We may also be fined or sanctioned and, if so, this could materially and adversely affect our reputation, business, prospects, financial condition and results of our operations.

Litigation or disputes may adversely affect our performance

We may get into disputes with our customers, suppliers, subcontractors, employees and other parties during the ordinary course of business for various reasons. For example, disputes may arise due to substandard production or late delivery of shipments. Contractual claims may arise as a result of outstanding fees with our customers and suppliers. Personal injury compensation claims may arise as a result of industrial accidents which may occur at our production facilities.

The handling of contractual disputes and litigation proceedings can be extremely costly and time consuming. Should such disputes arise, our Directors' and senior management's attention, together with other internal resources may be significantly diverted for the handling of such matters. Moreover, our relationship with the relevant customers, suppliers, subcontractors or employees may be adversely affected as a result of the legal proceedings and would ultimately affect our business operation, financial results and profitability.

Our insurance coverage may be inadequate to protect us from potential loss

We cannot assure you that we will be able to successfully claim any of our losses under our current insurance policies on a timely basis. We may suffer from substantial costs and diversion of our resources because of business interruption. Our insurance coverage may not be sufficient to prevent us from such loss. If we incur any loss that is not covered by our insurance policies, or the compensated amount is significantly less than our actual loss, our business and financial condition could be materially and adversely affected.

Failure to protect the intellectual property and brands of our customers could harm our business

Our success depends on our ability to protect the intellectual property and brands of our customers. We cannot assure you that our customers' designs, trademarks, patents and other intellectual property rights that we have access to during the manufacturing process will not be misappropriated despite the stringent precautions that we have taken to protect

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those rights. As at the Latest Practicable Date, we were not aware of any incident relating to the failure to protect the intellectual property rights of our customers. In the event that the precautions that we have taken do not adequately safeguard our customers' intellectual property rights, our customers could cease to share their latest designs or may even reduce or discontinue their business with us, which would have a material adverse effect on our business, financial condition and results of operations.

Our Group recorded net cash used in operating activities for the two years ended 31 December 2017

Our Group recorded net cash used in operating activities of approximately HK\$242.2 million and HK\$72.1 million for the two years ended 31 December 2017, respectively primarily due to the settlement of our trade and other receivables through bills discounted with recourse to financial institutions. For details of our operating cash flow, please refer to the paragraph headed "Financial information — Cash flows — Net cash used in operating activities" in this prospectus. We can not assure that we are able to generate sufficient cash flow from our operation or to obtain sufficient financing to fund our operations. If our Group is unable to do so, our Group will be in default of our payment obligations and may not be able to implement our business strategies or expansion as planned. As a result, the business, financial condition and results of operations of our Group will be materially and adversely affected.

We may incur liability in respect of industrial accidents at our production facilities

As our production process involves the use of various equipment and machines, our employees are exposed to industrial accidents that may cause harm or damage to our employees. Although we have undertaken preventive measures such as implementation of our code of conduct for production safety, we cannot assure you that industrial accidents will not occur in the future at our production facilities.

Should industrial accidents occur, we may be liable for claims and penalties for violation of the applicable laws and regulations in the PRC and Cambodia. We may also experience interruptions in our operations and may be required to implement new safety measures. Any of the foregoing could adversely affect our business, financial condition and results of operations.

Failure to obtain or renew licences, certificates and permits required in the production of our products could materially and adversely affect our business, financial condition and growth prospects

Our Henan Factory and Cambodia Factory possess all necessary licences, certificates and permits for the production of our products in the PRC and Cambodia. There is no assurance that we will be able to renew such licences, certificates or permits upon their expiration. In addition, eligibility criteria for these licences, certificates, and permits may change from time to time and additional licences, certificates and permits may be required and higher compliance standards may have to be observed in the PRC, Cambodia or Vietnam where we plan to expand our production facilities. In the event of the introduction of any new law and regulation or change in the interpretation of any existing laws and

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regulations that increase compliance costs for us to continue with the operation of any part of our business, we may have to restrict our operations and in those circumstances, our business, financial condition and growth prospects could be materially and adversely affected.

We are exposed to liabilities relating to environmental protection and safety laws and regulations

Our operations are subject to comprehensive and frequently changing laws and regulations relating to environmental protection and health and safety. The discharge of waste and pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. If we violate such laws or regulations, we may be required to implement corrective actions and could be subject to civil or criminal fines or penalties or other sanctions.

However, we cannot assure you that any environmental laws adopted in the future will not materially increase our operating costs and other expenses. Although expenses related to environmental compliance have not been material to date, we cannot assure you that we will not have to make significant capital or operating expenditures in the future in order to comply with existing or new laws and regulations or that we will comply with applicable environmental laws at all times. Such violations or liability could have a material adverse effect on our business, financial condition and results of operations.

Some of our Apparel Retail Brand Customers are sensitive to social responsibility and social compliance standards. If we fail to comply with these standards, our reputation could be adversely affected and our customers may choose not to continue their business relationship with us

We may face certain terms and conditions or respective Code of conduct imposed by our Apparel Retail Brand Customers in order to conform with certain laws or regulations. We may face certain social environment and compliance requirements. If we violate certain standards and fail to rectify these violations, our Apparel Retail Brand Customers may cease orders in progress and discontinue our business relationships. This could materially and adversely affect our business reputation, results of operations and financial condition.

RISKS RELATING TO OUR INDUSTRY

Our business, financial condition, results of operations, prospects and profitability are dependent on the consumer spending level mainly in the U.S. and Europe

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

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default in payment by the customers, and the withdrawal and/or reduction in banking facilities provided to us by financial institutions. We cannot guarantee that we can continue to expand our customer base in the U.S. and Europe and generate significant revenue from exporting to the U.S. and Europe. There is a possibility that we cannot maintain the existing level of purchase orders from our customers in the U.S. and Europe. If any or a combination of such factors come to pass, this could materially and adversely affect our business, financial condition, results of operations, prospects and profitability.

We operate in a very competitive market and if we fail to compete effectively, our business, profit margins, results of operations and prospects may be materially and adversely affected

We face competition from existing and new players in the sleepwear and loungewear manufacturing industry. To compete effectively and maintain our sales level, we may be forced to, among other actions, reduce prices, provide more sales incentives to customers and increase capital expenditures. Any or a combination of these events may in turn materially and adversely affect our business, profit margins, results of operations and prospects.

The global garment manufacturing industry is highly competitive. However, in response to increasing labour and rental costs, some of these manufacturers are shifting their manufacturing bases out from the PRC to various Southeast Asian countries such as Cambodia and Vietnam. Nevertheless, the market is still fragmented, given the large number of existing manufacturers. We may not be able to compete effectively against competitors who may have greater resources and operational efficiencies, who adopt competitive pricing strategies and, achieve greater scales of production at lower costs of production by moving their operations to other developing countries.

Our Directors believe that our success depends on our ability to compete effectively against these competitors in terms of product quality, design and development capability, timely delivery, valuable service, scale and capacity and efficiency. There is no assurance that we will continue to compete successfully or be able to respond rapidly to a fast changing business environment in the future, and if we fail to do so, our business, profit margins, results of operations and prospects may be adversely affected.

Tighter inspection procedures and import and export controls, and additional trade restrictions could increase our operating costs and cause disruption to our business

The garment manufacturing industry is subject to various security and customs inspections and related procedures in countries of origin and destination as well as at transshipment points. Such inspection procedures can result in the seizure of apparel products and the levying of customs duties, fines or other penalties against exporters or importers. If these inspection procedures or other controls are further tightened, we may incur further costs and delays and our business could be harmed.

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An increase in the minimum wage of garment manufacturing factory workers and pressure to improve working condition

Pressure on the governments in countries including the PRC and Cambodia to increase the minimum wage of workers in apparel-making factories could increase the operating costs. If we are not able to pass such additional costs on to our customers or find alternative ways to lower the operating costs, this may adversely affect our business operations and financial condition.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

A substantial 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 economy of the PRC differs from the economies of most developed countries in many respects, including, among others, the extent of government involvement, level of development, growth rate, and control of foreign exchange and the allocation of resources. The PRC economy has been undergoing a transition from a planned economy to a market-oriented economy. The PRC government has in recent years implemented measures emphasizing 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. However, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government still retains significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency denominated liabilities, setting monetary policy and providing preferential treatment to particular industries or enterprises. Our performance has been and will continue to be affected by the PRC's economy, which has slowed down in recent years.

The PRC's economic growth is also influenced by the global economy. The global financial crisis in 2008 and the sovereign debt crisis in Europe have collectively added downward pressure to the PRC's economic growth. Any unfavorable political, economic or social development in the PRC, or an unfavorable change in the PRC's laws, regulations, rules and licensing requirements, may materially and adversely affect our business, financial condition and results of operations. We are unable to accurately predict the precise nature of all the risks and uncertainties that we face as current economic, political, social and regulatory conditions and many of the associated risks are beyond our control.

We may be subject to fines due to the lack of registration of our leases

According to the Administration Measures for Commodity House Leasing (《商品房屋租賃管理辦法》), lease agreements have to be registered with the relevant authorities within 30 days of signing. Our PRC Legal Advisers advised us that under relevant PRC laws and

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regulations, the relevant government authority may require the parties to a lease to register it within a given period, and a fine ranging between RMB1,000 to RMB10,000 for each unregistered lease may be imposed on the parties to the lease for failing to rectify it within the given period. As at the Latest Practicable Date, we leased four properties in the PRC from different lessors which had yet to be registered with the relevant government authorities. For further details, please refer to the paragraph headed “Business — Land and property interest — Leased properties” in this prospectus.

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

We operate a substantial part of the core business mainly through our operating subsidiaries in the PRC. The PRC laws require that dividends are paid only out of net profit, 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 net profit as statutory reserves until the accumulated statutory reserves account for 50% of the registered capital of the PRC companies. These 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 subsidiaries, 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.

Uncertainties with respect to the PRC legal system could have a material adverse effect on our business, financial condition and results of operations

A substantial 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 based on written statutes, and prior court decisions can only be cited as reference. The PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organization and governance, commerce, taxation, finance, foreign exchange and trade with a view to develop a comprehensive system of commercial law.

However, the PRC has not developed a fully-integrated legal system. The recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC, or may be unclear or inconsistent. Because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of PRC laws and regulations involve uncertainties and can be 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, the PRC legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. In addition, any litigation in the PRC may be protracted and result in substantial costs and the diversion of resources and management’s attention. In addition, we cannot predict future developments in the

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PRC legal system or the effects of such developments. The materialization of all or any of these uncertainties could have a material adverse effect on our business, financial position and results of operations.

We are subject to PRC government control in currency conversion

RMB is not a freely convertible currency. The conversion of RMB into other currencies is subject to a number of foreign exchange control rules, regulations and notices issued by the PRC government. In general, foreign investment enterprises are permitted to convert RMB to foreign currencies for current account transactions (including, for example, distribution of profits and payment of dividends to foreign investors) through designated foreign exchange banks following prescribed procedural requirements. Control over conversion of RMB to foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities) is more stringent and such conversion is subject to a number of limitations. Our settlement for operating costs and production costs may be in HKD, RMB and USD. Under the current foreign exchange control system, there is no assurance that we will be able to obtain sufficient foreign currency to pay dividends or satisfy other foreign exchange requirements in the future.

RISKS RELATING TO CONDUCTING BUSINESS IN CAMBODIA

Uncertainties with respect to Cambodia legal system could have an adverse impact on us

Our operations in Cambodia are subject to laws, rules and regulations promulgated by the Cambodian Parliament or the Cambodian Government. The laws in Cambodia and its legal system are still in a developmental stage and are subject to change. In addition, business entry and business operations in Cambodia involve bureaucratic and legal procedures, which change from time to time without notice. This means that there is a lack of consistency and predictability in the interpretation and enforcement of laws and regulations and dispute resolution. Cambodia's investment laws and related regulations are under review and our business and future expansion plan in Cambodia may be affected if material changes are made to these laws and the accompanying investment incentive framework. Accordingly, conducting business in Cambodia entails a certain degree of risk and uncertainty. In the event that new laws are imposed, new policies are adopted or existing laws, rules, regulations or policies are interpreted or enforced in a way which is adverse to our operations, our business and financial performance could be adversely affected.

Our business and future expansion plan in Cambodia may be subject to labour unrest and political unrest in Cambodia which may adversely affect our business and operations

Labour strikes have been frequently used by garment factory workers and unions in Cambodia to pressure employer associations and the Cambodian Government for increases in the monthly minimum wage which is applicable to the garment manufacturing industry.

Furthermore, the recent history of Cambodia has been characterised by political instability, with protests between different political parties over claims of electoral irregularities following the general election in 2013. Such tensions may resurface during the lead up to the national elections in Cambodia in July 2018.

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In view of the above, labour market risks are high in Cambodia, mainly reflecting the increased incidence of labour unrest and the limited supply of skilled labour in Cambodia. The incidence of labour unrest may increase costs for production in Cambodia which may result in the disruption to production schedules, adversely affect our ability to deliver our products to our customers on time and/or result in the closure of our production sites. In addition, increases in the minimum wage of and pressure to improve working conditions may increase our labour costs and further adversely affect our business operations and financial condition. If we are not able to offer competitive compensation packages, we may face higher turnover of workers, in particular skilled labour.

Our Cambodia Factory is subject to the risk of relocation of our leased properties which may disrupt our business operations

Our Cambodia Factory is subject to three short-term leases as our Cambodia Factory has three separate buildings with separate lease agreements. These three short-term leases will be expired on 15 September 2020, 30 September 2020 and 28 February 2022, respectively. Please refer to the paragraph headed “Business — Leased properties” in this prospectus for further details. If we are not able to renew our leases, our Cambodia Factory may need to be relocated, which may be costly and disrupt our business operations and, in turn, have a material adverse effect on our financial position.

We may be required to seek alternative premises for some of our leased properties in Cambodia which we use for production because our landlords have not obtained the construction permit for the properties

As at the Latest Practicable Date, our landlords had not obtained the requisite in relation to buildings on the Cambodia Paprak 1 Premises and the Cambodia Paprak 2 Premises and hence the landlord may be subject to fines, being required to submit construction permit applications, or in the worst scenario, having the buildings blocked for use or even demolished by the relevant government authorities. If the relevant government authorities blocks the premises or orders the demolition of the building, our Group will be required to cease using the properties located at the Cambodia Paprak 1 Premises and the Cambodia Paprak 2 Premises, suspend our production and relocate our production. In such event, we will need to incur additional costs and our garment production process will be suspended. If we are required to relocate and are unable to find suitable alternative factory premises for our operations in a timely manner and at a cost acceptable to us, our results of operations and financial condition may be materially and adversely affected.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

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 Sole Global Coordinator 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. There

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is no assurance 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 to 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 garment manufacturing industry.

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.

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 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 the Global 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

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through the issuance of new equity or equity-linked securities of our Group other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the 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.

Shareholders may face difficulties in protecting their interests because we are incorporated under Cayman Companies Law which may provide less protection to minority Shareholders than the laws of Hong Kong and other jurisdictions

We are incorporated in the Cayman Islands as an exempted company and substantially all of our assets are located outside of Hong Kong. Our corporate affairs are governed by our Memorandum and Articles of Association as well as the Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority Shareholders differ in certain respects from those in Hong Kong and other jurisdictions. Such differences may mean that our minority Shareholders may have less protection than they would otherwise have under the laws of Hong Kong or other jurisdictions.

RISKS RELATING TO CERTAIN STATEMENTS IN THIS PROSPECTUS

You should rely on this prospectus, and should not rely on any information contained in press articles or other media regarding our Company, in making your investment decision

Prior to the publication of this prospectus, there may have been certain press and media coverage regarding our Group and our products. We have not authorised the disclosure of any such information in the press or media which may be untrue and may not reflect what is disclosed in this prospectus and accordingly do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. You should not rely on any such information contained in any press articles or other media and, in making your decision whether to purchase our Shares, you should rely only on the information included in this prospectus and the Application Forms.

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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 and other markets of the garment manufacturing industries 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, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers 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.

There are risks associated with forward-looking statements

This document contains certain statements and information that are forward-looking and uses forward-looking terminology such as “anticipate”, “believe”, “could”, “except”, “estimate”, “may”, “ought to”, “should” or “will”. These statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Subscribers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The inclusion of forward-looking statements to this prospectus should not be regarded as representations by us that its plans or objectives will be achieved and investors should not place undue reliance on such forward-looking statements.

FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements and information relating to us and our Subsidiaries that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this prospectus, the words “anticipate”, “believe”, “could”, “estimate”, “expect”, “forecast”, “going forward”, “intend”, “may”, “might”, “ought to”, “plan”, “project”, “seek”, “should”, “will”, “would”, “wish” and similar expressions, as they relate to our Company or our management, are intended to identify forward-looking statements. Such statements reflect the current views of our Company’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialise or may change. These statements are subject to certain risks, uncertainties and assumptions, including the other risk factors as described in this prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing our Company which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business operations and prospects;
- future developments, trends and conditions in the industry and markets in which we operate;
- our strategies, plans, objectives and goals and our ability to implement such strategies, plans, objectives and goals;
- our ability to maintain or increase student enrollment;
- our ability to maintain or raise tuition fees and boarding fees;
- general economic conditions;
- our capital expenditure programs and future capital requirements;
- changes to regulatory and operating conditions in the industry and markets in which we operate;
- our ability to control costs;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors; and
- all other risks and uncertainties described in the section headed “Risk factors” 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 (Cap. 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to our Company. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive; and
- (b) there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ABOUT THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Hong Kong Public Offering is 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 authorized 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 authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, Joint Lead Managers, the Underwriters and any of their respective directors, agents, employees or advisers or any other party involved in the Global Offering.

The Listing is sponsored by the Sole Sponsor and the Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms and conditions of the Hong Kong Underwriting Agreement and is subject to us and the Sole Global Coordinator agreeing on the Offer Price. The International Offering is expected to be fully underwritten by the International Underwriter subject to the terms and conditions of the International Underwriting Agreement, which is expected to be entered into on or around the Price Determination Date.

If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator (on behalf of the Hong Kong Underwriter), the Global Offering will not proceed and will lapse. For further information about the Underwriters and the underwriting arrangements, please see the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The following information is provided for guidance only. Prospective applicants for the Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

FULLY UNDERWRITTEN

The Global Offering comprises the Hong Kong Public Offering and the International Offering. The Global Offering is an offer of 31,250,000 new Shares under the Hong Kong Public Offering (subject to reallocation) and 281,250,000 new Shares under the International Offering (subject to reallocation and the Over-allotment Option), in each case at the Offer Price. Details of the structure of the Global Offering are set out in the section headed “Structure of the Global Offering” in this prospectus. This prospectus and the application forms relating thereto set out the terms and conditions of the Global Offering.

The Global Offering is sponsored by the Sole Sponsor, managed by the Sole Global Coordinator and is fully underwritten by the Underwriter subject to the Offer Price being agreed on or before the Price Determination Date.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be determined by agreement between us and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on Monday, 25 November 2019. The Offer Price will be not more than HK\$0.50 per Offer Share and is currently expected to be not less than HK\$0.40 per Offer Share, unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.50 per Offer Share, together with brokerage fee of 1.00%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price is lower than HK\$0.50 per Offer Share.

The Sole Global Coordinator (acting for itself and on behalf of the Underwriters) may with our consent, reduce the number of the Offer Shares and/or the indicative Offer Price range 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 case, a notice of the reduction of the number of the Offer Shares and/or the indicative Offer Price range will be published on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.justinallengroup.com, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Public Offering have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price is so reduced, such applications cannot subsequently be withdrawn.

If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (acting for itself and on behalf of the Underwriters) on or before 8:00 p.m. on Monday, 25 November 2019, the Global Offering will not proceed and will lapse.

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized 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 laws or any applicable rules and regulations of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities as an exemption therefrom.

The Offer Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information 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 our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and any of their respective directors, officers, agents, employees, affiliates and/or representatives or any other persons involved in the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering 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 exemption therefrom. (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme.

No part of the share 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 future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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 our Company's 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. All necessary arrangements have been made for our Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of those settlement arrangements and how such arrangements will affect their rights and interests.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Offer Shares will be registered on our Hong Kong branch share register of members to be maintained by the Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited which may be traded on the Stock Exchange. Dealings in Shares registered in our Hong Kong branch register of members will be subject to Hong Kong stamp duty in Hong Kong. For further details about Hong Kong stamp duty, please seek professional tax advice.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, or purchasing, holding or disposing of, or dealing in or exercise of any rights in relation to the Offer Shares, you should consult an expert.

None of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners and the Joint Lead Managers, the Underwriters, their respective directors, agents or advisers and every other person involved in the Global Offering accept responsibility for any tax effects on, or liability of, any person or holders of Shares resulting from subscribing for, purchasing, holding or disposing of, or dealing in or exercise of any rights in relation to the Offer Shares.

OVER-ALLOTMENT OPTION

Details of the Over-allotment Option are set out in the paragraph headed "Structure of the Global Offering — Over-allotment Option" in this prospectus.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for application for Hong Kong Offer Shares is set out in the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including conditions of the Global Offering, Please refer to the section headed “Structure of the Global Offering” in this prospectus.

TRADING

Dealings in the Shares are expected to commence on Thursday, 28 November 2019. Shares will be traded in board lots of 5,000 Shares each under the stock code 1425.

NO CHANGE IN THE NATURE OF BUSINESS

No change in the nature of business of our Group is contemplated following the Listing.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. If there is any inconsistency between the names of any of the entities mentioned in this prospectus which are not in the English language and their English translations, the names in their respective original languages shall prevail.

EXCHANGE RATES CONVERSION

For exchange rate translations throughout this prospectus, unless otherwise specified, or in respect of transactions that have occurred at historical exchange rates, all conversions from HK\$ to US\$ were made at the rate of US\$1.00 to HK\$7.80 and RMB1.00 to HK\$0.86.

We make no representations and none should be construed as being made, that any of the HK\$, US\$ or RMB contained in this prospectus could have been converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

For exchange rates translations throughout this prospectus (if any), we make no representations and none should be construed as being made, that any of the Hong Kong dollar or U.S. dollar amounts contained in this prospectus could have been or could be converted into amounts of any other currencies at any particular rate or at all on such date or any other date.

ROUNDING

In this prospectus, where information is presented in thousands or millions, amounts of less than one thousand or one million, as the case may be, have been rounded to the nearest hundred, or hundred thousand, respectively. Amounts presented as percentages have, in certain cases, been rounded to the nearest tenth of a percent. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding. Accordingly, the total of each column of figures as presented may not be equal to the sum of the individual items.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

| Name | Address | Nationality |
|--|--|--------------------|
| Executive Directors | | |
| Mr. Tam Kwok Pui (談國培先生) | Flat G, 16/F, Block 15 Laguna City, 2 Laguna Street Cha Kwo Ling Kowloon Hong Kong | Chinese |
| Ms. Yeung Suk Foon Paulina (楊淑歡女士) | Flat G, 16/F, Block 15 Laguna City, 2 Laguna Street Cha Kwo Ling Kowloon Hong Kong | Chinese |
| Mr. So Lie Mo Raymond (蘇禮木先生) | 5/F, Flat F, Block 7 Villa Concerto, Symphony Bay 530 Sai Sha Road Saikung Hong Kong | Chinese |
| Independent non-executive Directors | | |
| Mr. Lai Yat Kwong Fred (黎日光先生) | 17/F, Flat G, Sung Fung Court Harbour Heights 3 Fook Yum Road Hong Kong | British |
| Mr. Lui Ho Ming Paul (呂浩明先生) | Flat A, 15/F, Tower 7 The Palazzo 28 Lok King Street Shatin New Territories Hong Kong | Chinese |
| Mr. Woo Chun Fai (胡振輝先生) | Flat A, 55/F, Tower 2 The Arch 1 Austin Road West Tsimshatsui Kowloon Hong Kong | Chinese |

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Guotai Junan Capital Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

(A licenced corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO)

Sole Global Coordinator

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

(A licenced corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

**Joint Bookrunners and
Joint Lead Managers**

Guotai Junan Securities (Hong Kong) Limited

27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

(A licenced corporation to carry on type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

First Shanghai Securities Limited

19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

Fortune (HK) Securities Limited

43/F Cosco Tower
183 Queen's Road Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) regulated activities under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Co-lead Managers

Business Securities Limited

18, 20–21/F,
83 Queen's Road East, Wan Chai
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

Ever-Long Securities Company Limited

Room 1101–2, 1111–12, Wing On Centre
111 Connaught Road Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO)

Grand China Securities Limited

Room 503, 5/F, Loke Yew Building
50–52 Queen's Road Central
Central, Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) regulated activities under the SFO)

HTF Securities Limited

Room 1807, 18/F Office Tower Convention Plaza
1 Harbour Road, Wan Chai
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO)

Joincap Securities Limited

Suite 606 Level 6
One Pacific Place, 88 Queensway, Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) regulated activities under the SFO)

Tongfang Securities Limited

Unit 2102–3, 21/F, Golden Centre
188 Des Voeux Road Central
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO)

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Yuanyin Securities Limited

Rm 2201, 22/F,
238 Des Voeux Road Central,
Hong Kong

(A licensed corporation to carry out type 1 (dealing in securities) and type 4 (advising on securities) regulated activities under the SFO)

Legal advisers to our Company

As to Hong Kong law

Tiang & Partners

Room 2010
20/F, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

Mr. Chan Chung

Barrister-at-law
10/F, Grand Building
15–18 Connaught Road Central
Central
Hong Kong

As to Cayman Islands law

Ogier

11th Floor, Central Tower
28 Queen's Road Central
Hong Kong

As to PRC law

AllBright Law Offices

Room 02–07
33/F, Guangzhou International Finance Center
No. 5 Zhujiang West Road
Tianhe District
Guangzhou
The PRC

As to Cambodia law

Heng & Partners Law Group

Unit 249
1st Floor, Oriental Tower
by Meridian
Harvard Street, Koh Pich
Phnom Penh
Cambodia

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|--|--|
| | <p><i>As to U.S. law</i> Hogan Lovells 11th Floor, One Pacific Place 88 Queensway Hong Kong</p> |
| Legal advisers to the Sole Sponsor and the Underwriters | <p><i>As to Hong Kong law</i> Chungs Lawyers 28/F, Henley Building 5 Queen's Road Central Hong Kong</p> |
| | <p><i>As to PRC law</i> Dentons 3/F-4/F, Block A Shenzhen International Innovation Centre No. 1006, Shennan Road Futian District Shenzhen The PRC</p> |
| Auditors and reporting accountants | <p>Deloitte Touche Tohmatsu <i>Certified Public Accountants</i> 35/F, One Pacific Place 88 Queensway Hong Kong</p> |
| Property valuer | <p>Peak Vision Appraisals Limited Unit 702, 7th Floor, Capital Centre No. 151 Gloucester Road Wanchai Hong Kong</p> |
| Industry Consultant | <p>Euromonitor International Limited 60-61 Britton Street London EC1M 50X</p> |
| Compliance adviser | <p>Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong</p> |
| Receiving bank | <p>Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong, Hong Kong</p> |

CORPORATE INFORMATION

| | |
|---|---|
| Registered office | Ogier Global (Cayman) Limited 89 Nexus Way Camana Bay Grand Cayman KY1-9009 Cayman Islands |
| Principal place of business in Hong Kong | 31/F, Excel Centre 483A Castle Peak Road Cheung Sha Wan Hong Kong |
| Head office in the PRC | 5/F, Tower 2 515 Yishan Road Shanghai The PRC |
| Company's website | <u>www.justinallengroup.com</u> <i>(information contained on this website does not form part of this prospectus)</i> |
| Company secretary | Mr. Mak Ka Chun Billy ACIS ACS. No. 19B Fung Yuen Tai Po Hong Kong |
| Authorised representatives | Mr. Tam Kwok Pui Flat G, 16/F, Block 15 Laguna City, 2 Laguna Street Cha Kwo Ling Kowloon Hong Kong Mr. Mak Ka Chun Billy ACIS ACS. No. 19B Fung Yuen Tai Po Hong Kong |
| Audit Committee | Mr. Lai Yat Kwong Fred (<i>Chairman</i>) Mr. Lui Ho Ming Paul Mr. Woo Chun Fai |

CORPORATE INFORMATION

| | |
|--|--|
| Nomination Committee | Mr. Tam Kwok Pui (<i>Chairman</i>) Mr. Lai Yat Kwong Fred Mr. Woo Chun Fai |
| Remuneration Committee | Mr. Lui Ho Ming Paul (<i>Chairman</i>) Mr. Lai Yat Kwong Fred Mr. Tam Kwok Pui |
| Principal share registrar and transfer office in the Cayman Islands | Ogier Global (Cayman) Limited 89 Nexus Way Camana Bay Grand Cayman Cayman Islands KY1-9009 |
| Hong Kong Share Registrar | Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong |
| Principal bank | The Hong Kong and Shanghai Banking Corporation Limited Level 16, HSBC Main Building 1 Queen’s Road Central Hong Kong |

INDUSTRY OVERVIEW

The information that appears in this Industry Overview has been prepared by Euromonitor and reflects estimates of market conditions based on publicly available sources and trade opinion surveys and is prepared primarily as a market research tool. References to Euromonitor Report should not be considered as the opinion of Euromonitor as to the value of any security or the advisability of investing in our Company. Our Directors believe that the sources of information contained in this Industry Overview are appropriate sources for such information and have taken reasonable care in reproducing such information. Our Directors have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. The information prepared by Euromonitor and set out in this Industry Overview has not been independently verified by our Group, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters or any other party involved in the Global Offering and no representations is given as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision. Our Directors confirm that, after due and reasonable consideration, there is no adverse change in the market information since the date of the Euromonitor Report up to the date of this prospectus which may conflict or have a material impact on the information of this section.

RESEARCH BACKGROUND AND METHODOLOGY

Sources of industry information

In connection with the Listing, our Company had engaged Euromonitor, an independent consulting firm, to prepare a report on the sleepwear and loungewear OEM manufacturing industry in the PRC, Cambodia and Vietnam and apparel supply chain management in Hong Kong (the “**Euromonitor Report**”). The report was last updated in August 2019 based on data available at the time of publishing. Our Company had paid a total of USD113,100 in fees for the preparation and use of the Euromonitor Report.

About Euromonitor

Euromonitor was established in 1972 and is the world leader in strategy research for both consumer and industrial markets. With its comprehensive international coverage and leading-edge innovation, its products become an essential resource of national and global companies in different scales. Euromonitor is a private independent leading provider of global market intelligence with offices around the world and analysts in 80 countries.

Research methodologies

In compiling and preparing the Euromonitor Report, Euromonitor used the following methodologies to collect multiple sources, validate the data and information collected, and cross-check each respondent’s information and views against those of others: (i) secondary research, which involved reviewing published sources, including national statistics and official sources such as publications, specialist trade press and associations, company reports (including audited financial statements where available), independent research reports, and data based on Euromonitor’s own research database; (ii) primary research involved interviews with a sample of leading industry participants and experts for the latest data and insights into future trends, supplemented by verification and cross-checking of data and research estimates for consistency; (iii) projected data was obtained from a historical data analysis plotted against macroeconomic data with reference to specific industry-related drivers; and (iv) review and cross-checks of all sources and independent analysis to build final estimates including the size, shape, drivers and future trends of the sleepwear and loungewear OEM manufacturing industry in the PRC, Cambodia and Vietnam, and the apparel supply chain management industry in Hong Kong and prepare the final report.

INDUSTRY OVERVIEW

Forecasting bases and assumptions

Euromonitor based the Euromonitor Report on the following assumption: including (a) the economy is expected to maintain steady growth over the forecast period from 2019 to 2023 across the four markets covered: the PRC, Hong Kong, Cambodia and Vietnam; (b) the social, economic, and political environments of the PRC, Hong Kong, Cambodia and Vietnam are expected to remain stable during the forecast period; (c) there will be no external shocks, such as financial crises or shortages of raw materials, which affect the demand for and supply of sleepwear and loungewear OEM manufacturing in the PRC, Cambodia and Vietnam and apparel supply chain management in Hong Kong; (d) key market drivers are expected to boost the development of sleepwear and loungewear OEM manufacturing industry and apparel supply chain management industry in the PRC, Hong Kong, Cambodia and Vietnam; and (e) key drivers are likely to drive the future growth of sleepwear and loungewear OEM manufacturing, and apparel supply chain management across the PRC, Hong Kong, Cambodia and Vietnam.

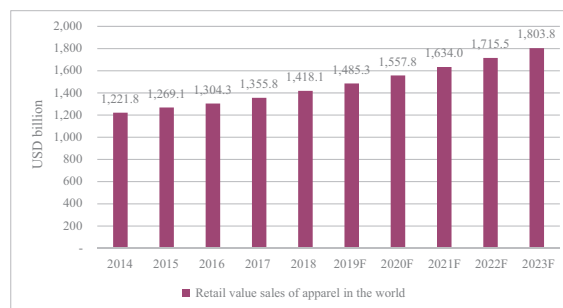
The research results may be influenced by the accuracy of these assumptions and the choice of these parameters. The market research was completed in August 2019 and all statistics in the Euromonitor report are based on information available at the time of reporting. Euromonitor's forecast data is derived from an analysis of the historical development of the market, the economic environment, and underlying market drivers, and it is cross-checked against latest available established industry data and trade interviews with industry experts.

OVERVIEW OF GLOBAL APPAREL RETAIL MARKET

The global apparel retail industry posted a steady growth at a CAGR of approximately 3.6% from 2014 to 2018, reaching a total retail value of approximately US\$1,418.1 billion. It is expected to experience a more rapid growth at a CAGR of approximately 5.0% from 2019 to 2023, attaining an overall retail value of approximately US\$1,803.8 billion, which mainly attributable to recovery of global economy followed by increase in consumer income.

While sleepwear and loungewear accounted for only about 2.2% of the overall apparel retail market in 2018, its growth at a CAGR of approximately 4.4% had outpaced the overall apparel retail industry during the same period. Such growth was mainly attributed to the change of lifestyle that the consumers tend to wear sleepwear and loungewear more often as they prefer communicating via the internet than face-to-face meeting.

The graph below sets out the sales value of apparel retail in the world from 2014:



Source: Euromonitor Passport, Apparel and Footwear – 2018 Edition

In the U.S., sales of sleepwear and loungewear grew at a CAGR of approximately 2.7% from 2014 to 2018, attaining the total sales of approximately US\$5,031 million in 2018. This growth rate outpaced overall apparel retailing growth. The trend of casualisation

INDUSTRY OVERVIEW

has led sleepwear and loungewear to become mainstream attire for weekends. This trend does not only apply to college students who roam around campuses in their sleepwear and loungewear, but also to celebrities who turn up at events in their night outfits. The popularity of using sleepwear and loungewear as casualwear is growing as consumers become more selective in choosing sleepwear and loungewear that is comfortable and versatile. Over the forecast period from 2019 to 2023, sales of sleepwear and loungewear are expected to grow at a CAGR of approximately 4.0% from US\$5,225 million in 2019 to US\$6,101 million in 2023, representing an increase of US\$695 million over the period, in part due to an increasing casualisation trend.

In Europe, sleepwear and loungewear also grew at a CAGR of approximately 1.3% in retail sales value over the historical period from 2014 to 2018, attaining the total sales of approximately US\$5,880 million. The more austere consumer sentiment was due to the economic slowdown in Europe, resulting limited consumer spending on sleepwear and loungewear. An emerging trend in sleepwear and loungewear is the increasing popularity of eco-friendly garments. With increasing social and regulatory focus on environmental protection, consumers have become more aware of the environmental impact around the production and consumption of goods. Over the forecast period from 2019 to 2023, the sales value of sleepwear and loungewear is expected to grow at a CAGR of approximately 2.9% from US\$6,044 million in 2018 to US\$6,783 million in 2023, representing an increase of US\$739 million over the period, in part due to the trend of using eco-friendly raw materials in the products.

Brexit is a risk factor for the UK apparel retail market, which accounted for 15.8% of the European apparel market in 2018. A no-deal Brexit would negatively affect consumers' willingness to spend and may in turn impact apparel retail sales. Tourist spending may also fall, as new visas and fees make ease of movement between EU and the UK harder. However, the strong forecast performance of internet retailing may be able to cushion the blow of any negative impact Brexit has on the UK fashion industry over the coming years.

Apparel manufacturers may be affected by changes in the operational and regulatory regime, such as import and export regulations, due to Brexit. When effected, Brexit could have a material impact on the European economy and the future growth of its various industries, including the fashion and apparel industry. Brexit could also result in prolonged uncertainty surrounding the UK economy, which could, in turn, negatively impact customers' and investors' confidence as well as reduce consumers' spending in the UK. This could ultimately have an adverse effect on apparel manufacturers' business, financial conditions and operational results.

Garment products can be categorised into two seasons, being summer and winter. The business and operating results of garment manufacturers are subject to seasonal fluctuations. Garment manufacturers typically record higher revenue from their customers for sales in winter season, due to higher average selling price resulting from the type of fabric used and the higher demand from their customers in response to the market demand during the holiday seasons in the U.S. and Europe, such as Thanksgiving, Christmas and New Year. Due to such seasonality, the revenue of garment manufacturers generated from sales in the August to December of the year typically represents a substantially larger share of the total revenues and profits for the that year and accordingly, they will also incur more costs in the second half of the year as they may need to make the relevant purchases and pay the relevant costs for the production of the increased amount of products.

OVERVIEW OF SLEEPWEAR AND LOUNGEWEAR MANUFACTURING INDUSTRY IN ASIA

Major export destinations for sleepwear and loungewear include the U.S., Japan, Europe and Middle Eastern countries.

INDUSTRY OVERVIEW

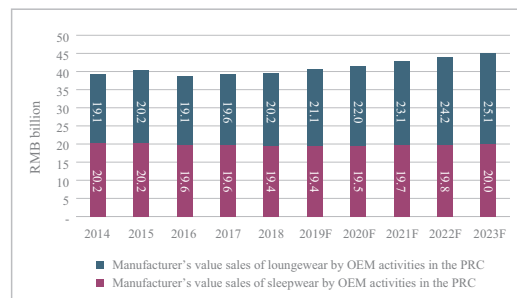
China

According to Euromonitor, the PRC plays a crucial role in the world's apparel industry value chain with a focus on the production section. From 2014 to 2018, sleepwear and loungewear OEM business recorded a CAGR of approximately 0.2% reaching a market size of approximately RMB39.7 billion in 2018. From 2013 to 2015, the sleepwear and loungewear manufacturing market grew steadily while since 2016, it witnessed a decline partially due to other ASEAN countries continuing to gain shares in global production and trade protectionism influencing the overall trade environment, especially with the U.S.. Nonetheless, since domestic players are more resilient to adapt to the new environment, overall sleepwear and loungewear manufacturing value bounced back in 2017, driven by more sustainable industrial value chain positioning and an overall optimistic outlook for the global trading environment in the near term.

Sleepwear and loungewear production in the PRC is expected to continue to expand at a CAGR of approximately 2.7% from 2019 to 2023. According to the Industry Consultant, there remains to be a fundamental demand for sleepwear and loungewear products manufactured in the PRC by major export destinations like the EU including the U.K. (taking into account the potential impact of Brexit) notwithstanding the short-term disruptive impact of the Sino-U.S. trade war. In the long run, rising affluence in emerging economies, including the PRC, will also drive the demand growth. On the supply side, garment manufacturers in the PRC continue to undertake on-going industrial reforms to provide more value-added offerings to enhance their long-term competitiveness. Additionally, with the support from the PRC government such as the adoption of a series of tax and fee reduction policies for export-orientated enterprises to lower logistics cost of shipping from the central region of the PRC, some garment manufacturers are also shifting production inland, where labour costs are lower compared with coastal cities. Such garment manufacturers could increase their pricing competitiveness by reaping the benefits of the lowered overhead costs and government incentives through moving their production inland.

The loungewear category is predicted to continue growing at a faster pace at a CAGR of approximately 4.4% from 2019 to 2023 due to its more versatile usage. By the end of 2023, the overall sleepwear and loungewear production size in the PRC is expected to reach approximately RMB45.1 billion, of which approximately 55.6% would be derived from loungewear products.

The chart below sets out the manufacturers' sales value of sleepwear and loungewear by OEM activities in the PRC from 2014 to 2018 and forecast from 2019 to 2023 which has already taken into account the trade restrictions between the U.S. and the PRC in estimating the forecast:



Source: Euromonitor estimates from desk research and trade interview

Apart from garment manufacturing, the PRC has possessed a strong capacity in producing fabrics and yarns which are in the upstream parts of the value chain. The growth drivers behind the fabric production industry are (i) the increased purchasing power of Chinese consumers, (ii) free trade zones within the Chinese provinces, leading to less

INDUSTRY OVERVIEW

transportation cost for suppliers and (iii) the rise of e-commerce making the purchase of fabrics much easier, further pushing demand for the products. Meanwhile, the constraints for the fabric production industry are (i) increasing market saturation due to an oversupply of fabric manufacturers, leading to an increase in competition, (ii) as the economy progresses forward, there is a demand for higher wages, pushing up production costs as a result and (iii) rising global protectionism leading to slowdown in exports.

For yarn production, the PRC remains the dominant player with the country taking up to approximately 25% of the production capacity in the world. Over the historical years, yarn from the PRC has faced price competitions from other countries such as Pakistan and India which has led to the slower growth of the yarn industry in the PRC in comparison to the prior years. This has been coupled with free trade zones within ASEAN countries. Nevertheless, due to the recent increased imports tariffs and the PRC government policy in reducing yarn imports, the PRC's imports of yarn is likely to fall, resulting in a slight growth in yarn production in the country.

Cambodia

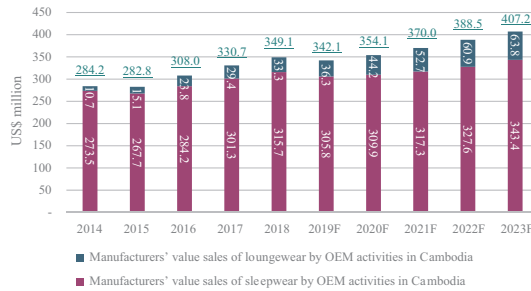
Cambodia's apparel manufacturing industry is highly export-oriented with the U.S. and EU being among its largest export destinations. Many Cambodian apparel manufacturers in the country operate as contract manufacturers for major multinational brands, such as H&M, Marks & Spencer, Levi's, Nike and Uniqlo that are based in major developed economies. The EU in particular represents the largest market for Cambodian apparel export. Overall, the EU imported a substantial amount of garments with US\$5.8 billion worth in 2017. Exports to the US are also rapidly growing. Cambodian exports to the US increased from US\$2.2 billion in 2014 to US\$2.4 billion in 2018. Yet, there is an increasing pressure from the US and EU on preferential trading terms due to human rights and factory working conditions concerns in Cambodia. Apart from the US and the EU, Japan, South Korea and Canada are major apparel and garment export markets as well, allowing Cambodia to diversify and expand its export destinations.

Sleepwear and loungewear OEM manufacturing activities in Cambodia are expected to continue to register strong growth at a CAGR of approximately 5.9% increasing from US\$356 million in 2019 to US\$447 million in 2023 over during the forecast period. However, it is estimated that the growth in 2019 will move at a slightly slower pace due to concerns that Cambodia might lose its preferential trade status under the EBA programme with the EU. Currently, the Cambodian government is working on human rights improvement to retain its status under the EBA programme. The final evaluation for Cambodia's EBA eligibility will be announced by the end of August 2020. Despite this, overall, stronger global demand will be the main driver of growth, as increasing demand in both the developed economies and developing world will result in more sleepwear and loungewear manufacturing orders for Cambodian manufacturers. Loungewear is expected to lead sleepwear and loungewear growth, although sleepwear will continue to dominate sleepwear and loungewear OEM manufacturing. The trend of wearing loungewear at home is increasing in developed markets, eg the US and Europe. Favourable government incentives for manufacturers and the implementation of trade agreements between Cambodia and its major trading partners, eg ASEAN and the US, will also drive the growth of sleepwear and loungewear OEM manufacturing, as this enhances the competitiveness of Cambodia as a manufacturing base.

The industry revenue for sleepwear and loungewear OEM manufacturing in Cambodia has increased steadily over the years from 2014 to 2018, except for a slight dip in 2015. The total revenue of sleepwear and loungewear OEM manufacturing activities in Cambodia grew at approximately 5.8% in 2014 and decreased by approximately 0.5% in 2015. Such decrease was attributable to the slowdown in the economies and rise in wage costs and competition from other low-wage economies, especially Myanmar. From 2015 to 2018, the manufacturers' sales value of sleepwear and loungewear in Cambodia stayed strong due to increasing foreign direct investment from Chinese manufacturers.

INDUSTRY OVERVIEW

The chart below sets out the manufacturers' sales value of sleepwear and loungewear by OEM activities in Cambodia from 2014 to 2018 and forecast from 2019 to 2023:

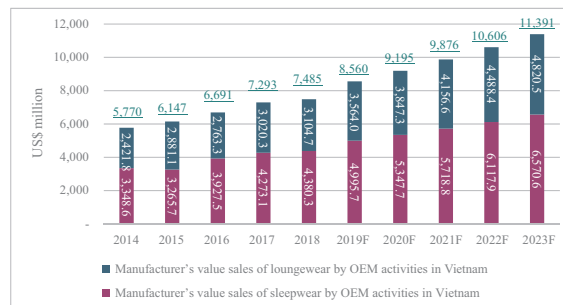


Source: Euromonitor estimates from desk research and trade interview

Vietnam

From 2014 to 2018, the sleepwear and loungewear OEM manufacturing industry in Vietnam accounted for a relatively small share of the total export value of Vietnam's manufacturing industry. This is because sleepwear and loungewear OEM manufacturing is not yet a focus of Vietnam-based garment manufacturers. However, sleepwear and loungewear OEM manufacturing industry grew at a CAGR of 7.5% between 2014 and 2018. This corresponds to the increasing popularity of sleepwear and loungewear in the U.S. and other countries such as Germany, Japan and South Korea led by the increased awareness through social media. Furthermore, as sleepwear and loungewear OEM manufacturers based in Vietnam are highly export-oriented, the currency exchange movements also impact the sleepwear and loungewear trade between Vietnam and major trade partners. During the period from 2014 to 2018, the Vietnamese Dong (VND) depreciated against the US\$ from VND21,148 per US\$ in 2014 to VND22,606 per US\$ in 2018. It is expected that the State Bank of Vietnam will preserve the current VND exchange rate against US\$ to encourage the country's exports. Thus, it is anticipated that VND will continue to depreciate against US\$ over the forecast period, from VND23,080 per US\$ in 2019 to VND25,388 per US\$ in 2023. This partially explains the healthy growth in manufacturers' sales value of sleepwear and loungewear by OEM activities during the historical period as sleepwear and loungewear exports from Vietnam were deemed more affordable.

The graph below sets out the manufacturers' sales value of sleepwear and loungewear by OEM activities in Vietnam from 2014 to 2018 and forecast from 2019 to 2023:



Source: Euromonitor estimates from desk research and trade interviews

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Growth drivers and factors affecting demand and production of sleepwear and loungewear manufacturing

Evolving lifestyles generate incremental demands from sophisticated consumers in developed markets

A more self-oriented attitude and relaxing lifestyles have created demand for sleepwear and loungewear that fits both outdoor and indoor purposes. Dressing casually is also becoming more socially acceptable, especially with the rise of startup companies and the internet economy. This casualisation trend also benefits loungewear as consumers increasingly move towards purchasing loungewear that can be used for both casual occasions or at home. The more self-oriented attitude and relaxing lifestyles have driven consumers to express their individualistic way of living through dressing. Wearing casualwear and loungewear are increasingly acceptable in the developed markets. Examples of these casualwear and loungewear items that are gaining popularity include sweatpants, jumpers, hoodies and leggings. The trend of wearing leggings for casual occasions is becoming more common especially with the markets like the U.S. where the staggering popularity of leggings quickly led to a multitude of start-ups offering specialized and premium leggings. As a result, sleepwear and loungewear and especially the loungewear segment witnessed strong demand from major consumption nations including the U.S. and Europe. Based on the above, our Industry Consultant confirms that the “more self-oriented attitude and relaxing lifestyles” will create demand for sleepwear and loungewear in developed markets. As a result, sleepwear and loungewear and especially the loungewear segment witnessed strong demand from major consumption nations including the U.S. and Europe.

Production costs continue to rise alongside customers' increasing supplier diversification needs

Traditionally, manufacturers have competed on price due to the lack of quality standards and lack of value-addedness activities. This basis for competition is no longer desirable for manufacturers in the PRC as production costs increased rapidly over the historical period and the industry saw an increasing threat from lower-cost ASEAN countries such as Vietnam and Cambodia. Consequently, a proportion of the sleepwear and loungewear orders shifted to other countries as customers began to put more emphasis on supplier diversification. Also, a shortage of raw material could lead to an increase in price and subsequently increase in production costs. The sleepwear and loungewear manufacturing business may have to consider substituting some of the raw materials if the cost is not reasonable.

Supportive trade agreements and trade policy from the government

Sleepwear and loungewear OEM manufacturing will be boosted by supportive trade agreements from Vietnam and Cambodia. Examples include the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (“CPTPP”), which will allow Vietnamese apparel companies to remove tariff barriers and gain easy access to potential customers from allied parties such as Canada, Australia and New Zealand and was officially effective in Vietnam from January 2019. The Europe-Vietnam Free Trade Agreement (“EVFTA”) is another important trade agreement, which allows the import tax on all Vietnamese garment export items to be dropped to 0% from the seventh year that EVFTA became effective in 2018 and finalised later in 2018. Furthermore, EVFTA will allow Vietnam to import raw materials and machinery from the European Union countries at a tax rate of 0%, reducing manufacturing costs and boosting production. In Cambodia, Qualified Investment Projects (QIP) are entitled to profit tax exemption (up to a maximum of nine years) and favourable tax policies, such as a 40% special depreciation allowance on the value of new or used tangible properties used in the production or processing phases of manufacture. Moreover, manufacturers who are export-oriented will be categorised under Export QIP whereby equipment, construction materials, inputs used for productions are exempted from custom duties. The exemption should still operate under the proper law mechanisms. For the garment and textile manufacturers, value added taxes on the imported production materials are exempted and paid by the government of Cambodia.

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Since mid 2018, U.S. had applied tariffs on Chinese imports in total of US\$250 billion while the PRC had applied tariffs on U.S. imports in total of US\$110 billion. The U.S. consumers are highly vulnerable to the trade war. Both the U.S. and the PRC are imposing tariffs on cotton. On 1 September 2019, the U.S. government imposed 15% tariffs on certain sleepwear and loungewear products to be imported from the PRC to the U.S..

Future developments and challenges for sleepwear and loungewear manufacturers in Asia

Lack of capabilities to engage in high value-added production

The sleepwear and loungewear manufacturing industry, like the rest of the garment manufacturing industry, is characterised by labour-intensive, unsophisticated manufacturing processes. Most factories offer only cut, make & trim (“CTM”) services or they engage in downstream activities such as embroidery, washing, packaging and exporting finished goods. This can be attributed to the lack of sophisticated technology and machinery to engage in higher value-added work. On top of that, most workers in the sleepwear and loungewear manufacturing industry do not have a formal education or training in apparel design or manufacturing, and hence they lack the skills to produce items with complicated designs and intricate details. This is particularly pronounced for Cambodia.

The PRC’s industrial reform and economic development plans contribute to industry development

The PRC manufacturing industry is going through industrial reforms. In 2016, the PRC government issued new guidance to support and promote the sustainable future development by encouraging the manufacturers to add value in the manufacturing process. Sleepwear and loungewear OEMs investing in production automation, big data and information systems, R&D and design capabilities, etc are expected to benefit from this new guidance.

Uncertain trade relationships with key export countries

Major export destinations of the PRC especially the U.S. have built trade barriers for the PRC exports and have reduced the quota for goods including the PRC apparel. Trade war between The PRC and U.S. is threatening manufacturers and impacting on business sentiments and investment in the PRC. Recently, the opened-up collaboration between ASEAN countries and developed countries favouring their textile and garment trade activities has posed significant challenges to the PRC manufacturers.

Long history of manufacturing possess extensive experience in apparel OEM manufacturing

With long history in clothing OEM manufacturing, the majority of its manufacturing players possess extensive experience in OEM manufacturing activities. Asia manufacturing players, namely China and Vietnam are believed to have the capacity to produce high-quality products corresponding to the high standards of global players. Hence, global players are not hesitant to put their investment in sleepwear and loungewear OEM manufacturing in China and Vietnam, despite the fact that sleepwear and loungewear OEM manufacturing still represents a niche industry.

Low investment in technology and equipment

Much of the manufacturing work is still low-value. Manufacturers have not invested in upgrading more modern technology and equipment as a majority of them have smaller operational scales and still rely on manual work. This limits the industry in capturing more complex and higher-value orders such as product development, design, raw materials consultation and logistics and distribution management. Moreover, the overall supply chain of garment manufacturing has room for efficiency improvement, especially in terms of lead time as short turnaround time is often required by international players. This is particularly pronounced for Vietnam.

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The current U.S. government's policies may pose threat to manufacturers

The current administration of the U.S. government has made substantial changes to domestic and international policies, including but not limited to the U.S.'s withdrawal from the Trans Pacific Partnership Agreement and the entry ban on citizens of several Muslim-majority countries. The Administration may adopt and implement further changes to current-international policies which may bring uncertainty to the global economy and/or political environment and our business, financial performance and results of operations and prospects may be adversely affected.

Barriers to entry

Low barriers to entry for small-scale manufacturers

Apparel and sleepwear and loungewear manufacturing is still a labour-intensive industry with lower requirements on technology and production capabilities for small-scale manufacturers who focus on serving domestic customers. Fixed asset investment compared to other manufacturing sectors is lower at approximately 35%. Within the larger-scale manufacturing segment, it is expected that the trends of production automation and modern technology usage are to be implemented increasingly in the manufacturing cycle. This increases the entry barriers for newcomers especially those who want to establish a larger manufacturing scale.

Large capital investment for quality deliveries poses a challenge to newcomers

Newcomers and especially those with smaller operational capacities may face challenges of limited capital investment and low economies of scale in their efforts to reduce operating costs. Large capital reserves are crucially important to implement advanced technologies in the development of new products and improvement of operational efficiency. Meanwhile, building a team of experts with extensive knowledge in each stage of the value chain will also take time.

Existing reputation is crucial in expanding customer base

Business history and company reputation have a direct impact on new customer acquisitions. As a result, existing players who have good relationships with their customers and consistent quality deliveries have a superior advantage in winning repeat and new orders. This presents a challenge for new entrants as they do not have track records in quality deliveries and hence they will need time to build up their reputations.

A strong client relationship is crucial in winning a manufacturing contract. This also implies that players in the industry mostly compete on offering quality products and services and building internal capabilities rather than doing marketing activities.

Consolidated trend in sleepwear and loungewear manufacturing industry

Due to a lack of clear industrial leaders and standards, the sleepwear and loungewear manufacturing sector in the PRC, Cambodia and Vietnam are highly fragmented with a few specialised players. Lingerie manufacturers are typically the main producers in the sleepwear and loungewear category. Other than lingerie producers, manufacturers of homeware textiles and even a few casualwear producers are increasing their portfolios in sleepwear and loungewear as one way to adjust product offerings in order to improve production utilisation rates and corporate margins.

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In terms of customer portfolio, it is common for manufacturers in the garment manufacturing industry to have a relatively high level of customer concentration as it deems more cost efficient than having a large number of smaller customers. In addition, it is an industry practice for garment manufacturing companies to accept customers' orders on an order by order basis without entering into long-term contracts.

COMPETITIVE LANDSCAPE AND COMPETITIVE ADVANTAGES

In 2018, the top 10 PRC manufacturers captured approximately 10.1% of total sleepwear and loungewear sales. There were over 50 sleepwear and loungewear manufacturers in Cambodia with the majority are of small and medium-sized players in 2018. The competitive landscapes of sleepwear and loungewear OEM manufacturing industries in the PRC and Cambodia are fairly fragmented. Currently, there are no obvious prominent players who focus on sleepwear and loungewear manufacturing alone. Leading players in sleepwear and loungewear manufacturing have invested in vertical integration, including increasing their textile and fabric production capabilities and developing design and research and development teams. As a result, the industry landscape is expected to be more consolidated as leading players continue to gain market share from enhanced competitive advantages.

Having vertical integration helps manufacturers to optimise supply chain efficiency and cost savings as it can lower the unit cost of production by purchasing raw materials for fabric and garment manufacturing in bulk, which manufacturers typically receive more favourable prices from suppliers, and consolidating the overhead cost. Specifically, using own fabric and yarn production will provide cost-saving opportunities and better control over quality and delivery relative to subcontracting and/or procurement of raw materials from external suppliers. Certain international/leading apparel retailers may require their products to be produced by their chosen vendors/manufacturers in house with no outsourcing allowed, in order to ensure their garment products are up to their internal standards. Tailored apparel products require manufacturers to have better quality control and deeper involvement through the entire product development, merchandising and production process. Accordingly, having its own in house production may allow manufacturers to further diversify its customer base.

Market ranking and shares of sleepwear and loungewear OEM players in the PRC, 2018 (in terms of sales generated from their PRC operations, RMB)

| Ranking | | Market share (%) | Whether it is a listed or a private company |
|---------|-----------|------------------|---|
| 1. | Company A | 1.6 | Listed |
| 2. | Company B | 1.4 | Private |
| 3. | Company C | 1.3 | Listed |
| 4. | Company D | 1.3 | Private |
| 5. | Company E | 1.0 | Private |
| 6. | Company F | 1.0 | Listed |
| 7. | Company G | 0.8 | Listed |
| 8. | Company H | 0.7 | Private |
| 9. | Company I | 0.6 | Private |
| 10. | Our Group | 0.4 | Private |

Note: The market share data is based on sales of sleepwear and loungewear OEM players, generated from their PRC operations. Although some players have presence outside the PRC, the market share shown in the table above only took into account the sales generated from their PRC operations.

Source: Euromonitor estimates desk research and trade interviews

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Competitive landscape of sleepwear and loungewear OEM manufacturing industry in Cambodia

Sleepwear and loungewear OEM manufacturing industry in Cambodia is highly fragmented with more than 500 OEM manufacturers, of which approximately 50 are sleepwear and loungewear OEM manufacturers. The majority of these sleepwear and loungewear OEM manufacturers are small to medium factories with a few large scale factories. These large scale factories players accounted for more than two-thirds of the market share. The smaller scale factories were however able to act as vendor factories in securing orders through their parent factories. As a result, although the sleepwear and loungewear OEM manufacturing industry is dominated by manufacturers with large scale factories, the industry remains fairly fragmented with sufficient international demand supporting the local sleepwear and loungewear OEM manufacturing industry.

Competitive landscape of sleepwear and loungewear OEM manufacturing industry in Vietnam

Sleepwear and loungewear OEM manufacturing industry in Vietnam accounted for a relatively small share of total export values of Vietnam's manufacturing industry. The sleepwear and loungewear manufacturing industry is still under development in Vietnam partly because most players who engage in sleepwear and loungewear manufacturing also produce other types of apparel as their major products. Over the forecast period, the industry is expected to remain fragmented with a large number of players. Moreover, most apparel manufacturers in Vietnam will focus on manufacturing and exporting general apparel products other than sleepwear and loungewear products, which will offer opportunities for foreign sleepwear and loungewear-focused manufacturers to win contracts from global apparel retailers and brand owners and make use of Vietnam as a sleepwear and loungewear manufacturing base.

For details about our competitive advantages, please refer to the paragraph headed "Business — Our competitive strengths" in this prospectus.

APPAREL SUPPLY CHAIN MANAGEMENT IN HONG KONG

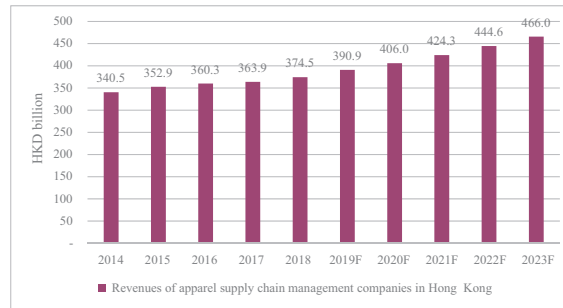
Hong Kong is regarded as an important apparel supply chain management hub, capable of handling world-class supply chain operations. The free trade, low taxes, solid legal system and business-friendly environment provide an advantageous market ecosystem for the apparel supply chain management players to win over other competitors based in other countries. Global apparel brand owners have increasingly put emphasis on meeting the dynamic needs of customers in a timely manner. To meet the changing needs of those players, Hong Kong's supply chain management companies offer a comprehensive set of supply chain activities and have become important sourcing partners of global brand owners, with major production plants in the PRC and other emerging markets in Asia.

The PRC has experienced rapid growth in labour costs and overall production costs. As a result, some garment manufacturers that have PRC operations have relocated their production facilities to south Asian and southeast Asian countries such as Bangladesh, Cambodia and Vietnam for better profitability. Apparel supply chain management companies in Hong Kong see the need to acquire local knowledge and build business relationships with manufacturers in those countries to better provide a competitive service offering to their customers.

The Hong Kong apparel supply chain management industry recorded approximately HK\$374.5 billion in 2018 with a CAGR of 2.4% during the period from 2014 to 2018. Such growth was due to weak demand from major consumption markets. Nonetheless, the industry growth rate was less affected by demand from key consumption markets as the industry players were able to attract new international brand owners, leveraging Hong Kong's reputation as a premium supply chain management base with extensive knowledge, experience and ability to consistently deliver high-quality products and services within a tight time schedule.

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The chart below sets out the revenue of apparel supply chain management companies in Hong Kong from 2014 to 2018 and forecast from 2019 to 2023:



Note: The revenue shown in the chart above only took into account sales generated from the OEM and ODM activities.

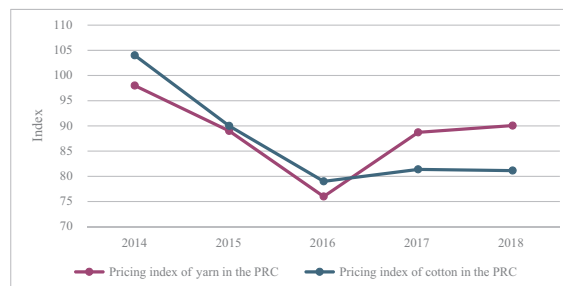
Source: Euromonitor estimates from desk research and trade interviews

KEY OPERATIONAL COSTS

The PRC

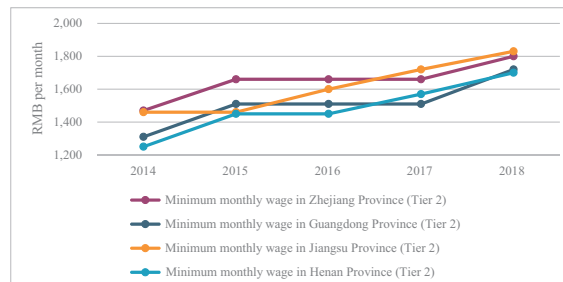
Raw material costs are a major component of the production costs of the sleepwear and loungewear industry. The price index for yarn and cotton indicates that raw material costs for sleepwear and loungewear fluctuate on a regular basis, which often causes uncertainty to garment manufacturers' profit margins. During 2013 to 2016, due to the oversupply of both yarn and cotton and weaker demand in major consumption markets, the price of both materials declined. In 2017, cotton prices saw strong improvement as the industry reforms reached its end. A similar upturn was expected in yarn prices as well. In the near term, it is estimated that the price of raw materials will be slightly increase driven by recovery in market demand.

The graph below sets out price index of yarn and cotton in the PRC from 2014 to 2018:



Sources: The National Bureau of Statistics of the People's Republic of China and the China Cotton Textile Association

The chart below sets out minimum wages in the PRC from 2014 to 2018:



Sources: Human Resource and Social Security Department of Zhejiang, Guangdong, Jiangsu and Henan Provinces

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As a result of both a declining labour force and an improvement in welfare, the minimum wage in the fabric and garment manufacturing sector has been climbing. In Guangdong Province, where a large number of sleepwear and loungewear manufacturing plants are located, the minimum monthly wage increased from RMB1,310 in 2013 to RMB1,720 in 2018. A similar trend was also observed in other key OEM clusters including Zhejiang Province in the Yangtze Delta Region, where the minimum wage level in this Tier-2 area rose from RMB1,470 in 2014 to RMB1,800 in 2018. Local governments review minimum wage levels every two years and they are expected to further increase in the future. As labour costs continue to rise, smaller-sized factories will likely be forced to exit the market due to their smaller economies of scale. Some PRC manufacturers are better positioned by having invested in production automation to reduce their reliance on labour or have relocated their manufacturing facilities to countries with lower labour costs such as Vietnam and Cambodia.

Cambodia

Minimum labour wages in Cambodia are still relatively low compared to other countries such as the PRC, Malaysia, the Philippines, Indonesia, Thailand and some parts of Vietnam. In 2018, the minimum monthly wage in garment industry was increased to US\$170 in Cambodia, compared to US\$295 in Thailand and US\$180 in Vietnam. Although Cambodia had the most competitive labour costs among these countries in Southeast Asia, its labour costs have risen rapidly over the years. The minimum wage for 2019 was announced and set at US\$177 for probationary workers and US\$182 for regular workers. The continued increase in wages in Cambodia may cause difficulties for manufacturers, potentially pushing them to cheaper locations.

Vietnam

As a whole, operational costs in Vietnam have increased compared to a few years ago due to inflation and higher minimum wages. The major factors that accounted for the increase in operational costs in Vietnam includes (i) increase in pricing of imported raw materials from overseas; (ii) depreciated value of VND compared with the US dollars; and (iii) increase in manpower costs and logistics costs (e.g. costs of transporting raw materials and finished products).

TREND ON FOREIGN EXCHANGE FLUCTUATION

The sleepwear and loungewear OEM manufacturers based in Vietnam are highly export-oriented. Hence, the currency exchange fluctuation has impacted the trade between sleepwear and loungewear OEM manufacturers based in Vietnam and their major trade partners in foreign countries. For details of the trend of foreign exchange fluctuation between US\$ and VND, please refer to the paragraph headed “Overview of Sleepwear and Loungewear Manufacturing Industry in Asia — Vietnam” in this section.

PRC REGULATORY OVERVIEW

Establishment, operation and management of PRC subsidiaries

On 28 June 2017, the NDRC and the MOFCOM jointly promulgated the revised *Catalogue for the Guidance of Foreign Investment Industries* (《外商投資產業指導目錄》) (the “**Catalogue**”), which was effective as of 28 July 2017. The Catalogue contains specific provisions guiding market access of foreign capital, stipulating in detail the areas of entry pertaining to the categories of encouraged foreign-invested industries, restricted foreign-invested industries and prohibited foreign-invested industries. Pursuant to the *Special Administrative Measures (Negative List) for Foreign Investment Access* (2018) (《外商投資准入特別管理措施(負面清單)(2018)》) (the “**2018 Special Measures**”) promulgated on 28 June 2018 and effective as of 28 July 2018, the special administrative measures for foreign investment access (negative list for foreign investment access) specified in the Catalogue are repealed. The 2018 Special Measures were then repealed by the *Special Administrative Measures (Negative List) for Foreign Investment Access* (2019) (《外商投資准入特別管理措施(負面清單)(2019)》) (the “**2019 Special Measures**”) which were promulgated on 30 June 2019 and effective as of 30 July 2019. Pursuant to the *Industry Guidelines on Encouraged Foreign Investment* (2019) (《鼓勵外商投資產業目錄(2019)》) (the “**Encouraged List**”) promulgated on 30 June 2019 and effective as of 30 July 2019, from 30 July 2019, the “Industry Guidelines on Encouraged Foreign Investment” specified in the Catalogue were repealed. Any industry not listed in the Catalogue, Special Measures and the Encouraged List is permitted industry.

The establishment, operation and management of our PRC subsidiaries shall be in compliance with *the Company Law of the PRC* (《中華人民共和國公司法》) promulgated by the NPC Standing Committee on 29 December 1993, amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, 26 October 2018 and effective as of 26 October 2018 as well as its relevant laws and regulations. *The Company Law of the PRC* generally governs two types of companies — limited liabilities companies and joint stock limited companies, both types of companies have the status of legal persons and the liabilities of shareholders of a limited liability company and a joint stock limited company are limited to the amount of registered capital they have contributed. The *Company Law of the PRC* shall also apply to foreign-invested companies. Where laws on foreign investment have other stipulations, such stipulations shall apply.

The establishment procedures, approval procedures, registered capital requirements, foreign exchange matters, accounting practices, taxation and labor matters of our PRC subsidiaries are regulated by the *Law of the People’s Republic of China on Wholly Foreign-owned Enterprises* (《中華人民共和國外資企業法》), promulgated by the NPC Standing Committee on 12 April 1986, subsequently amended on 31 October 2000, 3 September 2016 and effective as of 1 October 2016, the *Implementation Regulations for the Law of the People’s Republic of China on Wholly Foreign-owned Enterprises* (《中華人民共和國外資企業法實施細則》), promulgated by the Ministry of Foreign Trade and Economic Cooperation (now integrated into the MOFCOM) on 12 December 1990, subsequently amended by the State Council on 12 April 2001, 19 February 2014 and effective as of 1 March 2014, the *Sino-Foreign Equity Joint Venture Law of the PRC* (《中華人民共和國中外合資經營企業

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法》), promulgated by the NPC Standing Committee on 8 July 1979, subsequently amended on 4 April 1990, 15 March 2001, 3 September 2016 and effective as of 1 October 2016, and the *Regulations for the Implementation of the Sino-Foreign Equity Joint Venture Law of the PRC* (《中華人民共和國中外合資經營企業法實施條例》), promulgated by the State Council on 20 September 1983, subsequently amended on 15 January 1986, 21 December 1987, 22 July 2001, 8 January 2011, 19 February 2014 and effective as of 1 March 2014.

Before the latest *Wholly Foreign-Owned Enterprise Law of the PRC* and the *Sino-Foreign Equity Joint Venture Law of the PRC* became effective, the establishment of foreign-invested enterprises (hereafter as “FIEs”) and articles of association shall be approved by the competent department of Foreign Economic Relations and Trade (or its delegated authorities). Now, for FIEs not involved in the implementation of special access administrative measures prescribed by the state, filing for a record in lieu of the competent authority’s approval is sufficient for purpose of the establishment. The *Interim Administrative Measures for Filing of the Establishment and Change of Foreign-Funded Enterprise* (《外商投資企業設立及變更備案管理暫行辦法》), hereafter as the “Measures”), promulgated by the MOFCOM on 8 October 2016, amended on 30 July 2017, 30 June 2018 and effective as of 30 June 2018, specifies the authorities, procedures and legal responsibilities of the filing of the establishment and changes of FIEs. According to the Measures, where a non-foreign investment enterprise is converted to a foreign investment enterprise as a result of merger and acquisition or merger by absorption and falls under the scope of filing stipulated in the Measures, filing for a record in lieu of the competent authority’s approval is sufficient for purpose of the establishment.

FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

(a) Foreign exchange

The principal regulation governing foreign exchange in the PRC are the *Foreign Exchange Administration Rules of the PRC* (《中華人民共和國外匯管理條例》) promulgated by the State Council of the PRC on 29 January 1996, subsequently amended on 14 January 1997, 5 August 2008, and effective as of 5 August 2008. Under the *Foreign Exchange Administration Rules of the PRC*, the current account incomes of foreign exchanges can be retained or sold to financial authorities that manage exchange settlement, sale and purchase of foreign exchange. However, approvals from the SAFE are required for the relevant capital account transactions of the FIEs, such as capital transfers. FIEs may purchase foreign exchange without the approval of the SAFE for trade and service related foreign exchange transactions by providing documents evidencing such transactions. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and pre-approvals are required from the SAFE.

Pursuant to the *Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving Policies for the Foreign Exchange Administration of Direct Investment* (《國家外匯管理局關於進一步簡化和改進直接投資外匯管理政策的通知》) (hereafter as the “Circular 13”) promulgated by the SAFE on 13 February 2015 and effective as of 1 June 2015, to improve the efficiency on foreign exchange

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management, the SAFE has cancelled (a) foreign exchange registration approval under domestic and overseas direct investment; (b) confirmation and registration of non-monetary contribution by foreign investors under domestic direct investment as well as confirmation and registration of the equity of the Chinese side acquired by foreign investors; (c) foreign exchange filing for overseas re-investment; and (d) foreign exchange annual inspection for direct investment.

According to the *Circular of the State Administration of Foreign Exchange on Reforming the Management Mode of Foreign Exchange Capital Settlement of Foreign Invested Enterprises* (《國家外匯管理局關於改革外商投資企業外匯資本金結匯管理方式的通知》) (hereafter as the “**Circular 19**”) promulgated on 30 March 2015 which came into force on 1 June 2015, the SAFE looses the controls on settlement of foreign exchange capital by allowing FIEs to settle their foreign exchange capital according to real business needs, the foreign exchange capital can be directly settled in RMB and transferred by FIEs to the designated accounts of the invested enterprises after the invested enterprises have made domestic re-investment registration with the SAFE.

(b) Dividend distribution

According to the *Notice of the State Administration of Foreign Exchange on Issuing the Provisions on the Foreign Exchange Administration of Service Trade* (《國家外匯管理局關於印發服務貿易外匯管理法規的通知》) promulgated by the SAFE on 18 July 2013, partly amended on 4 May 2015 and 26 April 2016 by *Notice of the State Administration of Foreign Exchange on Abolishing and Modifying the Relevant Regulatory Documents Related to System Reform of Registered Capital Registration* (《國家外匯管理局關於廢止和修改涉及註冊資本登記制度改革相關規範性文件的通知》) and *Circular of the State Administration of Foreign Exchange on Further Facilitating Trades and Investments and Improving Authenticity Check* (《國家外匯管理局關於進一步促進貿易投資便利化完善真實性審核的通知》), and effective as of 26 April 2016, remittance of profits, dividends and bonuses shall fall into the scope of current foreign exchange receipts and payments, and shall subject to the regulations of foreign exchange of trade in services. The State imposes no restriction on international payments under trade in services.

The *Notice of the State Administration of Foreign Exchange on Further Promoting Reform of Foreign Exchange Management and Consummation of Law Compliance Review* (《國家外匯管理局關於進一步推進外匯管理改革完善真實合規性審核的通知》) promulgated by the SAFE on 26 January 2017 further simplifies and specifies the regulations on dividend distributions. For payments of profits, dividends and bonuses to foreign investors in an amount more than USD50,000, relevant financial institution shall review (a) audited financial reports of the relevant years; (b) resolutions of the board of directors on the distribution of profits; and (c) the original of tax filing form. Domestic institutions shall cover the loss of previous fiscal years according to the laws before remitting profits.

(c) Circular 37

According to the *Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Special Purpose Vehicles* (《關於境內居民通過特殊目的公司境

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外投融資及返程投資外匯管理有關問題的通知》) (hereafter as the “**Circular 37**”) promulgated by the SAFE on and effective as of 4 July 2014, (a) “SPVs” are defined as “offshore enterprises directly established or indirectly controlled by domestic residents (including domestic institutions and individual residents) with their legally owned domestic enterprises assets or interests, or legally owned offshore assets or interests, for the purpose of investment and financing”; (b) a domestic resident must register with the SAFE before he/she or it contributes assets or equity interests to SPVs; (c) following the initial registration, any major changes such as change in the overseas SPV’s domestic resident shareholders, names of the overseas SPVs and terms of operation or any increase or reduction of the overseas SPV’s registered capital, share transfer or swap, merger or division, or similar development, shall be reported to the SAFE for registration in time, and failing to comply with the registration procedures as set out in Circular 37 may result in penalties.

TAXATION

(a) Income tax on foreign-invested enterprises

According to the *Enterprise Income Tax Law of PRC* (《中華人民共和國企業所得稅法》) (hereafter as the “**EIT Law**”) which was promulgated on 16 March 2007, subsequently amended on 24 February 2017, 29 December 2018 and effective as of 29 December 2018, the income tax rate for both domestic-invested enterprises and FIEs are 25%.

(b) Tax on income from PRC derived by a non-resident enterprise

According to the *Agreement between the Mainland of 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稅避免雙重徵稅和防止偷稅漏稅的安排》) (hereafter as the “**Tax Arrangement**”) signed on 21 August 2006 and effective as of 8 December 2006, the applicable income tax rate for dividends arising from enterprises incorporated in the PRC to an enterprise incorporated in Hong Kong or a foreign enterprise incorporated outside Hong Kong but being controlled or managed in Hong Kong is 5% if such enterprise beneficially owns not less than 25% equity interest in the said enterprises incorporated in the PRC, or 10% if such enterprise beneficially owns less than 25% equity interest in the said enterprises incorporated in the PRC.

According to the *Announcement of the SAT on Promulgating the Administrative Measures for Tax Convention Treatment for Non-resident Taxpayers* (國家稅務總局關於發佈《非居民納稅人享受稅收協定待遇管理辦法》的公告), which was promulgated on 27 August 2015, amended on 15 June 2018 and effective as of 15 June 2018, any non-resident taxpayer meeting conditions for enjoying the convention treatment may be entitled to the convention treatment itself/himself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities.

According to the *Implementation Rules of Enterprise Income Tax Law of PRC* (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on 6 December 2007, amended on 23 April 2019 and effective as of 23 April 2019, if an enterprise incorporated

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outside the PRC has its “de facto management bodies” located within the PRC, such an enterprise may be recognised as a PRC tax resident enterprise and subject to enterprise income tax at the rate of 25%. According to the EIT Law, dividends received by a qualified PRC tax resident enterprise from another qualified PRC tax resident enterprise are exempted from enterprise income tax.

(c) Value-added tax

According to the *Notice of the MOF and the SAT on Full Launch of the Pilot Scheme on Levying Value-added Tax in Place of Business Tax* (《財政部、國家稅務總局關於全面推開營業稅改征增值稅試點的通知》), promulgated by the MOF and SAT on 23 March 2016 and partly repealed by the *Notice on Pilot Policies of Levying Value-added Tax in Lieu of Business Tax for Construction Services and Other Sectors* (《財政部、國家稅務總局關於建築服務等營改增試點政策的通知》) on 1 July 2017 and the *Notice on VAT Policies including Input Tax Creditable for Rented Fixed Assets* (《關於租入固定資產進項稅額抵扣等增值稅政策的通知》) on 1 January 2018, the pilot scheme on levying value-added tax in place of business tax has been launched nation-wide. Entities and individuals engaging in sale of services, intangible assets or immovables (hereinafter referred to as the “**taxable acts**”) within the territory of the PRC are taxpayers of value added tax (hereafter as “**VAT**”). Taxpayers providing taxable acts shall pay VAT pursuant to these Measures and shall not pay business tax.

Pursuant to the *Provisional Regulations of the PRC Concerning Value Added Tax* (《中華人民共和國增值稅暫行條例》), promulgated by the State Council on 13 December 1993, amended on 10 November 2008, 6 February 2016, 19 November 2017, effective as of 19 November 2017 and the *Implementing Rules of the Provisional Regulations of the PRC Concerning Value Added Tax* (《中華人民共和國增值稅暫行條例實施細則》) promulgated on 25 December 1993, amended on 15 December 2008, 28 October 2011 and effective as of 1 November 2011, VAT is imposed on any entity or individual engaged in the sale of goods, or processing, repair and assembly services, the sale of services, intangible assets, immovables and the importation of goods within the PRC for the added value derived during the process of manufacture, sale or service provided. The taxable amount for sale of goods or provision of specified services shall be the balance of the current output tax after deducting the current input tax. Before 1 May 2018, for the VAT payers engaging in sale of goods, labour services, lease of tangible movables or importation of goods in the PRC, unless stated otherwise, the rate of VAT shall be 17% or 11% depending on the products. According to the *Notice of the Ministry of Finance and the State Administration of Taxation on the Adjustment to VAT Rates* (《財政部、國家稅務總局關於調整增值稅稅率的通知》), promulgated by the SAT and the MOF on 4 April 2018 and effective as of 1 May 2018, the VAT rates of 17% and 11% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 16% and 10%, respectively. According to the *Announcement on Policies for Deepening the VAT Reform* (《關於深化增值稅改革有關政策的公告》) promulgated on 20 March 2019 and effective as of 1 April 2019, the VAT rates of 16% and 10% applicable to the taxpayers who have VAT taxable sales activities or imported goods are adjusted to 13% and 9%, respectively.

(d) Value-added tax export refund

According to *the Administrative Measures for Tax Rebate (Exemption) of Exported Goods (Trial Implementation)* (《出口貨物退(免)稅管理辦法(試行)》), promulgated by the SAT on 16 March 2005, amended by the *Announcement of the SAT on Amending Certain Taxation Regulatory Documents* (《國家稅務總局關於修改部分稅收規範性文件的公告》) on 15 June 2018 and effective as of 15 June 2018, unless otherwise prescribed, goods exported of export merchants, after declaration of export and financial accounting for sale, the value-added tax and consumption tax could be rebated or exempted upon approval by tax authority.

(e) Income tax on share transfer

Pursuant to the *Announcement of the SAT on Issues Relating to Withholding at Source of Income Tax of Non-resident Enterprises* (《國家稅務總局關於非居民企業所得稅源泉扣繳有關問題的公告》), hereafter as the “**Announcement No. 37**”) promulgated by the SAT on 17 October 2017, amended by the *Announcement of the SAT on the Revision of Certain Tax Normative Documents* (《國家稅務總局關於修改部分稅收規範性文件的公告》) on 15 June 2018, and effective as of 15 June 2018 and the *Announcement of the SAT on Several Issues Concerning the Enterprise Income Tax on Indirect Property Transfer by Non-Resident Enterprises* (《國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告》) (hereafter as the “**Announcement No. 7**”) promulgated by the SAT on 3 February 2015 and partly repealed by the *Announcement No. 37* on 1 December 2017 and the *Decision of the SAT on Issuing the Catalogues of Tax Departmental Rules and Tax Regulatory Documents Which Are Invalidated and Repealed* (《國家稅務總局關於公佈失效廢止的稅務部門規章和稅收規範性文件目錄的決定》) on 29 December 2017, where a non-resident enterprise indirectly transfers properties such as equity in Chinese resident enterprises without any reasonable commercial purposes with the aim of avoiding to pay enterprise income tax, such indirect transfer shall be reclassified as a direct transfer of equity in Chinese resident enterprise in accordance with Article 47 of the EIT Law.

According to the *Announcement No. 7*, indirect transfer of Chinese taxable properties that meets all of the following conditions shall be treated as having a reasonable commercial purpose: (1) the equity relationship of the parties involved in the transfer falls under one of the following circumstances: (i) equity transferor directly or indirectly owns more than 80% of the equity of the equity transferee; (ii) equity transferee directly or indirectly owns more than 80% of the equity of the equity transferor; or (iii) more than 80% of the equity of both equity transferor and equity transferee is owned, directly or indirectly, by the same party. If more than 50% (not including 50%) of the value of the equity of an enterprise abroad is directly or indirectly from the real estate in the territory of China, the shareholding ratio in items (i), (ii) and (iii) shall be 100%. The aforesaid equity indirectly held shall be calculated based on the product of the shareholding ratios of all enterprises in the shareholding chain; (2) compared with the same or similar indirect transfer occurred without this indirect transfer, the burden of taxation in China will not be reduced on the indirect transfer that may occur again after this indirect transfer; and (3) equity transferee pays all the equity transfer consideration with its equity or equity of enterprises controlled by it (excluding equity of listed enterprises).

ENVIRONMENTAL LAWS

(a) General rules

Pursuant to the *Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) promulgated by the NPC Standing Committee on 26 December 1989, amended on 24 April 2014 and effective as of 1 January 2015, any entity which discharges or will discharge pollutants during courses of operation or other courses should implement effective environmental protection methods and procedures to control and properly treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise vibrations, electromagnetic radiation and other hazards produced during such courses. Any entity which discharges pollutants shall set up a system of accountability and specify the responsibilities of the persons in charge and relevant personnel thereof. Any company or enterprise which discharges environmental pollutants should pay pollutant discharge fees for the discharge which would be used to treat pollutions.

The environmental protection authorities would impose various administrative penalties on persons or enterprises in violation of the *Environmental Protection Law* under different circumstances. Such penalties include warnings, fines, orders to rectify and make treatment within the prescribed period, orders to cease construction, orders to restrict or suspend production, orders to make recovery, orders to disclose relevant information or make an announcement, imposition of administrative action against relevant responsible persons, and orders to shut down those enterprises.

(b) Prevention and control of various pollutions

The *Law on Prevention and Control of Water Pollution of the PRC* (《中華人民共和國水污染防治法》) promulgated by the NPC Standing Committee on 11 May 1984, amended on 15 May 1996, 28 February 2008, 27 June 2017 and effective as of 1 January 2018, the *Law of the PRC on Prevention and Control of Pollution by Environmental Noise* (《中華人民共和國環境噪聲污染防治法》) promulgated by the NPC Standing Committee on 29 October 1996, amended on 29 December 2018 and effective as of 29 December 2018 as well as the *Law on Prevention and Control of Atmospheric Pollution of the PRC* (《中華人民共和國大氣污染防治法》) promulgated by the NPC Standing Committee on 5 September 1987, amended on 29 August 1995, 29 April 2000, 29 August 2015, 26 October 2018 and effective as of 26 October 2018, prescribe the details for the prevention and control of water pollution, atmospheric pollution and noise pollution respectively.

According to the *Administrative Measures for Pollutant Discharge Licensing (Trial)* (《排污許可管理辦法(試行)》) promulgated by the Ministry of Environmental Protection on and effective as of 10 January 2018 and the *General Rules on the Specification of the Environmental Management Records and Compliance Reports of Pollutant Discharge Licensing (Trial)* (《排污單位環境管理台賬及排污許可證執行報告技術規範總則(試行)》) promulgated on and effective as of 27 March 2018, a pollutant discharging entity shall hold and discharge pollutants in compliance with a pollutant discharge license in accordance with the law, and shall prepare the environmental management records and the compliance reports in accordance with the pollutant licenses and the specifications stated in the above-mentioned Measures and the General Rules.

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According to the *Measures for the Administration of Collection Standards for Pollutant Discharge Fees* (《排污費徵收標準管理辦法》) promulgated on 28 February 2003 and effective as of 1 July 2003, environmental protection administrative department at or above the county level shall collect pollutant discharge fees from polluter in respect of discharging waste water, waste gas, solid wastes, hazardous wastes and excessive noise. The *Measures for the Administration of Collection Standards for Pollutant Discharge Fees* was abolished by the *Decision on Abolishing Certain Regulations and Rules* promulgated by NDRC effective as of 1 January 2018.

According to the *Environmental Protection Tax Law of the People's Republic of China* (《中華人民共和國環境保護稅法》), promulgated on 25 December 2016, amended on and effective as of 26 October 2018, enterprises, public institutions and other producers or operators that discharge taxable pollutants directly to the environment within the territorial areas of the PRC and other sea areas under the jurisdiction of the PRC are the taxpayers of environmental protection tax and shall pay such tax in accordance with the provisions of this Law.

(c) Environmental impacts appraising of construction projects

According to the *Appraising of Environment Impacts Law of the PRC* (《中華人民共和國環境影響評價法》) promulgated by the NPC Standing Committee on 28 October 2002, amended on 2 July 2016, amended on 29 December 2018 and effective as of 29 December 2018, and the *Management Regulations of Environmental Protection of Construction Projects* (《建設項目環境保護管理條例》) promulgated by the State Council on 29 November 1998, amended on 16 July 2017 and effective as of 1 October 2017, the PRC adopts a system for the evaluation of the environmental impact of a construction project. A construction entity shall, on or prior to commencement of construction or, during the phase of construction project feasibility study, submit the construction project environmental impact report, environmental impact report form or environmental impact registration form for approval.

According to the *Announcement of the Ministry of Environmental Protection on Promulgating the Administration Regulations on Environmental Protection of Construction Projects Acceptance (Trial)* (環境保護部關於發佈《建設項目竣工環境保護驗收暫行辦法》的公告) promulgated on 20 November 2017 and effective as of 20 November 2017, upon completion of construction projects, the construction entity shall organize the acceptance of the environmental protection facilities, prepare acceptance reports, disclose relevant information and accept social supervision. Upon completion of the principal parts of the construction projects, its supporting environmental protection facilities shall be put into operation or be used simultaneously.

WATER DRAWING

According to the *Water Law of the PRC* (《中華人民共和國水法》), promulgated by the NPC Standing Committee on 21 January 1988, amended on 29 August 2002, 27 August 2009, 2 July 2016 and effective as of 2 July 2016, the *Regulations Governing the Licensing for Water Drawing and the Levying of Water Resource Fees* (《取水許可和水資源費征收管理條例》), promulgated by the State Council on 21 February 2006, amended on 1 March 2017, and effective as of 1 March 2017, the *Administrative Measures on Licensing for Water*

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Drawing (《取水許可管理辦法》), promulgated on 9 April 2008, amended on 16 December 2015 by the *Decision of the Ministry of Water Resources on Repealing and Amending Certain Rules* (《水利部關於廢止和修改部分規章的決定(2015)》), and subsequently amended on 22 December 2017 and effective as of 22 December 2017, any entity or individual that draws water resources shall, except for the circumstances prescribed by the laws, apply for a license certificate for water drawing, and pay water resource fees.

FIRE CONTROL

Pursuant to the *Fire Control Law of the PRC* (《中華人民共和國消防法》) promulgated by the NPC Standing Committee on 29 April 1998, amended on 28 October 2008 and effective as of 1 May 2009, upon completion of a construction project which is required to carry out fire control design pursuant to the State's fire control technical standards for construction projects, fire control acceptance inspection and record filing shall be carried out. Where a construction project which is required by law to carry out fire control acceptance inspection failed to undergo fire control acceptance inspection or failed to pass fire control acceptance inspection, the project shall be prohibited to be put into use; other construction projects which are found to be unqualified in random inspection conducted pursuant to the law shall cease to be put into use.

LABOUR, SOCIAL INSURANCE AND HOUSING FUNDS

Operation of our PRC subsidiaries within the territory of the PRC shall be strictly in compliance with labour laws and relevant regulations. Pursuant to the *Labour Law of the PRC* (《中華人民共和國勞動法》) promulgated by the NPC Standing Committee on 5 July 1994, amended on 27 August 2009, 29 December 2018 and effective as of 29 December 2018, companies must enter into written employment contracts with their employees, based on, among others, the principles of equality, mutual consent and agreement through consultation. *The Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》) promulgated by the NPC Standing Committee on 29 June 2007, amended on 28 December 2012, and effective as of 1 July 2013, and the *Implementation Rule of the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法實施條例》) promulgated on and effective as of 18 September 2008, set out specific provisions in relation to the execution, the terms and the termination of an employment contract as well as the corresponding rights and obligations of the employees and employers. At the time of hiring, the employer shall truthfully inform the employee as to the scope of work, salary and benefits, working conditions, working place, occupational hazards, work safety and other matters which the employee requests to be informed about. Wages cannot be lower than local minimum wage. In addition, the company must establish a system for labour safety and sanitation, strictly in compliance with the state standards, and provide relevant education to its employees.

Pursuant to the *Social Insurance Law of the PRC* (《中華人民共和國社會保險法》) promulgated by the NPC Standing Committee on 28 October 2010, amended on 29 December 2018 and effective as of 29 December 2018, and the *Provisional Regulations for the Collection and Payment of Social Insurance Premiums* (《社會保險費徵繳暫行條例》), promulgated by the State Council on 22 January 1999, amended on 24 March 2019 and

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effective as of 24 March 2019, employers are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labour injury insurance and medical insurance. Employers are required by the law to apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an employing entity does not apply for social insurance registration, the social insurance administration department shall order it to make rectification within a stipulated period. If rectification is not made within the stipulated period, the employing entity shall be imposed a fine from one to three times of the amount of the social insurance premium that should be paid. If an employing entity does not pay the full amount of the social insurance premiums as scheduled, the social insurance premium collection institution shall order it to pay the outstanding contribution within a stipulated period together with an additional fine at the daily rate of 0.05% of such outstanding contribution within a prescribed time limit. If the payment is not settled by the prescribed time limit, such employing entity will be subject to a penalty starting from one time and up to three times of the total outstanding contribution of the Social Insurances.

The Regulations on Work-related Injury Insurance (《工傷保險條例》) promulgated by the State Council on 27 April 2003, amended on 20 December 2010 and effective as of 1 January 2011 specially stipulated regulations regarding work-related injury insurance and other regulations related to work-related injuries.

Pursuant to *the Administration Rules on Housing Provident Fund* (《住房公積金管理條例》) promulgated by the State Council on 3 April 1999, amended on 24 March 2002, amended on 24 March 2019 and effective as of 24 March 2019, the State organs, State-owned enterprises, collective enterprises in cities and towns, foreign-invested enterprises, private enterprises in cities and towns and other enterprises in cities and towns, institutions, private non-enterprise entities and associations (hereafter as “Units”) shall register with the competent managing centre for housing provident fund within 30 days from the date of its establishment and pay housing provident funds for their on-the-job staff and workers. If an entity fails to undertake payment and deposit registration of housing provident fund or fails to go through the formalities of opening housing provident fund accounts for its staff and workers, the housing provident fund management centre shall order it to go through the formalities within a stipulated period; where failing to do so at the expiration of the time limit, a fine of not less than RMB10,000 and no more than RMB50,000 shall be imposed. If an entity is overdue in the payment and deposit of, or underpays, the housing provident fund, the housing provident fund administration centre shall order the unit to pay up the fund in the stipulated period, if the entity still fails to pay up the fund, the housing provident fund administration centre may petition to the court for enforcement of the unpaid amount.

PRODUCTION SAFETY AND PRODUCT QUALITY

Operation of our PRC subsidiaries shall be in compliance with *the Production Safety Law of the PRC* (《中華人民共和國安全生產法》), promulgated by the NPC Standing Committee on 29 June 2002, amended on 27 August 2009, 31 August 2014 and effective as of 1 December 2014, which requires that the production and business operation entities must implement safe production as provided in laws, administrative regulations, national

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standards or industry standards. Any production and business operation entity with more than 100 employees shall establish an administrative body of safe production or have full-time personnel responsible for the administration of safe production. For entities with less than 100 employees, full-time or part-time personnel for the administration of safe production are required. Violation of the *Production Safety Law* may result in an order to rectify, imposition of fines and penalties, the suspension of operation, an order to cease operation or shut down the entities, cancellation of relevant certificates or licences, and/or criminal liability in severe cases.

Products made in the PRC are subject to the *Product Quality Law of the PRC* (《中華人民共和國產品質量法》), promulgated by NPC Standing Committee on 22 February 1993, amended on 8 July 2000, 27 August 2009, 29 December 2018 and effective as of 29 December 2018. According to the *Product Quality Law of the PRC*, a manufacturer of a product is responsible to compensate for the damages to any person or property caused by the defect of such a product, unless the manufacturer is able to prove that: (i) it has not circulated the product; (ii) the defect did not exist at the time when the product was circulated; or (iii) the science and technology at the time the product was put in circulation was at a level incapable of detecting the defect.

Under the *Tort Law of the PRC* (《中華人民共和國侵權責任法》), promulgated by the NPC Standing Committee on 26 December 2009 and effective as of 1 July 2010, a manufacturer shall bear tort liability if its product causes damage to others due to a product defect. If a defective product endangers the personal or property safety of others, the infringer shall be entitled to request that the manufacturer or seller assume tort liability through, *inter alia*, removal of obstacle and elimination of danger. If a defect is found in a product after it has been put into circulation, the manufacturer and the seller shall take remedial measures in a timely manner including, *inter alia*, alerts and recalls. In the event of damage arising from a failure to take remedial measures in a timely manner or inadequate remedial measures, they shall bear tort liability. In the event of death or serious damage to health arising from a product that is manufactured or sold when it is known to be defective, the infringer shall be entitled to claim corresponding punitive compensation.

IMPORTS AND EXPORTS

According to the *Customs Law of the PRC* (《中華人民共和國海關法》), promulgated by the NPC Standing Committee on 22 January 1987, amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016, 4 November 2017 and effective as of 5 November 2017, unless otherwise provided for, the declaration of import or export goods and the payment of duties may be made by the consignees or consignors themselves, and such formalities may also be completed by their entrusted Customs brokers that have registered with the permission of the Customs. The consignees and consignors for import or export of goods and the customs brokers engaged in customs declaration shall register with the Customs in accordance with the laws.

According to the *Foreign Trade Law of the PRC* (《中華人民共和國對外貿易法》), promulgated by the NPC Standing Committee on 12 May 1994, amended on 6 April 2004 and 7 November 2016, and effective as of 7 November 2016, foreign trade operators

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engaged in goods or technology import and export shall go through the record-filing registration formalities with the competent department of foreign trade under the State Council or its entrusted institutions, except for those that do not need to go through the record-filing registration formalities prescribed by laws, administrative regulations and the provisions of the competent department of foreign trade under the State Council. The specific measures for record-filing registration shall be formulated by the competent department of foreign trade under the State Council. Where a foreign trade operator fails to go through the record-filing registration formalities, the customs are entitled to refuse to handle the formalities for declaration and clearance of goods imported or exported by the operator.

Pursuant to the *Notice of the Ministry of Commerce on Relevant Issues Concerning the Record -filing Registration of Right to Foreign Trade of Foreign-invested Enterprises* (《商務部關於外商投資企業外貿權備案登記有關問題的通知》) issued by the MOFCOM on 17 August 2004 and effective as of the same date, any FIEs established after 1 July 2004 that engages in import or export of self-use or self-produced goods and technology of this enterprise need not go through the record-filing registration formalities for foreign trade operators. On the contrary, if a FIE established after 1 July 2004 intends to engage in import or export of goods or technology not used or produced by itself, it shall complete the record-filing registration formalities after its establishment.

INTELLECTUAL PROPERTY LAWS

According to the *Trademark Law of the PRC* (《中華人民共和國商標法》) promulgated by the NPC Standing Committee on 23 August 1982, amended on 22 February 1993, 27 October 2001, 30 August 2013, 23 April 2019, and effective as of 1 November 2019, and the *Implementation Regulations of Trademark Law of the PRC* (《中華人民共和國商標法實施條例》) promulgated by the State Council on 3 August 2002, amended on 29 April 2014, and effective as of 1 May 2014, trademarks registered upon verification and approval of the Trademark Office are registered trademark and shall be valid for ten years. A trademark registrant shall be entitled to the exclusive right to use the registered trademark protected by law and is entitled to authorize the use to another party at its will.

According to the Trademark Law, (i) using a trademark that is identical with a registered trademark on the same goods without the authorization of the owner of the registered trademark; (ii) using a trademark that is similar to a registered trademark on the same goods or using a trademark that is identical with or similar to a registered trademark on similar goods without the authorization of the owner of the registered trademark, which is likely to cause confusion, shall be deemed to constitute an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, pay damages etc.

CAMBODIA REGULATORY OVERVIEW

Foreign investment

Any business activity conducted in Cambodia is subject to the Law on Commercial Rules and Registry enacted on 3 May 1995 (as amended on 18 November 1999) and the Law on Commercial Enterprises promulgated on 19 June 2005, which regulate the establishment, operation and management of a company or business conducted in Cambodia.

In addition to the general legal framework described above, any investment in Cambodia is subject to the Law on Investment of Cambodia enacted on 4 August 1994 (“**Investment Law**”), as amended by the Law on the Amendment of the Investment Law dated 24 March 2003 (“**Investment Amendment Law**”), and the implementing Sub-Decree 111 of the Amendment to the Law on Investment of Cambodia enacted on 27 September 2005 (“**Sub-Decree 111**”). All business activities in Cambodia are permitted, subject to the prohibitions set out in the ‘Negative List’ in Sub-Decree 111. As provided in the Negative List, some forms of investment are restricted for reasons of national security, social safety or protection of the national economy. Other forms are allowed but ineligible for any government incentive scheme.

Investment companies encompass companies that undertake large scale investments in Cambodia, which are entitled to government incentives upon fulfilment of the regulatory requirements applicable to the grant of such incentives. Investment companies are regulated by the Council for the Development of Cambodia, which is the executive government authority led by the Prime Minister of Cambodia, and are subject to the Investment Law, the Investment Amendment Law and Sub-Decree 111.

On 6 March 2015, the Royal Government of Cambodia adopted the Industrial Development Policy for 2015–2025 aiming to promote and modernise the country’s industrial development. A key policy objective of the Industrial Development Policy is to review and amend the Investment Law and related regulations so as to facilitate the development of industrial sectors.

Government incentive scheme

Pursuant to the Investment Amendment Law, a qualified investment project, either domestic or foreign, is eligible for the following incentives:

- (a) holiday from tax on profit for a certain period or escalated depreciation allowance on the value of the new or used tangible properties used in production or processing (at the election of an investment company);
- (b) exemption from duties on the importation of production equipment and construction materials for a domestic qualified investment project; and

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- (c) exemption from duties on the importation of production equipment, construction materials, raw materials, intermediate goods and production input for a qualified investment project involved in export oriented industry or a qualified investment project that supports export oriented industry.

Further, under the Investment Law, an investment company is entitled to protection (excluding with respect to ownership of land) against nationalisation by the Royal Government of Cambodia, which could adversely affect its assets in Cambodia. Similarly, the Investment Amendment Law prohibits the Royal Government of Cambodia from fixing the price for products manufactured by or the fee for the services provided on behalf of a qualified investment project.

Foreign relations in Cambodia

Cambodia has established diplomatic relations with most countries, including China where our business is conducted and European Union and the United States where our products are exported.

Cambodia is granted with duty-free and quota-free exports to the European Union for all goods, except arms and ammunition under the “Everything But Arms” trading scheme adopted by the European Union. The “Everything But Arms” scheme also relaxes the rules of origin for products imported under the Generalized System of Preferences, effective from 1 January 2011. These relaxed rules of origin allow Cambodia to claim origin for its products, even if the primary materials do not originate in Cambodia.

Laws and regulations relating to land ownership, building ownership and lease over land

The Cambodian Constitution and the Land Law dated 30 August 2001 are the key laws governing land ownership in Cambodia. Based on Article 44 of the Cambodian Constitution, only Khmer legal entities and citizens of Khmer nationality shall have the right to own land. Pursuant to Article 101 of the Law on Commercial Enterprises dated 30 May 2005 (“LCE”) a company is deemed to be of Cambodian nationality when: (1) it has a place of business and a registered office in the Kingdom of Cambodia; and (2) 51% or more of the company’s voting shares are owned by a Khmer national, either natural or legal person. In this respect, for a legal entity to own land in Cambodia, the legal entity must have Cambodian nationality as defined under Article 101 of the LCE. A foreign investor, either a natural or legal person, may hold up to 49% of shares of a legal entity of Cambodian nationality that owns land in Cambodia.

Under Cambodian law, there is no distinction between land, buildings, structures and fixtures. Consequently, the notion of “immoveable property” includes land and things affixed to land and the landowner owns such construction erected on the land (Article 120(2) and Article 122, Civil Code). On this basis, no separate certificate of title is issued for any building attached to land.

There is an exception in the Civil Code to the above in connection with leases and buildings (or constructed work) built on land pursuant to a leasehold right, which are a component of such right and not a component of the land, specifically “buildings and other

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structures built on land by a right-holder, as well as grown timber, plants, etc. shall be deemed components of the right of that right-holder” (Article 123 and Article 124, Civil Code), but are naturally subordinated to such right.

Upon expiration or termination of the lease, the landowner, as holder of the title to the land and, consequently, all “immoveable property”, becomes the owner of any such construction erected on the land (Article 254(2), Civil Code). However, the parties to the lease agreement may contractually agree upon the lessor being liable for the payment of compensation to the lessee for the construction erected by the lessee on the land during the term of the lease. Also, the parties may agree under the lease agreement that the lessee may decide to demolish any construction erected during the lease.

Foreign investors may also secure control over land through leases. Pursuant to the Civil Code dated 8 December 2007 and the Law on Enforcement on the Civil Code dated 31 May 2011 (“**Civil Code**”), leases can be either short-term or long-term (perpetual). Articles 244 and 247 of the Civil Code provide that a long-term lease is a lease with a minimum duration of fifteen (15) years and a maximum duration of fifty (50) years (“**Maximum Term**”). If a long-term lease is made with a term exceeding the Maximum Term, it will be shortened to fifty (50) years. A long-term lease may be renewed provided that the renewed term may not exceed the Maximum Term counting from the date of renewal.

To be enforceable against third parties, a long-term lease must be perfected by way of registering such leasehold interest on the certificate of title to the land with the relevant Provincial/Municipal Department of Land Management, Urban Planning, Construction and Cadastre of the Ministry of Land Management, Urban Planning and Construction (“**MLMUPC**”).

Registration of a long-term lease constitutes a right in rem over the leased land and such right may be sub-leased, assigned for valuable consideration or transferred by succession. A registered long-term lease gives notice to any potential purchaser or subsequent lender that its rights would be subordinated to the rights of the lessee.

In contrast, a short-term lease does not create any right in rem over the leased land. Under Article 598(1) of the Civil Code, a short-term lease may be enforced against a third party acquirer of a real right to the leased land if the lessee has occupied and continuously used and profited from the leased land.

Laws and regulations relating to factory operation

Pursuant to the Law on the Amendment to the Law on Management of Factories and Handicrafts dated 23 October 2014 (“**Factories and Handicrafts Amendment Law**”), a factory means buildings, places or vehicles for producing and transforming raw material or semi-final products to new products or/and for performing other activities such as assembling, repairing, testing, packaging, filling, maintenance, storage or improvement to satisfy the market demand.

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In addition, according to Prakas (ministerial ordinance) 199 dated 9 September 2016 on the Procedures for Implementing the Provisions related to the Operation of Factories and Handicrafts, a factory is defined as a manufacturing facility that uses or is expected to use tools, machines, equipment and furniture in the facility for production in an enterprise, which represents an investment capital of more than USD500,000 (five hundred thousand United States Dollars).

In accordance with the above Factories and Handicrafts Amendment Law, the establishment of a factory or a branch or the expansion or relocation of a factory is subject to the following:

- (1) a factory establishment permit under a form of Prakas; and
- (2) a factory operating license from the Ministry of Industry and Handicraft (“MIH”).

Following receipt of the factory establishment permit and factory operating license from the MIH, the owner of the factory must comply with all obligations stated therein. A factory establishment permit is issued with permanent validity. Once the factory owner has obtained the establishment permit and the factory is ready to manufacture, a factory operating license must be sought from the MIH.

The factory operating license, valid for three (3) years and is normally extended for periods of three years, is a written acknowledgement from the MIH that a new factory has been established in accordance with its factory establishment permit and, thereby, the owner of the factory is authorised to start manufacturing. Provided that the owner of the factory has fully complied with its obligations in respect of factory operation and the factory’s owner has not received any automatic renewal of the factory operating license from the MIH, the factory’s owner must apply to the MIH to obtain the renewal of the factory operating license at least fifteen (15) days before the license’s expiry date.

In addition to the above factory establishment permit and operating license, before building any structure on land, or substantially renovating a building, the owner of the land or building must obtain a construction permit from either the government delegate to the city, if construction is occurring in an urban area, or from the provincial governor in rural areas. A construction permit must be approved by the MLMUPC for commercial buildings of more than three thousand (3,000) square meters.

Laws and regulations relating to environmental protection

Companies carrying out manufacturing operations including, among others, leather or non-leather production or textile activities are subject to the Law on Environmental Protection and Management of Natural Resources, enacted on 24 December 1996. Further, based on Sub-Decree 72 on Environmental Impact Assessment dated 11 August 1999 (“**Sub-Decree 72**”), a governmental regulation providing guidance on the implementation of the Law on Environmental Protection and Management of Natural Resources, a company carrying out any of the following activities is required to submit an initial environmental impact assessment (“**IEIA**”) and then a full scale environmental impact assessment (“**EIA**”):

- (1) the operation of a leather tanning, glue and/or leather processing factory (all sizes);
- (2) the operation of a textile factory (all sizes);
- (3) the operation of a garment, printing and dyeing factory (all sizes); and
- (4) the operation of a sponge-rubber factory (all sizes).

The Ministry of Environment (“**MOE**”) is the main competent governmental authority approving the IEIA and the EIA and has the authority to inspect any premises or any means of transport if the MOE considers that it affects the environment.

While Sub-Decree 72 is silent on IEIA requirement for a company manufacturing handbags, the MOE may require such company to prepare and submit an IEIA at its sole discretion. Notably, according to Prakas 1428 dated 20 November 2014 on the amendment of Prakas 999 dated 28 December 2012 on the public service fees of the MOE (“**Prakas 1428**”), a company operating a bag manufacturing factory (all sizes) is required to execute an environmental protection agreement with the MOE. An environmental protection agreement generally contains undertakings by a manufacturing company to comply with environmental laws and regulations, in particular, those related to waste management and air and noise pollution, and to cooperate with the MOE officials for any authorised inspection at their factory.

A company will be also responsible for contributing to the environment endowment fund for environmental protection in accordance with rates set out in the Environmental Protection Contract that the Ministry of Environment in practice requires the company to execute prior to the approval of the company’s project. While, based on Prakas 1428, the amount of the contribution should be made on a voluntary basis, as a matter of practice, the amount is determined at the discretion of the MOE.

In addition, as ongoing obligations, a factory is required to obtain other approvals from the MOE as below (as the case may be):

- (1) approval on liquid waste management, according to Article 10 of the Sub-Decree 27 on Water Pollution Control dated 06 April 1999, including discharge or transportation of wastewater from any sources of pollution to other places;

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- (2) approval on solid waste management, according to Article 17 of the Sub-Decree 36 on Solid Waste Management dated 27 April 1999, including transportation of hazardous waste from a factory or manufacturing site; and/or
- (3) approval on air pollution and noise disturbance, according to Article 13 of the Sub-Decree 42 on Air Pollution and Noise Disturbance dated 10 July 2000, any release of pollutants and noise into atmosphere from fixed sources, such as factories, must have prior approval from the MOE.

The above approvals are generally valid for one year and are renewable.

Laws and regulations relating to labour and employment

Employment relations in Cambodia are governed by the Labour Law passed on 10 January 1997 (as amended on 20 July 2007) and individual employment contracts and/or collective bargaining agreements. The terms of employment contracts must be at least as favourable to employees as the terms provided in the Labour Law. Employment contracts may have a specified duration of up to two years or an unspecified duration.

Prior to commencing operations, the Labour Law requires companies to submit written declarations of enterprise and their employees to the Ministry of Labour and Vocational Training (“MLVT”), including an enterprise opening declaration form, initial employee declaration and payroll ledger forms.

After completing the initial declaration, a company must apply for foreign employee quota for the hiring of non-Cambodian employees. Under the quota system, a maximum of 10% of local workforce may be foreign (based on a calculation of foreign employees/local employees). In addition, upon hiring Cambodian national employees, a company must apply and obtain a work book, being a document that identifies its holder and the details of employment, and an employment identification card for its Cambodian national employees. Non-Cambodian employees are also required to obtain a work permit once the company has received quota approval for the hiring of non-Cambodian employees. A company must submit a subsequent declaration to the MLVT each time it hires or dismisses an employee. A company with eight or more employees must arrange an election to elect shop stewards and also prepare the internal work rules which contain rules on working conditions, including the calculation and payment of wages, working hours, holidays, safety and sanitation measures and sanctions imposed upon the employees for breach of the company’s regulations. The above internal work rules must be submitted for consultation with the elected shop stewards. Further, a company with a large number of employees must comply with the following:

- (1) for a company with more than 60 employees, train apprentices based on the required quotas proportional to the company’s total workforce or submit a request to the MLVT for payment of tax in lieu of training the apprentices equal to 1% of the total annual salary of all employees per year; and
- (2) for a company with 100 or more employees, employ 1% of its total workforce as qualified disabled persons.

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Prior to the promulgation of the Law on Minimum Wage, the Labour Law empowers the MLVT to set a minimum wage for all industries in Cambodia based on the recommendations made by the Labour Advisory Committee. The Law on Minimum Wage promulgated on 6 July 2018 stipulates that the MLVT may determine the applicable yearly minimum wage based on the recommendation of the National Council of Minimum Wage. The first minimum wage regulation was introduced by the MLVT in 1997 but was limited to the textile, garment and footwear industries. Pursuant to Prakas No. 465 dated 05 October 2018, the minimum wage for the year 2019 for the textile, garment and footwear sectors is set for 182 per month. Probationary employees shall be entitled for USD177 per month and upon the completion of probationary period, they shall be entitled for USD182 per month as employees. In addition to the minimum wage, the MLVT has regulated other benefits for the textile, garment and footwear industries, such as a seniority bonus, attendance bonus, accommodation allowance, transportation allowance and meal allowance to be paid by employers to their employees.

Cambodia has ratified key international conventions on child labour, including the International Labour Organization's Convention 138 on Minimum Age and Convention 182 on Worst Forms of Child Labour.

Under the Labour Law, the minimum allowable age for employment is 15 years of age, except for the following work, in which case, the minimum age is 18 years old:

- (i) night work; or
- (ii) work, which by its nature could be hazardous to the health, safety or morality of an adolescent including (but not limited to):
 - (a) work in repair workshops;
 - (b) chemical-exposed work;
 - (c) work in button attaching, cutting, sandblasting, agitating, drying, paint spraying, paint drying and/or production flow sections; or
 - (d) other work among the 38 works specified in Prakas 106 on Prohibition of Children to Work on a Dangerous Field dated 28 April 2004 (“**Prakas 106**”) and other applicable regulations (Articles 175 and 177 of the Labour Law, Clause 7 of Prakas 307 on Conditions of Occupational Hygiene and Safety in Garment and Shoe Factories dated 14 December 2007 and Clause 2 of Prakas 106).

While Cambodia law has not specifically defined what constitutes working conditions that are “hazardous to the health, safety or morality” of a child, Prakas 106 lists 38 types of hazardous work considered to be harmful to the health, safety or mortality of a child. Nevertheless, there are exceptions to the above minimum age restrictions whereby: (i) children between the age of 12 to 15 years of age can be hired for light work subject to the conditions as stated in the Labour Law and Prakas 002 on the Category of Occupation and

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Light Work Permitted for Children Aged from 12 to 15 dated 8 January 2008 and (ii) children attaining the age of 16 years of age can work in hazardous work provided that there is a permit from the MLVT.

The employers of enterprises, factories and establishments, as stated in Article 1 of Labour Law, are prohibited from hiring children between 15 and 18 years of age to work in hazardous working conditions. Employment of children in the above age range must be in compliance with the procedures set out in Prakas 467 on Procedures of Recruitment of Young Workers in Enterprises and Establishments dated 20 November 2015 issued by the MLVT, which address the following:

- (i) verification of the age of the relevant applicant before hiring;
- (ii) the employment contract must be consented to by the parent or guardian of the relevant applicant in accordance with Article 181 of the Labour Law;
- (iii) employment of a children must be subject to prior approval of the MLVT; and
- (iv) the employer must keep a record indicating the name of children.

Laws and regulations relating to health and safety measures

The MLVT prescribes certain standards for health and safety. Generally, a company must provide a sanitary environment and maintain working conditions necessary for the health of its employees. Furthermore, the MLVT and other relevant ministries prescribe certain safety requirements, including those governing the lifting of heavy objects, the protection from machinery and equipment and preventive measures in relation to toxic substances and flammable materials.

A company with at least 50 employees must establish a permanent infirmary on its premises. The number of medical personnel required depends on the number of employees. At a minimum, one nurse must be present during all working hours. The infirmary must have adequate materials, bandages and medicines so as to be able to provide emergency care to employees in the event of accidents or occupational illness or sickness during work. The employer must cover all expenses incurred in organising and operating the infirmary. Additionally, a company employing 100 or more women is required to set up a nursing room and a day-care centre within or near its establishment. If an employer does not provide a day-care centre, the employer is required to assist female employees with the fees for outside day-care centres for children aged 18 months or older.

Laws and regulations relating to insurance and pension scheme

Under the Labour Law, there is a social security scheme for employees working in the private sector in Cambodia. Based on the Law on Social Security Schemes for Persons defined by the Provisions of the Labour Law, enacted on 25 September 2002 and its implementing regulations, a company with one or more employees must register all of its employees with the NSSF. The NSSF scheme covers three pillars: (1) occupational risk insurance (work related accident and occupational disease); (2) health care insurance; and

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(3) pension scheme which has yet to be implemented. Once registered with the NSSF, a company must pay a monthly contribution for occupational risk insurance equal to 0.8% of employee's monthly average wage (as determined by the NSSF) to the NSSF. The monthly contribution for occupational risk insurance ranges from USD0.40 to USD2.40 per employee. In addition, a company must also pay monthly contribution for health care insurance equal to 2.6% of employee's monthly average wage (as determined by the NSSF) to the NSSF. Monthly contribution for health care insurance is between USD1.30 to USD7.80 per employee. Following the passing of Prakas 449 on the Determination of Rates, Forms and Procedures to Contribute to the NSSF for Occupational Risk Scheme and Health Care Scheme for Persons governed by the Labour Law, dated 10 November 2017, contributions to the health care insurance is now the sole responsibility of the employer.

Laws and regulations relating to import and export approvals

In general, both Cambodian and foreign companies are permitted to freely import and export goods. In most cases, no license is required to import goods into Cambodia. Similarly, no export license or permission is required for the exportation of goods out of Cambodia to other countries, except for imports or exports that are subject to prohibition and restriction on grounds of, among others, protection of national security, public order or morality, conservation of national resources and fulfilment of obligations under the Charter of the United Nations. A list of prohibited and restricted imports or exports is provided in Sub-Decree 209 on the Enforcement of the List of Prohibited and Restricted Goods dated 31 December 2007 which was updated by the Ministry of Economy and Finance via Letter 3784 dated 19 June 2012 in order to be in alignment with ASEAN Harmonized Tariff Nomenclature (AHTN 2012) with the entirety of the related provisions in Sub-Decree 209 remaining intact.

REGULATORY REQUIREMENTS IN HONG KONG

Laws and regulations relating to the transfer pricing regulations

Section 20(2) of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "IRO") 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 IRO 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 IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

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In December 2009, the IRD released Departmental Interpretation and Practice Notes No.46 (“**DIPN 46**”). DIPN 46 provides clarifications and guidance on the IRD’s views on transfer pricing and how it intends to apply the existing provisions of the IRO to establish whether related parties are transacting at arm’s length prices. In general the practices followed by the IRD are based on the transfer pricing methodologies recommended by the OECD Transfer Pricing Guidelines.

Laws and Regulations in relation to employment

1. Employment Ordinance (Chapter 57 of the Laws of Hong Kong)

The Employment Ordinance governs conditions of employment in Hong Kong. It provides for various employment-related benefits and entitlements to employees. All employees covered by the Employment Ordinance, irrespective of their hours of work, are entitled to protection including payment of wages, restrictions on wages deductions and the granting of statutory holidays. Employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

2. Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)

The Employees’ Compensation Ordinance establishes a no-fault and non-contributory employee compensation system for work injuries, and lays down the rights and obligations of employers and employees in respect of injuries or death caused by prescribed occupational diseases or accidents arising out of and in the course of employment. According to section 40 of the Employees’ Compensation Ordinance, all employers (including contractors and sub-contractors) are required to take out insurance policies for all their employees (including full-time and part-time employees) to cover their liabilities under the Employees’ Compensation Ordinance and at common law for work injuries for an amount not less than the applicable amount specified under this Ordinance. Currently, the applicable amount is HK\$100 million per event where the number of employees in relation to whom the policy is in force does not exceed 200, and the applicable amount is HK\$200 million per event where the number of employees in relation to whom the policy is in force exceeds 200. An employer who fails to secure the said insurance cover is liable on conviction to a maximum fine of HK\$100,000 and imprisonment for up to two years and on a summary conviction to a fine of HK\$100,000 and imprisonment for one year.

3. Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)

Under the Mandatory Provident Fund Schemes Ordinance, employers must participate in a Mandatory Provident Fund Scheme for employees employed under the jurisdiction of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

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LAWS AND REGULATIONS IN RELATION TO OUR GROUP'S BUSINESS IN U.S.

A summary of the law and regulations of the United States which are relevant to goods exported to the United States are set out below:

U.S. regulations

Businesses operating in and selling merchandise into the United States are subject to various governmental standards and regulations, both at federal and state level. During the Track Record Period, a significant portion of our products were sold and delivered to the United States. Certain U.S. federal and state product safety laws and regulations and other laws and regulations may be applicable to our products sold to the United States. The laws, rules and regulations that are expected to be material to our operations and investments in the United States are described below. However, other U.S. federal, state and local laws may also impose certain obligations on us and affect our products sold within the United States.

Product liability

U.S. state law generally imposes liability on all manufacturers and retailers (and parties in the supply chain) for injuries that result from unsafe, defective and dangerous products sold to consumers. Product liability claims in the United States are typically based on three theories of law: (1) strict liability, (2) negligence and (3) breach of warranty. In addition, U.S. laws and regulations can also obligate manufacturers and retailers (and parties in the supply chain) to remedy product defects, which can include safety recall campaigns. Although we are currently not subject to any legal actions, proceedings and claims in the United States that relate to product liability, or to any safety recall campaigns in the United States; in the future we could become subject to such actions, proceedings, claims and campaigns ("**Product Liability Matters**"). Such Product Liability Matters could involve personal injury and property damage and could involve claims for substantial monetary damages.

Parties involved in manufacturing, distributing or selling a product may be subject to liability for harm caused by a defect in that product. There are three types of product defects, namely, design defects, manufacturing defects and defects in marketing. In a negligence claim, a defendant may be held liable for personal injury or property damage caused by the failure to use due care. Strict liability claims, however, do not depend on the degree of carefulness by the defendant. A defendant is liable when it is shown that an injury (personal or to property) occurred as the result of a product's defect. Breach of warranty is also a form of strict liability in the sense that a showing of fault is not required. The plaintiff need only establish the warranty was breached, regardless of how that came about. Companies that manufacture, distribute or sell a product in a particular state would fall under the jurisdiction of such state's product liability laws, whether the company's jurisdiction of incorporation or principal place of business is in that state, in another U.S. state or in a non-U.S. jurisdiction. In evaluating matters for accrual and disclosure purposes, we take into consideration factors such as our historical experience with matters

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of a similar nature, the specific facts and circumstances asserted, the likelihood or our prevailing, and the severity of any potential loss. We expect to re-evaluate and update such accruals, if any, as such matters progress over time.

The results of any future litigation and claims involving product liability in the United States are inherently unpredictable. Based on our past experience, we do not anticipate that, in the aggregate, the outcome of any such litigation and claims involving us will have a material effect on our consolidated financial position or liquidity; however, such outcome could be material to our results of operations in particular period in which costs, if any are recognised by us.

Product Safety Laws

The law of product safety is primarily under the jurisdiction of U.S. Consumer Product Safety Commission (“CPSC”), an administrative agency of the United States federal government that regulates certain classes of products sold to the public.

The U.S. Consumer Product Safety Improvement Act of 2008 (“CPSIA”) was passed by Congress in 2008. The implementation of CPSIA constituted a significant overhaul of consumer product safety laws in the United States and was designed to enhance federal and state efforts to improve the safety of all products imported into and distributed in the United States. Products imported into the United States which fail to comply with CPSIA’s requirements are subject to confiscation and the importer and/or distributor in the United States is subject to civil penalties and fines, as well as possible criminal prosecution.

Under the CPSIA, a “general conformity certification” is required for any consumer product imported into the United States that is subject to a consumer product safety rule promulgated under the U.S. Consumer Product Safety Act (“CPSA”), or a similar rule, standard, regulation, or ban issued by the CPSA or under any statute issued by the CPSC. The requirement applies to all manufacturers and importers of goods. Those parties must certify that their products comply with all applicable consumer product safety rules and similar rules, bans, standards, and regulations under any law administered by the CPSC. Such U.S. laws include the CPSA, Flammable Fabrics Act, Federal Hazardous Substance Act, and Poison Prevention Act.

The CPSIA specifies that certification must be based on a “test of each product or a reasonable testing program.” The certificate must accompany the product or shipment of products, and a copy must be furnished to each distributor or retailer. The certification must also be furnished to the U.S. Customs and Border Protection (“CBP”). And, if requested by the CPSC, a copy must be furnished to them. Where there is more than one manufacturer or importer for a product, the party providing the certification should be the importer for imported products.

Customs and Import Procedures

Shipments of products to the United States are subject to custom inspection and compliance. CBP, which is part of the U.S. Department of Homeland Security, is responsible for enforcing all laws and regulations on the importation of merchandise into

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the United States. An importer of goods and commodities into the United States is responsible to exercise reasonable care to confirm that all information declared to CBP is complete and accurate. Importers have the right to prepare and file a customs entry for goods that they import or hire a customs broker licensed by CBP to prepare and file customs entries on their behalf. Importers must execute a power of attorney to appoint a customs broker as attorney-in-fact and remain liable to CBP for any errors committed by the customs broker in connection with preparation of import paperwork on their behalf. In addition, an importer is required to obtain a customs bond from a surety company, which is a third-party guarantee for payment of duties and certain penalties associated with violations of U.S. import laws. As our products that are sold and delivered to the United States are sold on a FOB basis, the buyer is responsible for the importation into the U.S., we are not the importer of record for our sale into the U.S..

The United States generally imposes tariffs on goods imported from most countries. Tariff rates are set forth in the Harmonised Tariff Schedules of the United States (the “**HTSUS**”). The goods must also bear markings of the country of origin which identify where the product is made. Note that embargoes, anti-dumping duties, countervailing duties, and other specific matters administered by the United States executive branch are not contained in the HTSUS and that various regulations or administrative actions could result in modification of these duties. Section 201 of the Trade Act of 1974, 19 USC. § 2101 et. seq. (the “**Trade Act**”) permits the President of the United States to grant temporary import relief by raising import duties or imposing non-tariff barriers (e.g., quotas) on goods entering the United States that injure or threaten to injure domestic industries producing similar goods. Section 301 of the Trade Act authorises the President of the United States to take all appropriate action, including retaliation, to obtain the removal of any act, policy, or practice of a foreign government that violates an international trade agreement or is unjustified, unreasonable, or discriminatory, and that burdens or restricts U.S. commerce. The law does not require that the U.S. government wait until it receives authorisation from the World Trade Organisation to take enforcement actions.

Recent statements from both U.S. and China governments have given rise to the imposition of significant additional tariffs on products imported into the United States from China, and vice versa. On 1 September 2019, the U.S. government imposed 15% tariffs on products on the list (the “**Product List**”) to be imported from the PRC to the U.S. (the “**15% Tariffs**”). Depending on the latest development of the trade negotiations between the U.S. and the PRC, the level and number of products subject to additional tariffs may change over time. Based on the list of products published by the Office of the U.S. Trade Representative, our U.S. Legal Advisers confirmed that certain sleepwear and loungewear products (i.e. the major products sold by us to our customers in U.S. during the Track Record Period) are on the Product List and hence are subject to the 15% Tariffs.

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Anti-dumping Laws

There are a range of trade laws in the United States which address the issue of imports which may injure or threaten U.S. industries. Under anti-dumping laws (Title VII of the U.S. Tariff Act of 1930), the U.S. International Trade Commission (“USITC”), conducts investigations into whether dumping or subsidisation is occurring in products brought into the U.S. market.

Whether an item is being dumped or not is assessed on the basis of whether it is being sold at less than fair value in the United States. This means that it is being sold below the producer’s sales price in its home market, or at a price which is lower than the cost of production. Subsidisation occurs when a government provides financial assistance to benefit production, manufacture and/or export of a good. There is first an assessment made by the Commerce Department that dumping or subsidisation is occurring, together with a calculation of the estimated margin of dumping or amount of subsidy, and then the USITC is called upon to determine whether or not there is a material injury or threat to U.S. industry. If such a threat is found, the Commerce Department will issue an anti-dumping duty and/or countervailing duty order. When such an order is imposed, CBP is instructed to assess special duties on products subject to the order at the time of their import.

After an order has been issued, there is an automatic “sunset” review, pursuant to the Uruguay Round Agreement Act, approved in late 1994, no later than five years after the order is issued, which is conducted to assess whether a revocation of the order would lead to the continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time.

Competition and antitrust laws

The U.S. antitrust laws were developed in response to unfair business practices and anticompetitive conduct by companies, corporate monopolies and trusts. At the heart of U.S. antitrust laws is the U.S. Sherman Antitrust Act (“**Sherman Act**”), which prohibits agreements that unreasonably restrain trade and the unilateral abuse of monopoly power. Conduct such as price-fixing, bid-rigging, limitation of output, allocation of territories or customers and exclusionary conduct to achieve monopoly are prohibited under the Sherman Act. Violation of the Sherman Act and other anti-trust laws and regulations may lead to criminal and/or civil sanctions. In addition, most states have similar statutes which likewise prohibit arrangements in restraint of trade, unfair or deceptive practices and unfair or discriminatory pricing practices. These state statutes are enforced by State Attorneys General and other state regulators, and can also be a basis of action by private litigants.

The U.S. antitrust laws apply to businesses and individuals alike. Certain laws and regulations also have an extraterritorial reach. Pursuant to the U.S. Foreign Trade Antitrust Improvement Act of 1982, the Sherman Act would apply to conduct that occurs outside of the United States if such conduct (1) has a direct, substantial and reasonably foreseeable effect on U.S. commerce, including U.S. import or export commerce; and (2) gives rise to a claim under the Sherman Act. Our trade and commerce with our U.S. clients are therefore subject to the U.S. antitrust laws.

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Intellectual property regulation

U.S. trademark law is governed by both state and federal law. The primary federal statute is the U.S. Lanham Act. A trademark includes any word, name, symbol, slogan or device, or any combination of these, used to identify goods or services and to distinguish them from those manufactured, sold or serviced by others. Remedies for trademark infringement can include injunctions, lost profits and damages.

U.S. patent law is governed exclusively by federal law, namely the U.S. Patent Act, which secures for inventors an exclusive right to their discoveries. Types of patents recognised under U.S. law include utility patents, design patents and plant patents. A patent is used to provide protection for the developer or creator of an innovation or new product, and works to grant such developer or creator the exclusive right to make, use and sell the patented innovation or product for a limited period of time.

U.S. tax laws

If a foreign corporation is engaged in a trade or business within the United States, it is subject to U.S. corporate income tax (currently 35% maximum rate) on its income that is effectively connected with its U.S. business. A branch profits tax (currently 30%) applies to such a corporation's "dividend equivalent amount." If the foreign corporation is eligible to claim benefits under a double tax treaty with the United States, the foreign corporation will be subject to U.S. corporate income tax only with respect to profits attributable to a permanent establishment in the United States. The branch profits tax rate may be reduced under the treaty.

Failure to pay U.S. income taxes results in interest charges and potential penalties in addition to payment of the tax. A foreign corporation engaged in a U.S. trade or business is required annually to file a U.S. corporate income tax return. Failure to file a timely return could result in the denial of deductions. An annual return is also required to be filed by a foreign corporation that claims that it does not have a U.S. permanent establishment.

State and local tax may also be applicable.

HISTORY AND DEVELOPMENT

OVERVIEW OF OUR HISTORY

Our history can be traced back to 1983 when Mr. Tam, one of our Controlling Shareholders, founded our business with Ms. Helen Tam, the sister of Mr. Tam. We started our business through JAL (formerly known as Winning Ways Limited and one of our wholly-owned subsidiaries) which primarily engaged in the sourcing of garment products for the U.S. market. Mrs. Tam, one of our Controlling Shareholders and our executive Director, joined JAL in 1987 as merchandising manager.

To facilitate better coordination with our suppliers in the PRC and monitor the production and ensure the quality of their garment products, in June 2006, JASH was set up in Shanghai and became our headquarters in the PRC.

In order to cater for our business growth and better serve our customers, we decided to establish a new production plant in Cambodia, namely our Cambodia Factory. As such, Jie Wei Cambodia was incorporated in February 2011 in order to establish our production base to engage in the manufacturing of garment products in Cambodia.

In June 2011, we further expanded our production capacity by setting up our second production base in the PRC, namely our Henan Factory, through the establishment of Henan Kaiyu, one of our operating subsidiaries. In 2014, the construction of our Henan Factory was completed and it commenced the production of garment in the same year and greige fabric in 2015.

KEY BUSINESS DEVELOPMENT MILESTONES

Key milestones in our Group's business since our incorporation are set out below:

| | |
|------|--|
| 1983 | JAL, our wholly-owned subsidiary was first established to commence sourcing of garment products for the U.S. market |
| 1987 | Mrs. Tam, one of our Controlling Shareholders and our executive Director, joined JAL as merchandising manager |
| 2004 | We established a direct business relationship with Target, an Apparel Retail Brand Customer and our largest customer during the Track Record Period |
| 2006 | JASH was established and became our headquarters in Shanghai, PRC |
| 2011 | Our Cambodia Factory commenced garment production |
| 2012 | We established a direct business relationship with Customer A and Marks and Spencer plc, two of our five largest customers during the Track Record Period and both of which are Apparel Retail Brand Customers |
| 2014 | Our Henan Factory commenced garment production |

HISTORY AND DEVELOPMENT

OUR CORPORATE HISTORY

Our Company

Our Company was incorporated on 31 May 2013 in the Cayman Islands under the Companies Law as an exempted company with limited liability. As at the date of incorporation, the authorised share capital of our Company was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On the date of incorporation, one Share was allotted and issued as fully paid to a company secretarial service provider, Codan Trust Company (Cayman) Limited, an Independent Third Party. On the same date, the said Share was transferred to Strategic King.

Our Company is an investment holding company. Our Company has a number of subsidiaries incorporated or established in the BVI, Hong Kong, the PRC and Cambodia. Details of our subsidiaries and their respective corporate history are set out below.

Our subsidiaries

JA Overseas

JA Overseas (formerly known as Justin Allen Hong Kong Limited) was a limited company incorporated in the BVI on 26 April 2012. As at the date of incorporation, the authorised share capital of JA Overseas was US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same date, one share in JA Overseas was allotted and issued as fully paid to Strategic King. On 21 May 2012, 9,114 shares in JA Overseas were allotted to Strategic King. JA Overseas is an investment holding company.

From May 2012 to February 2013, JA Overseas issued and allotted a total of 1,267 shares to the five Pre-IPO Investors and a total of 1,565 shares to the four JA Overseas Former Shareholders for a total consideration of approximately HK\$34.0 million. For further details of the Pre-IPO Investments, please refer to the paragraph headed “Pre-IPO Investments” below in this section. Following the above issuance and allotment of shares, JA Overseas was owned as to approximately 76.3% by Strategic King, an aggregate of 10.6% by the five Pre-IPO Investors and an aggregate of 13.1% by the four JA Overseas Former Shareholders.

From September 2013 to August 2014, the four JA Overseas Former Shareholders disposed of their entire interests in JA Overseas, representing approximately 13.1% of the then issued share capital of JA Overseas, to Strategic King as they decided to realise their investment in JA Overseas pursuant to the terms of the put option deeds entered into between the JA Overseas Former Shareholders and Strategic King. The total consideration for the said disposal was HK\$20.6 million, which was determined based on arm’s length negotiations between each of the JA Overseas Former Shareholders and Strategic King. Such consideration was fully settled. Following completion of the said disposal, JA Overseas was owned as to approximately 89.4% by Strategic King and an aggregate of 10.6% by the five Pre-IPO Investors.

HISTORY AND DEVELOPMENT

JAL

JAL (formerly known as Winning Ways Limited) was incorporated in Hong Kong on 1 March 1983 as a limited liability company with an authorised share capital of HK\$500,000 divided into 500,000 shares of HK\$1.00 each. One share in JAL was allotted to each of Mr. Tam and to Ms. Helen Tam on the date of its incorporation.

As a result of a series of share transfers among the family members of Mr. Tam between 1983 and 2012, in May 2012, Mr. Tam and Mrs. Tam held 90% and 10% of the then entire issued shares of JAL, respectively.

On 15 August 2013, Mr. Tam and Mrs. Tam transferred their entire interests in JAL to JA Overseas at par value respectively. Upon completion of such transfer, JAL became a wholly-owned subsidiary of JA Overseas. JAL principally engages in the sales of sleepwear and loungewear products.

JA Hong Kong

JA Hong Kong was incorporated in Hong Kong on 14 January 2016 as a limited liability company with an authorised share capital of HK\$1,000. On the same date, 1,000 shares in JA Hong Kong, representing its then entire issued share capital, were allotted to JA Overseas.

Since the incorporation of JA Hong Kong and up to the Latest Practicable Date, JA Hong Kong had been a wholly-owned subsidiary of JA Overseas.

JASH

JASH was a limited company established in the PRC on 9 June 2006 with a registered capital of RMB500,000 and further increased to RMB1,000,000 on 3 August 2009.

Since 1 January 2016, being the commencement date of the Track Record Period, and up to the Latest Practicable Date, JASH had been wholly-owned by JAL. JASH principally engages in the sales of sleepwear and loungewear products.

Castle Eagle

Castle Eagle was a limited company incorporated in the BVI on 28 October 2013 with an authorised share capital of US\$50,000 and was authorised to issue 50,000 shares with a par value of US\$1.00 each.

Since 1 January 2016, being the commencement date of the Track Record Period and up to the date immediately prior to the Reorganisation, Castle Eagle was wholly-owned by Mr. Tam. Castle Eagle is an investment holding company.

HISTORY AND DEVELOPMENT

Xuchang Gaoshi

Xuchang Gaoshi was a limited company established in the PRC on 7 November 2013 with a registered capital of RMB1,000,000 which had not been paid up. As Xuchang Gaoshi was inactive during the Track Record Period, Castle Eagle, our wholly-owned subsidiary disposed of the entire interest in Xuchang Gaoshi to an Independent Third Party at cost and such disposal was completed on 10 May 2019.

Jie Wei Cambodia

Jie Wei Cambodia was a limited company incorporated in Cambodia on 9 February 2011 with a registered share capital of US\$1,000,000. The initial registered capital of Jie Wei Cambodia was funded by Mr. Tam and its daily operations were mainly funded by cash generated from its operating activities. Jie Wei Cambodia principally engages in garment manufacturing business.

In 2011, Mr. Tam desired to (i) devote substantial amount of his time to prepare for the establishment of Henan Kaiyu, including in particular, spending time on negotiating with the local government in relation to the purchase of the land for the Henan Factory; reviewing and approving the relevant design plans of the Henan Factory and monitoring the setting up of our Henan Factory; and (ii) focus on establishing new business relationship between JAL and the then potential customers including Customer A and Marks and Spencer plc who began conducting business with our Group in mid-2012. Further, Mr. Tam considered that the relevant counterparties of the Cambodia Factory such as customers, suppliers and/or government departments may prefer to deal with an individual who is a shareholder of Jie Wei Cambodia rather than just its director. Also, Mr. Raymond Tam was willing to be based in Cambodia to assist with the incorporation of Jie Wei Cambodia and the setting up of our Cambodia Factory. Mr. Tam also appointed Ms. Helen Tam as the nominee shareholder and a director of Jie Wei Cambodia since its incorporation because Ms. Helen Tam would have sufficient time to devote in the business of Jie Wei Cambodia as she had retired from being the director of JAL. She was also responsible for overseeing the management of the Jie Wei Cambodia on behalf of Mr. Tam. As such, he requested his siblings, namely Ms. Helen Tam, his sister, and Mr. Raymond Tam, his brother, to hold the shares in Jie Wei Cambodia as nominees on behalf of him since the incorporation of Jie Wei Cambodia for administrative and operational convenience but without foregoing his personal interest invested in the business.

As Mr. Raymond Tam and Ms. Helen Tam were only nominee shareholders who held the shares in Jie Wei Cambodia on behalf of Mr. Tam, they would defer to Mr. Tam as to important decisions in relation to the business and strategic development of Jie Wei Cambodia as Mr. Tam was the de facto decision maker in charge of the overall management and operations of our Group. In preparation for the restructuring of our Group pursuant to the agreement dated 7 November 2018 between Mr. Tam, Ms. Helen Tam and Mr. Raymond Tam, the nominee arrangement was terminated and Ms. Helen Tam and Mr. Raymond Tam transferred the shares in Jie Wei Cambodia held by them to Castle Eagle, a company then wholly-owned by Mr. Tam in late 2018.

HISTORY AND DEVELOPMENT

As advised by our Cambodia Legal Advisers, the establishment and termination of the above nominee arrangement and the subsequent share transfer were recognised under the laws of Cambodia as valid and enforceable, and Ms. Helen Tam and Mr. Raymond Tam had validly held the shares in Jie Wei Cambodia as nominees for Mr. Tam. Our Cambodia Legal Advisers confirmed that there was no legal impediment under the applicable laws in Cambodia for Mr. Tam to act as the shareholder of Jie Wei Cambodia.

Power Summit

Power Summit was a limited company incorporated in the BVI on 16 May 2012 with an authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each.

Since 1 January 2016, being the commencement date of the Track Record Period, and up to the date immediately prior to the Reorganisation, Power Summit was wholly-owned by Mr. Tam. Power Summit is an investment holding company.

JAIC

JAIC was a limited company incorporated in Hong Kong on 27 July 2011 with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each.

Since 1 January 2016, being the commencement date of the Track Record Period and up to the Latest Practicable Date, JAIC had been wholly-owned by Power Summit as an investment holding company.

Henan Kaiyu

Henan Kaiyu was established in the PRC on 1 June 2011 with a registered capital of RMB100,000,000. Henan Kaiyu principally engages in garment and fabric manufacturing business through the operation of our Henan Factory.

Since 1 January 2016, being the commencement date of the Track Record Period and prior to the increase of the registered capital by JAIC below, Henan Kaiyu was owned as to 70% by JAIC and 30% by Xuchang Yuzhong. On 7 December 2016, the registered capital of Henan Kaiyu was further increased to RMB120,000,000 which was fully paid by JAIC. Upon completion of the increase in registered capital, Henan Kaiyu was owned as to 75% by JAIC and 25% by Xuchang Yuzhong. Xuchang Yuzhong was established in the PRC in 1999 and engages in, among others, the business of spinning, weaving, packaging and sales of ancillary materials in relation to textile production.

PRE-IPO INVESTMENTS

Subscription of shares in JA Overseas by the Pre-IPO Investors

The subscription agreements

From May 2012 to February 2013, JA Overseas entered into subscription agreements with, among others, the Pre-IPO Investors pursuant to which the Pre-IPO Investors subscribed for a total of 1,267 shares in JA Overseas, representing approximately 10.6% of the then entire issued share capital of JA Overseas, for a total consideration of HK\$15.2 million.

HISTORY AND DEVELOPMENT

The following table shows the details of the terms of the Pre-IPO Investments by the Pre-IPO Investors:

| Name of the Pre-IPO Investors | Asia Dragon <i>(Note 1)</i> | Mr. Raymond Tam <i>(Note 2)</i> | Mr. Kwok <i>(Note 3)</i> | True Glory <i>(Note 4)</i> | Ms. LY Leung <i>(Note 5)</i> |
|---|--|------------------------------------|--------------------------------|-------------------------------|---------------------------------|
| Dates of the subscription agreements and the put option deeds | 7 February 2013 | 21 May 2012 <i>(Note 6)</i> | 21 May 2012 <i>(Note 6)</i> | 15 January 2013 | 1 February 2013 |
| Dates of settlement of the consideration | 7 February 2013 | 16 May 2012 <i>(Note 6)</i> | 16 May 2012 <i>(Note 6)</i> | 16 January 2013 | 8 February 2013 |
| Effective dates of the supplemental subscription agreements and the supplemental put option deeds | 15 October 2013 | 15 October 2013 | 15 October 2013 | 15 October 2013 | 15 October 2013 |
| Effective dates of the second supplemental subscription agreements and the second supplemental put option deeds | 1 October 2014 | 1 October 2014 | 1 October 2014 | 1 October 2014 | 1 October 2014 |
| Effective dates of the 2019 put option deeds | 27 February 2019 | 27 February 2019 | 27 February 2019 | 27 February 2019 | 27 February 2019 |
| Number of shares in JA Overseas subscribed | 423 | 325 | 325 | 97 | 97 |
| Percentage of the entire issued share capital of JA Overseas upon completion of the Pre-IPO Investments (%) | 3.6 | 2.7 | 2.7 | 0.8 | 0.8 |
| Consideration paid (HK\$) | 5,099,999 | 3,900,000 | 3,900,000 | 1,170,000 | 1,170,000 |
| Valuation per share of the Company | HK\$12,000 per share calculated on the basis of the net profit of JAL for the year ended 31 December 2012 being not less than HK\$30,000,000 and a price-to-earning ratio of four times. | | | | |
| Percentage of shareholding interests in our Company following completion of the Reorganisation, the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option and options which may be granted the Share Option Scheme are not exercised) (%) | 2.7 | 2.0 | 2.0 | 0.6 | 0.6 |
| Investment costs per Share <i>(Note 7)</i> | Approximately HK\$0.15 | | | | |
| Discounts to the mid-point of the Offer Price | Approximately 66% | | | | |

HISTORY AND DEVELOPMENT

Notes:

1. Asia Dragon is legally and beneficially owned by Mr. Tse Lap Bun Joseph who is a partner of Tiang & Partners, Hong Kong legal advisers to our Company. Mr. Tse was acquainted with Mr. Tam. Asia Dragon subscribed for the shares in JA Overseas under the Pre-IPO Investments as Mr. Tse was optimistic about the prospects of our Group. Mr. Tse introduced Tiang & Partners to the Company and Mr. Tse was not involved in any way in the delivery of legal services to our Group. As such, our Directors are of the view, and the Sole Sponsor concurs that, the independence of Tiang & Partners in acting as the Hong Kong legal advisers to our Company, will not be affected in all material aspects.
2. Mr. Raymond Tam is the brother of Mr. Tam and a member of our senior management. He subscribed for the shares in JA Overseas under the Pre-IPO Investments as he was optimistic about the prospects of our Group.
3. Mr. Kwok was a former Director and a former director of JA Overseas. As confirmed by Mr. Tam, Mr. Kwok was acquainted with Mr. Tam as he was a former classmate of Mr. Tam. Mr. Kwok subscribed for the shares in JA Overseas under the Pre-IPO Investments as he was optimistic about the prospects of our Group.
4. True Glory was legally and beneficially owned as to (i) 99% by Fortune Luck Holdings Limited which is in turn legally and beneficially owned by Mr. Hon Man Leung Dominic (“Mr. Dominic Hon”) and (ii) 0.9999% by Mr. Dominic Hon ; and (iii) 0.0001% by Mr. Hon Kwok Leung, Edmond (“Mr. Edmond Hon”). Mr. Dominic Hon is acquainted with Mr. Tam. True Glory subscribed for the shares in JA Overseas under the Pre-IPO Investments as Mr. Dominic Hon was optimistic about the prospects of our Group. Mr. Edmond Hon is the brother of Mr. Dominic Hon.
5. As confirmed by Mr. Tam, Ms. LY Leung was a family friend of Mr. Tam and she subscribed for the shares in JA Overseas under the Pre-IPO Investments as she was optimistic about the prospects of our Group.
6. The consideration was settled on the date prior to date of the subscription agreements and the put option deeds because the relevant parties confirmed that they had already reached an agreement verbally on the terms of the Pre-IPO Investments at that time.
7. Calculation is based on a total of 1,250,000,000 Shares, being the number of Shares in issue upon completion of the Capitalisation Issue and the Global Offering (assuming that the Over-allotment Option and options which may be granted under the Share Option Scheme are not exercised).

The reason for entering into the supplemental subscription agreements, the supplemental put option deeds, the second supplemental subscription agreements and the second supplemental put option deeds as referred to in the table above was to amend expected listing dates and adjust certain related terms of the said subscription agreements and put option deeds during the course of the preparation process for the Listing.

The following table summarises the salient terms of the Pre-IPO Investments:

| | |
|--|--|
| Basis of determination of consideration: | Arm’s length negotiations between the parties with reference to the estimated net profit of JAL being not less than HK\$30,000,000 for the year ended 31 December 2012 and a price-to-earning ratio of four times. |
|--|--|

HISTORY AND DEVELOPMENT

- Lock-up: No lock up period post-Listing.
- Special rights:
1. Dividend right

Pursuant to the subscription agreements entered into during the period from May 2012 to February 2013 (as amended by the supplemental subscription agreements effective from October 2013 and the second supplemental subscription agreements effective from October 2014), JA Overseas agreed that 30% of the consolidated profit of our Group for each financial year from 1 January 2013 onwards would be distributed to the Pre-IPO Investors as dividend on a pro-rata basis. The entitlement and payment of the such dividends to the Pre-IPO Investors were guaranteed by Mr. Tam and Mrs. Tam. Such dividend right was terminated on 27 February 2019, i.e. the same date of the share purchase agreements between the Pre-IPO Investors and our Company for implementing the share swap (the “**Pre-IPO Investors Share Swap**”) as described in the paragraph headed “The Reorganisation — (iv) Share swap between our Company, Strategic King and the Pre-IPO Investors” in this prospectus.
 2. Put options granted by Strategic King to our Pre-IPO Investors

HISTORY AND DEVELOPMENT

Pursuant to the put option deeds entered into during the period from May 2012 to February 2013 (as amended by the supplemental put option deeds effective from October 2013 and the second supplemental put option deeds effective from October 2014) (the “**Principal Put Option Deeds**”), our Pre-IPO Investors were granted a put option by Strategic King, on a pre-agreed option price determined based on arm’s length negotiations between the parties. Under the Principal Put Option Deeds, our Pre-IPO Investors were granted a put option pursuant to which the Pre-IPO Investors may require Strategic King to purchase the shares in JA Overseas held by the Pre-IPO Investors if the Listing was not to take place by 30 June 2014. Further, our Pre-IPO Investors may only exercise their put options on either 30 June or 31 December of each year by serving notice to our Company. In addition, Strategic King shall be bound to complete the purchase of the shares within a prescribed period and pay for the relevant option price together with the proportion of dividends declared by our Group from 1 January 2013 onwards on a pro-rata basis. Such put options lapsed upon completion of our Pre-IPO Investors Share Swap on 27 February 2019.

Upon completion of our Pre-IPO Investors Share Swap, the Principal Put Option Deeds shall lapse and our Pre-IPO Investors were granted put options by Strategic King, on the same pre-agreed option price determined under the Principal Put Option Deeds, pursuant to which our Pre-IPO Investors may, from 1 March 2020 onwards, require Strategic King to purchase Shares held by our Pre-IPO Investors if the Listing does not take place by then. Such put options granted to our Pre-IPO Investors shall cease automatically upon the Listing.

Use of proceeds:

Our Group utilised all the proceeds from the Pre-IPO Investments in our operation.

HISTORY AND DEVELOPMENT

Strategic benefits that the Pre-IPO Investors would bring:

Our Directors were of the view that our Group had benefited from the additional capital provided by the Pre-IPO Investors as well as the knowledge and experience of the Pre-IPO Investors.

Public float:

Save for the Shares held by Mr. Raymond Tam, the Shares held by Pre-IPO Investors upon the Listing are considered as part of the public float for the purpose of Rule 8.08(1)(a) of the Listing Rules.

Sole Sponsor's confirmation

On the basis that our Directors have confirmed that the consideration paid by each of the Pre-IPO Investors for the Pre-IPO Investments was fully settled between May 2012 and February 2013 (inclusive), which was more than 28 clear days before the date of the first submission of our Company's application for the Listing, and does not involve convertible instruments, the Sole Sponsor considered that the Pre-IPO Investments are in compliance with Guidance Letter HKEx-GL29-12 and the Guidance Letter HKEx-43-12 issued by the Stock Exchange.

HISTORY AND DEVELOPMENT

THE REORGANISATION

(i) Termination of nominee arrangement in relation to the shares of Jie Wei Cambodia and transfer of shares from Mr. Raymond Tam and Ms. Helen Tam to Castle Eagle

Pursuant to an agreement in relation to the termination of nominee arrangement and transfer of shares dated 7 November 2018 between Mr. Tam, Ms. Helen Tam and Mr. Raymond Tam, the nominee arrangement was terminated and Ms. Helen Tam and Mr. Raymond Tam transferred the shares in Jie Wei Cambodia held by them to Castle Eagle, a company wholly-owned by Mr. Tam. Given that the registered capital of Jie Wei Cambodia was initially funded by Mr. Tam, the share transfer was conducted at nil consideration. The share transfer was completed on 28 February 2019 and the relevant approval documents were issued by the Ministry of Commerce on 1 March 2019 upon which, Jie Wei Cambodia became a wholly-owned subsidiary of Castle Eagle.

(ii) Acquisition of Castle Eagle by JA Overseas

On 11 December 2018, Mr. Tam entered into a sale and purchase agreement with JA Overseas, pursuant to which JA Overseas acquired 100% shareholding interest in Castle Eagle from Mr. Tam for a consideration of US\$1,000,000. Such consideration was based on the initial investment contributed by Mr. Tam to Jie Wei Cambodia, a wholly-owned subsidiary of Castle Eagle. The first instalment of the consideration of approximately US\$25,640 (equivalent to HK\$200,000) was settled on 24 December 2018 and the balance of US\$974,360 (equivalent to HK\$7,600,000) was settled on 29 March 2019. Upon completion of the aforesaid transfer on 11 December 2018, Castle Eagle became a wholly-owned subsidiary of JA Overseas.

(iii) Acquisition of Power Summit by JA Overseas

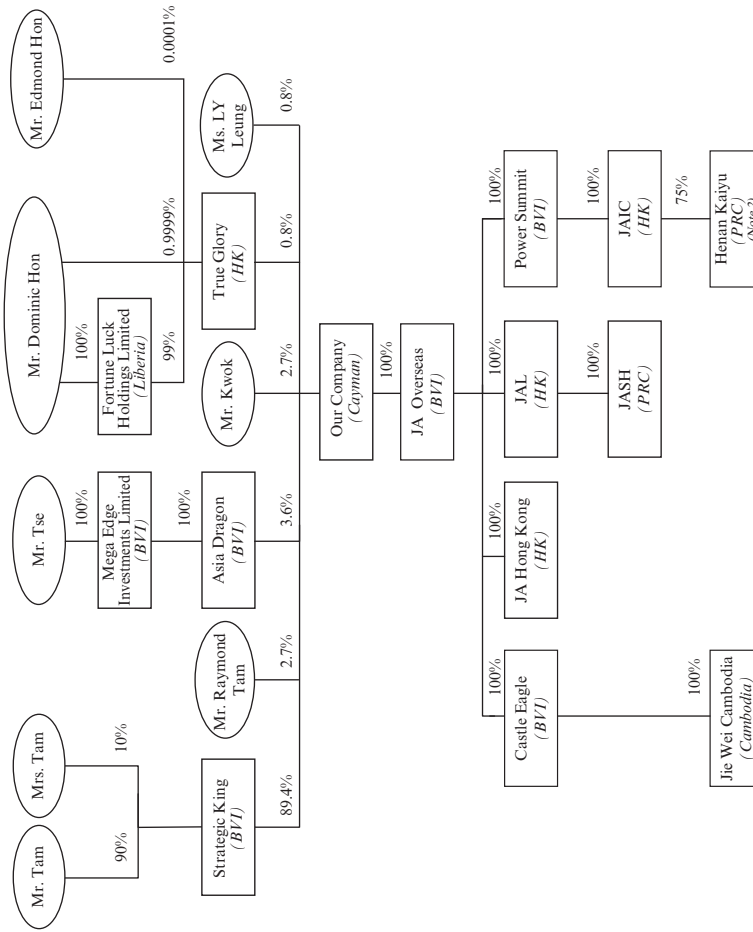
On 11 December 2018, Mr. Tam entered into a sale and purchase agreement with JA Overseas, pursuant to which JA Overseas acquired 100% shareholding interest in Power Summit from Mr. Tam for a consideration of RMB90,000,000. Such consideration was based on the initial investment contributed by Mr. Tam to Henan Kaiyu, the operating entity that was owned as to 75% by Power Summit. The first instalment of the consideration of approximately RMB860,000 (equivalent to HK\$1,000,000) and the balance of the consideration will be settled on or before the Listing. Upon completion of the aforesaid transfer on 11 December 2018, Power Summit became a wholly-owned subsidiary of JA Overseas.

(iv) Share swap between our Company, Strategic King and the Pre-IPO Investors

Pursuant to share purchase agreements between each of Strategic King, the Pre-IPO Investors and our Company dated 27 February 2019, our Company purchased 10,680, 97, 325, 325, 423 and 97 shares in JA Overseas from Strategic King, True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon and Ms. LY Leung, respectively, issued and allotted 10,679, 97, 325, 325, 423 and 97 Shares as consideration to the Pre-IPO investors. Upon completion of the aforesaid transfer and allotment of Shares, Strategic King, True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon and Ms. LY Leung held approximately 89.4%, 0.8%, 2.7%, 2.7%, 3.6% and 0.8% interest in our Company, respectively, and JA Overseas became a wholly-owned subsidiary of our Company.

CORPORATE STRUCTURE IMMEDIATELY AFTER COMPLETION OF THE REORGANISATION BUT BEFORE COMPLETION OF THE GLOBAL OFFERING AND THE CAPITALISATION ISSUE

The following chart shows the shareholding and corporate structure of our Group immediately after completion of the Reorganisation but before completion of the Capitalisation Issue and the Global Offering.



Note:

- The remaining 25% interests Henan Kaiyu were held by Xuchang Yuzhong.

HISTORY AND DEVELOPMENT

INCREASE OF SHARE CAPITAL

On 17 October 2019, our Company resolved to increase the authorised share capital of our Company from HK\$380,000 to HK\$500,000,000 by the creation of an additional 49,962,000,000 Shares of par value HK\$0.01 each.

CAPITALISATION AND GLOBAL OFFERING

Conditional upon the share premium account of our Company being credited with the proceeds of the Global Offering, our Company will capitalise all or a portion of, as the case may be, of the balance of the share premium account and applying such sum in paying up in full at nominal value a total of 937,488,053 Shares for allotment and issue to Strategic King, Mr. Raymond Tam, Asia Dragon, Mr. Kwok, True Glory and Ms. LY Leung on a pro rata basis. Immediately after the Capitalisation and the Global Offering (without taking into account any Shares which may be allotted and issued by our Company pursuant to the exercise of any options which may be granted under the Share Option Scheme and assuming no Over-allotment Option is exercised), Strategic King, Mr. Raymond Tam, Asia Dragon, Mr. Kwok, True Glory and Ms. LY Leung will hold approximately 67.1%, 2.0%, 2.7%, 2.0%, 0.6% and 0.6% of the enlarged issued share capital of the Company, respectively and the public (including Asia Dragon, Mr. Kwok, True Glory, Ms. LY Leung and other public shareholders) will hold approximately 30.9% of the enlarged issued share capital of the Company.

OVERVIEW

Established in Hong Kong in 1983, our Group primarily engages in the business of OEM garment manufacturing specialising in the production of sleepwear and loungewear products. We have a vertically integrated business operation which comprises raw materials sourcing and greige fabric production, product development which may involve advising on the product designs and the use of fabrics, conducting key garment production processes with our own production facilities and carrying out quality control at various key production stages and on finished garment products. As such, we are capable of offering one-stop apparel solutions comprising, fabric development, product development, raw materials sourcing, garment manufacturing, quality control and logistics management to our customers. We have production facilities in each of Phnom Penh, Cambodia and Henan province, the PRC. Our Cambodia Factory and Henan Factory commenced production in 2011 and 2014, respectively. We also started our fabric production in our Henan Factory in 2015 where we produced greige fabric mainly as a raw material for our sleepwear and loungewear production as well as for sales to third-party garment manufacturers.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total revenue was approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million and HK\$214.6 million, respectively. The revenue attributable to our five largest customers was approximately HK\$458.7 million, HK\$509.6 million, HK\$594.0 million and HK\$211.9 million, respectively, which accounted for approximately 98.0%, 97.0%, 97.6% and 98.8% of our total revenue, respectively, during the same periods. During the Track Record Period, our Group's customers mainly comprised Apparel Retail Brand Customers, which have retail stores covering major markets such as the North America, Asia or Europe. Three, four, four and four of our five largest customers during the Track Record Period were Apparel Retail Brand Customers. Among which, Target, Customer A and Marks and Spencer plc had established long term business relationships with our Group ranging between six and 14 years as at the Latest Practicable Date.

Our garment products can be categorised into the following main categories: (i) sleepwear products; and (ii) loungewear products. According to the Industry Consultant, while both sleepwear and loungewear are normally made from comfortable materials and are designed to fit comfortably, sleepwear refers to apparel designed to be worn indoors and worn to bed. Loungewear, on the other hand, is apparel designed for indoors and outdoors use and for multiple purposes such as leisure and housework.

BUSINESS

The table below sets out our revenue by product and service for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|-----------------------------------|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|----------------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| Sleepwear products | 376,787 | 80.5 | 411,547 | 78.4 | 435,834 | 71.6 | 138,912 | 75.0 | 141,978 | 66.2 |
| Loungewear products | 78,882 | 16.9 | 93,568 | 17.8 | 154,379 | 25.4 | 40,487 | 21.9 | 68,090 | 31.7 |
| Greige fabric | 4,558 | 1.0 | 8,465 | 1.6 | 9,619 | 1.6 | 4,215 | 2.3 | 4,380 | 2.0 |
| Processing services <i>(Note)</i> | 7,636 | 1.6 | 11,272 | 2.2 | 8,554 | 1.4 | 1,594 | 0.8 | 153 | 0.1 |
| Total | <u>467,863</u> | <u>100.0</u> | <u>524,852</u> | <u>100.0</u> | <u>608,386</u> | <u>100.0</u> | <u>185,208</u> | <u>100.0</u> | <u>214,601</u> | <u>100.0</u> |

Note: Our revenue from processing service mainly represented manufacturing fees from other third-party garment manufacturers for which we acted as subcontractors to provide garment production service.

The table below shows our revenue by our customers' geographical location for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|--------------|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|----------------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| U.S. | 326,148 | 69.7 | 385,271 | 73.4 | 417,353 | 68.6 | 121,156 | 65.4 | 138,970 | 64.8 |
| U.K. | 94,723 | 20.2 | 69,517 | 13.2 | 83,467 | 13.7 | 24,345 | 13.1 | 35,179 | 16.4 |
| Ireland | 28,342 | 6.1 | 34,652 | 6.6 | 62,360 | 10.3 | 20,543 | 11.2 | 24,112 | 11.2 |
| Spain | 6,656 | 1.4 | 15,675 | 3.0 | 27,033 | 4.4 | 13,354 | 7.2 | 8,856 | 4.1 |
| PRC | 5,998 | 1.3 | 13,182 | 2.5 | 16,882 | 2.8 | 4,519 | 2.4 | 4,533 | 2.1 |
| Canada | — | — | — | — | — | — | — | — | 2,951 | 1.4 |
| Cambodia | 5,996 | 1.3 | 6,555 | 1.3 | 1,291 | 0.2 | 1,291 | 0.7 | — | — |
| Total | <u>467,863</u> | <u>100.0</u> | <u>524,852</u> | <u>100.0</u> | <u>608,386</u> | <u>100.0</u> | <u>185,208</u> | <u>100.0</u> | <u>214,601</u> | <u>100.0</u> |

During the Track Record Period, we mainly sold our sleepwear and loungewear products to our Apparel Retail Brand Customers based in the U.S., U.K., Ireland, Spain and Canada which, through their retail networks, resold such products to their retail customers. In addition, we sold our greige fabric to other third-party garment manufacturers based in the PRC during the Track Record Period.

We intend to expand our production capacity by setting up a garment factory in Vietnam with scale and size similar to the garment production facility of our Cambodia Factory.

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As at the Latest Practicable Date, we had obtained the relevant government approvals for the construction of the first phase of a spinning mill in our Henan Factory. We are currently carrying out the construction work on the spinning mill and target to complete the contraction and fitting out work in the second quarter of 2020. For further details of our expansion plan, please refer to the paragraph headed “Our business strategies” below in this section.

OUR COMPETITIVE STRENGTHS

Our Directors believe that the following competitive strengths have contributed to our success and differentiated us from our competitors:

Our vertical integration allows us to become a one-stop apparel solutions provider

Our Directors believe that our ability to become a one-stop apparel solutions provider to our customers contributes to our success. Our business model provides coverage in various aspects of the garment manufacturing process, comprising design services, product and technical development and garment manufacturing. We also have fabric production capability in our Henan Factory where we produce greige fabric as a raw material for our garment production as well as for sales to other third-party garment manufacturers. We take advantage of this vertical integration to effectively manage our production process such as raw material sourcing, fabric production, garment manufacturing, and logistics management. According to the Industry Consultant, the vertically integrated production process helps optimise the production efficiency and save costs as it can lower the unit cost of production by achieving economies of scale. We intend to further expand our business by establishing a spinning mill in our Henan Factory to produce yarn which can be used as a raw material for our fabric production. Please refer to the paragraph headed “Our business strategies — Vertical expansion of our fabric production capability” below in this section and the section headed “Future plans and use of proceeds” in this prospectus for further details.

We have cultivated long-term business relationships with most of our Apparel Retail Brand Customers

During the Track Record Period, our Group’s customers mainly comprised Apparel Retail Brand Customers, which have retail stores covering major markets such as the U.S., Asia or Europe. Three, four, four and four of our five largest customers during the Track Record Period were Apparel Retail Brand Customers. Among which, Target, Customer A and Marks and Spencer plc had established long term business relationships with our Group ranging between six and 14 years as at Latest Practicable Date. We have built long-term relationships with most of our Apparel Retail Brand Customers and we believe such relationships help us enhance our reputation in the industry and attract new customers with a profile similar to our existing Apparel Retail Brand Customers. In the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and is listed on the New York Stock Exchange. It has over 3,500 stores in the U.S. and 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from

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Customer F for over 600,000 units of sleepwear products, of which we had delivered approximately 134,000 units during the five months ended 31 May 2019 and our Group recognised approximately HK\$3.0 million in respect of the sales and delivery of these units as revenue for the five months ended 31 May 2019.

In particular, we have cultivated a long-term relationship with Target, our largest customer during the Track Record Period. We started an indirect business relationship with Target through supplying our products to its sourcing agent and began supplying our products directly to Target in 2004. We were awarded with “Partner Award of Excellence” by Target in multiple years, which recognised our performance as well as our business practices. Target also granted us the status of “Strategic Business Partner” in 2008 which allows us to have a collaborative and transparent working relationship with Target. Please refer to the paragraph headed “Our relationship with Target and Customer A” below in this section for further details.

We have strong design and fabric development capabilities

Our design team and our sales and merchandising team work closely with our Apparel Retail Brand Customers to understand their needs and make recommendations to them. Our design team and our sales and merchandising team also conduct market research and attend industry exhibitions to understand the latest market trends. Our design team assists our customers in either (i) advising on the product designs and the use of fabrics to them; or (ii) designing products based on the customers ideas or specifications. As at the Latest Practicable Date, our design team consisted of 10 members, and our sales and merchandising team consisted of 58 members. The head of our sales and merchandising team, Mrs. Tam, our executive Director, had over 30 years of experience in the garment industry. The head of our design team also had over seven years of experience in garment design.

Our Directors believe that the quality of fabric used in our garment products is critical to their quality. With over 30 years of experience in sourcing and producing greige fabric, our Group is able to apply our know-how and offer advice to provide different fabric choices to our customers. We also have a research and development team which conducts various tests on fabric as well as our products and develops fabric production techniques for our fabric production team in our Cambodia Factory and Henan Factory. We also have in-house laboratories in our Henan Factory and our head office in Shanghai which conduct testing on our garment products and our raw materials.

We have a stringent quality control process which ensures high product quality

We have a stringent quality control process which monitors various stages of our production cycle from raw material sourcing and fabric production to garment manufacturing. As at the Latest Practicable Date, our quality control team consisted of 155 members, of which 10, 96 and 49 team members were stationed at our head office in Shanghai, Cambodia Factory and Henan Factory, respectively to conduct the quality control process. For greige fabric and garment products which we produce in our Henan Factory and Cambodia Factory, we undertake quality control checks in various stages of production cycle including sample checks, production line checks, and final product

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inspection to ensure that the quality of our products complies with the specifications and/or standards and requirements of our customers. We send our quality control team members to our suppliers' factories and subcontractors' factories from time to time to monitor their quality control process in order to ensure the quality of fabric and garment products they supply us. For further details of our quality control process, please refer to the paragraph headed "Our business model — Garment production — Quality control" below in this section.

We have an experienced management team with a proven track record

We have an experienced management team which comprises a group of experienced executives. In particular, Mr. Tam and Mrs. Tam, our executive Directors, both of whom have over 35 years of experience in the garment industry.

Over the years, under the leadership of Mr. Tam, we have accumulated expertise in the garment manufacturing industry. Our Directors believe that the extensive experience of Mr. Tam and Mrs. Tam will position us well to enhance our business growth in the garment industry. For further details of the experience and background of our management team, please refer to the section headed "Directors and senior management" in this prospectus.

OUR BUSINESS STRATEGIES

We aim to achieve future growth and further strengthen our overall competitiveness and market position in the fabric and garment manufacturing industry. Our Directors intend to achieve our objectives by leveraging on our Group's competitive strengths and adopting the following business strategies:

Vertical expansion of our fabric production capability

Currently, all of the yarn used in our fabric production is purchased from third-party suppliers and we do not have yarn production capability. As such, we intend to enhance our existing fabric production facilities by establishing a new spinning mill to produce yarn in our Henan Factory. Spinning is a key process in fabric production as it produces yarn which is used to produce fabric. Our Directors believe that there is an operational need to establish our own spinning mill due to the following reasons and considerations:

(i) Cost-saving

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total purchases of yarn were approximately HK\$71.7 million, HK\$48.3 million, HK\$55.7 million and HK\$28.0 million respectively, representing approximately 23.5%, 15.7%, 15.1% and 20.9% of our total purchases, respectively. Our Group proposes to produce four types of yarn in the first year of production at the new spinning mill as these four types of yarn are commonly used in our production of fabric. The average purchase costs of these four types of yarn for the year ended 31 December 2018 was approximately HK\$43,000 per tonne.

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To the best of our Directors' knowledge, the major component of the production cost of yarn is the cost of cotton which is the key raw material used in yarn production. The production cost of yarn also comprises staff cost, cost of utilities and depreciation costs related to plant and equipment. Our Directors believe that the establishment of a new spinning mill in our Henan Factory would not have material impact on our cost structure as we estimate that the production cost of yarn produced by us (assuming similar specifications as those we purchased from third-party suppliers during the Track Record Period) will be approximately HK\$37,500 per tonne, which is approximately 12.8% or approximately HK\$5,500 lower than our average purchase cost of yarn per tonne for the year ended 31 December 2018. Assuming that the cost of producing yarn internally would be approximately 12.8% less than the cost of purchasing from third-party suppliers, the cost of yarn, which accounted for approximately 12.7% of our cost of sales for the year ended 31 December 2018, would have been lowered by approximately HK\$3.7 million if all of such yarn were produced internally rather than purchasing from third-party suppliers for the same period. Hence, we estimate that our Group's gross profit margin for the same period would have been approximately 28.3%, which is approximately 0.6% higher than our Group's actual gross profit margin of 27.7% for the year ended 31 December 2018.

(ii) Having our own spinning mill to produce our own yarn can enable us to better meet the stringent quality control requirements of our customers

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our Apparel Retail Brand Customers accounted for approximately 97.0%, 96.2%, 97.0% and 97.9% of our total revenue. Our Apparel Retail Brand Customers have stringent requirements on the quality control processes on their suppliers as well as the quality of the products they purchase from their suppliers. Our Apparel Retail Brand Customers may inspect our production facility and conduct testing on our products to ensure that we satisfy the requirements before placing orders with us. Therefore, we have placed a strong emphasis on product quality and adopted a stringent quality control system in our fabric and garment production processes to ensure that we meet our customers' requirements. Since spinning is a major process that produces yarn as a raw material for fabric production and fabric itself is the major raw material in garment production, by establishing our own spinning mill, we believe we can better control the quality of our garment products by controlling the quality of yarn with our own quality control process during yarn production. Our Directors consider that the quality of yarn produced and the fabric produced using such yarn depend to a large extent on the quality of the cotton used in the production of yarn. By conducting the upstream yarn production, we will be able to inspect the quality of the cotton as well as the yarn prior to the fabric and garment production and thus can further ensure the quality of our fabric and garment products. Our Directors therefore consider that upon establishment of the spinning mill, we can monitor most of the principal production processes for our fabric and garment production and minimise the risks from sourcing low-quality yarn produced by our third-party suppliers.

(iii) Shorter production lead time, mitigating potential risk of shortage of supply from our third-party suppliers and hence offering us more flexibility in dealing with urgent orders or requests by our customers

With our own spinning mill, our Directors believe that we will be able to control the production lead time of yarn which is the key raw material for producing fabric. Further, given that our new spinning mill will be located in the Henan Factory, our Directors believe that the time required for transportation of yarn for fabric production within the Henan Factory will be minimised and hence, the overall production lead time will be shortened as we do not need to source yarn from third-party suppliers. Further, our Directors believe that having the capability to produce our own yarn will mitigate the potential risk of shortage of supply from third-party suppliers and hence give us more flexibility to deal with urgent orders or requests from our customers.

As at the Latest Practicable Date, we had completed the planning process and had obtained the relevant government approvals for the construction of the first phase of the spinning mill and we are currently carrying out construction of the building where we will install our spinning mill production facility. We target to complete the construction and fitting out of the spinning mill in our Henan Factory by the first quarter of 2020 and commence production in the second quarter of 2020. We have currently obtained quotations from several contractors for the construction and fitting out of the spinning mill. It is expected that the spinning mill will cover a gross floor area of approximately 36,000 sq.m.. We expect to use approximately HK\$65.3 million of the net proceeds from the Global Offering to fund the construction of the spinning mill as well as to purchase the equipment and machinery for the spinning mill which will be carried in two phases as follows:

- (i) approximately HK\$18.0 million to fund the construction and fitting out work of the spinning mill;
- (ii) approximately HK\$38.8 million for the purchase of 76 sets of basic spinning machines which are required for the commencement of production of the spinning mill in the first phase; and
- (iii) approximately HK\$8.5 million for the purchase of 16 sets of more advanced spinning machines which allow our Group to practice a wider variety of yarn in the second phase.

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The following table sets out our indicative timetable for the establishment of the spinning mill in our Henan Factory:

| Timetable | Event |
|------------------------|--|
| First quarter of 2020 | Complete construction and fitting out works on the spinning mill and begin purchases for spinning machines for the first phase |
| Second quarter of 2020 | Conduct trial tests and commence production of yarn for the first phase |
| First quarter of 2021 | Begin purchase for spinning machines for the second phase |
| Second quarter of 2021 | Conduct trial tests and commence production of yarn for the second phase |

Horizontal expansion of our garment production capacity

In order to sustain profitable growth, enhance our customer base and reduce our reliance on subcontractors for garment manufacturing, our Directors consider that it is necessary to continue to further expand our production capacity in addition to our Cambodia Factory and Henan Factory for the following reasons:

(i) Better quality control of our products

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our garment subcontracting costs were approximately HK\$19.0 million, HK\$37.4 million, HK\$48.1 million and HK\$17.4 million, representing approximately 30.1%, 59.6%, 54.3% and 54.0% of our total subcontracting costs and approximately 6.2%, 12.1%, 13.1% and 12.9% of our total purchase costs, respectively. Since we have not entered into any long-term subcontracting agreements with any of our garment subcontractors and we generally place our orders to our garment subcontractors on an order-by-order basis, the terms and conditions, price, quality assurance of our arrangement with our garment subcontractors may be subject to change. Our Directors believe that having the garment products produced by our own production facilities would enable us to have a better control on the product quality in the garment production process so as to ensure that we meet our customers' requirements and lower our dependence on our subcontractors.

(ii) Demand for our products

Our Directors also believe that there will be sufficient demand for our products to support our production expansion plan for the following reasons:

- (a) we believe there will be continuous demand for our loungewear and sleepwear products from our Apparel Retail Brand Customers in the coming years based on the historical growth in our revenue during the Track Record Period. Our revenue derived from our sales to our Apparel Retail Brand Customers increased from approximately HK\$453.7 million for the year ended 31 December 2016 to approximately HK\$505.1 million for the year ended 31 December 2017, and further increased to approximately HK\$590.2 million for the year ended 31 December 2018;
- (b) we believe we will continue to achieve growth in the sales quantity of our products based on the growth in the sales quantity of our products during the Track Record Period, which increased by approximately 3.0% in the year ended 31 December 2017 when compared to the year ended 31 December 2016, and by approximately 13.0% in the year ended 31 December 2018 when compared to the year ended 31 December 2017. In particular, the sales quantity of our loungewear products increased by approximately 20.8% in the year ended 31 December 2017 when compared to the year ended 31 December 2016 and by approximately 85.1% in the year ended 31 December 2018 when compared to the year ended 31 December 2017;
- (c) in the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and listed on the New York Stock Exchange with over 3,500 stores in the U.S. and over 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from Customer F for over 600,000 units of sleepwear products, of which we had delivered approximately 134,000 units during the five months ended 31 May 2019 and our Group recognised approximately HK\$3.0 million in respect of the sales and delivery of these units as revenue for the five months ended 31 May 2019. We expect to deliver the rest of the products to Customer F throughout 2019 according to the delivery schedule agreed with Customer F; and
- (d) according to our Industry Consultant, from 2019 to 2023, the overall sleepwear and loungewear retail markets in the U.S. and Europe are expected to experience a relatively mild growth at forecasted CAGR of 4% and 2.9%, respectively. For the year ended 31 December 2018, the total sales of sleepwear and loungewear for the U.S. market amounted to approximately US\$5,031 million and the total sales of the sleepwear and loungewear for the European market amounted to approximately US\$5,880 million. Our total revenue for 2018 only represented approximately 0.7% of the total sales of

the U.S. and European sleepwear and loungewear markets. Given the significant market size of the loungewear and sleepwear markets in the U.S. and Europe, we believe we would be able to capture the existing demand despite their mild growth.

(iii) Capacity of our existing production facilities

For the three years ended 31 December 2018 and the five months ended 31 May 2019, the utilisation rate of the garment production facilities in our Cambodia Factory was approximately 72.7%, 69.6%, 94.2% and 90.9%, respectively and the utilisation rate of the garment production facilities in our Henan Factory was 84.1%, 67.8%, 93.0% and 100.0%, respectively. As a result of the limited production capacity of our existing production facilities, we had outsourced the production of a portion of our garment products to subcontractors during the Track Record Period. Our Directors estimated that if we produce garment products at our own production facilities instead of engaging subcontractors, the utilisation rate of our production facilities would have been 91.9%, 99.5%, 142.6% and 136.2%, respectively for the Track Record Period, which demonstrated that our need to expand our production facility through the establishment of our Vietnam Factory. For further details, please refer to the paragraph headed “Our production facilities — Production capacity” below in this section.

Further, our Directors believe that based on the current uncertainty in relation to global trade policies and tariffs, our Group would benefit from having an additional production facility in another country of origin for our products which our Directors believe would serve to offer more flexibility to our customers and help us mitigate the potential risk of higher tariffs as a result of trade conflicts between the U.S. and the PRC. The current uncertainty in relation to global trade policies and tariffs has increased our Group’s needs to construct the Vietnam Factory as part of our expansion plan.

(iv) Cost-saving

The average subcontracting cost of each piece of garment product produced by our garment subcontractors was approximately HK\$7.6 for the year ended 31 December 2018. To the best of our Directors’ knowledge, the major component of the production cost of garment is the cost of raw materials. The other major production costs of garment comprises staff cost, manufacturing overhead and depreciation costs related to plant and equipment. Our Directors believe that our Group will benefit from cost-saving upon the establishment of our own garment production factory in Vietnam. For illustration purpose, if we assume the cost of raw materials remains unchanged, and take the estimated capital expenditures proposed to be spent on the establishment of the Vietnam Factory and other production costs into account, we estimate that the production cost (assuming similar specifications as those that we outsourced to our subcontractors to produce during the Track Record Period) in our Vietnam Factory will be approximately HK\$5.7 per piece. Such estimated

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production cost is approximately 25.0% or approximately HK\$1.9 lower than our average subcontracting cost per piece of garment product for the year ended 31 December 2018.

Our Directors estimate that the expected breakeven period of the Vietnam Factory is approximately one year, and the estimated investment payback period is approximately eight years.

(v) Adding an additional production facility in another country of origin

During the Track Record Period and up to the Latest Practicable Date, our products were produced in the PRC, Cambodia and Vietnam and currently the majority of our Group's products for export to the U.S. are produced in either Vietnam or in the PRC. Based on our historic financial data, the revenue generated from our garment products that were produced in the PRC and exported to the U.S. for the three years ended 31 December 2018 and the five months ended 31 May 2019 accounted for approximately 45.5%, 35.3%, 32.6% and 33.2% of our total revenue, respectively and approximately 65.2%, 48.2%, 47.5% and 51.2%, of our revenue generated from the U.S., respectively. As advised by our U.S. Legal Advisers, since 1 September 2019 and up to the Latest Practicable Date, all of our sleepwear and loungewear products produced in the PRC and exported to the U.S. are on the Product List, and hence are subject to the 15% Tariffs. We are also advised by our U.S. Legal Advisers that we will not be the party responsible for the payment of any tariffs as we ship our products to our U.S. customer on a FOB basis and our U.S. customer is the importer of record and is responsible for payment of any tariffs. As a result, the cost of our U.S. customers will increase and our U.S. customers may pass the increase in the costs partially or entirely on to us, which will have a potential adverse impact on our business operations and financial condition. During the Track Record Period, all of our products exported to the U.S. from the PRC were sold to Target. Assuming that (i) the 15% Tariffs will remain at the same tariff rate; (ii) Target is to fully pass on the effect of the 15% Tariffs on our products imported from the PRC on a FOB basis to our Group; and (iii) all of our products manufactured in the PRC and shipped to Target in the U.S. are on the Product List, for illustrative purpose only, the potential financial impact of the 15% Tariffs on us would be approximately HK\$5.0 million for the period from 1 October to 31 December 2019, based on our Group's confirmed orders from Target involving products imported from the PRC on a FOB basis for the same period. Assuming that the 15% Tariffs was effective on 1 January 2019, for illustrative purpose only, the financial impact of the 15% Tariffs on us would be approximately HK\$27.1 million for the year ending 31 December 2019, based on our Group's actual sales with Target for the five months ended 31 May 2019 and our Group's confirmed orders from Target for the seven months ending 31 December 2019, involving products imported from the PRC on a FOB basis. Our Directors believe that such impact on us would be reduced for the year ending 31 December 2020 due to the implementation of our contingency plan as discussed below.

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In order to minimise the financial and operational impact on our Group, our Group has prepared a contingency plan whereby our Group will gradually switch the country of production of products that are produced in the PRC and exported to the U.S. from the PRC to other countries such as Vietnam and Cambodia which are not subject to the 15% Tariffs or other tariffs imposed by the U.S. which may be relevant to our business. Our Group anticipates that we will move such production to subcontractors in Vietnam in the short run and plans to set up its own production facility in another country of origin and then switch such production to the Vietnam Factory in the long run in case the trade tensions persist. Our Directors consider that this contingency plan will be able to mitigate any effect that the 15% Tariffs (if imposed) may have on us as our U.S. Legal Advisers has confirmed that even if the raw materials of a product are sourced from the PRC, as long as the country of production of that product is not the PRC, then such product will not be subject to the 15% Tariffs. For further details relating to our contingency plan in relation to the trade tensions, please refer to the paragraph headed “Financial information — Recent development” of this prospectus.

Details of our proposed Vietnam Factory

Our Directors consider that Vietnam is a suitable location for our Group to set up a new garment production factory in order to cater for any potential growth in demand from customers and reduce our subcontracting costs for the following reasons:

According to the Industry Consultant, the sleepwear and loungewear OEM manufacturing industry in Vietnam grew at a CAGR of 7.5% between 2014 and 2018, which in part was attributable to its favourable tax policy and lower costs due to depreciation of VND against the USD for the same period. Further, according to the Industry Consultant, there are a number of entry barriers such as (i) investment costs; (ii) unskilled labour force; and (iii) undeveloped infrastructure. Our Directors believe that we would be able to overcome these entry barriers as (i) the Vietnam government has set up favourable policies and subsidies for industry players to encourage investments from foreign investors, such as our Group; (ii) we could provide trainings to our workers in our Vietnam Factory given our expertise in garment production; and (iii) we have identified the location for our Vietnam Factory that has a relatively stable utility supply and is in close proximity with the international airport and ports of Danang.

As advised by our Industry Consultant, our Group may be able to benefit from tax holidays and reductions in Vietnam, which may include tax exemptions for garment manufacturers who carry out new investment project within specific industrial zones for an initial period of two years followed by tax reductions of 50% for additional four years. Moreover, additional tax reductions are applicable if garment manufacturers employ several ethnic minorities and/or female staff.

We currently plan to acquire the land-use rights in respect of a land area of not more than 45,000 sq.m. in Vietnam. In selecting a suitable location for our Vietnam Factory, we take into account various factors such as (i) location of the site; (ii) land costs; (iii) supporting facilities nearby; and (iv) availability of workers in the area. Our Directors have

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identified Phu Da city, Thua Thien Hue Province as a possible location in Vietnam for our Vietnam Factory because our Directors consider it is easily accessible from the international airport and ports of Danang.

As at the Latest Practicable Date, our Group had not identified the exact location of the site in Phu Da city, Thua Thien Hue province for the Vietnam Factory but had obtained some preliminary quotations for possible locations as well as the relevant construction costs. Based on those quotations, we expect that the total capital expenditure for setting up our Vietnam Factory will be approximately HK\$20.0 million, of which (i) approximately HK\$2.8 million will be used to acquire the land use right for 48 years; (ii) approximately HK\$9.6 million will be used to finance the construction costs for the main factory building, other ancillary buildings such as dormitory building and warehouse as well as infrastructure construction such as roads for the Vietnam Factory; and (iii) approximately HK\$7.6 million will be used for the purchase of machinery used for garment production. Our Directors expect that the above estimated capital expenditure will be entirely financed by the net proceeds from the Global Offering. Our Group proposes to purchase the following machineries and equipment for the Vietnam Factory:

| Major machineries and equipment | Function | Quantity | Estimated capital expenditure <i>HK\$'000</i> |
|--|----------------|----------|--|
| Sewing machines | Sewing garment | 675 | 5,400 |
| Automatic spreading and cutting machines | Cutting fabric | 1 | 1,560 |
| Iron table and ironer | Ironing | 80 | 390 |
| Packaging machines | Packaging | 50 | 50 |
| Others (<i>Note</i>) | N/A | N/A | 240 |

Note: Others include tables, chairs, needle detectors and sewage trough.

We plan to hire 850 employees for our Vietnam Factory in its first year of operation and will further increase the number of employees to expand it to a similar scale of our Cambodia Factory in the future. Our Directors expect that the relevant operating and administrative expenses of our Vietnam Factory will be financed by our internal resources.

We expect that our Vietnam Factory will have an estimated annual production capacity similar to that of our Cambodia Factory. During the Track Record Period, the average estimated annual production capacity of our Cambodia Factory was approximately 10.3 million pieces. Based on the assumption that our Vietnam Factory will have an estimated annual production capacity of approximately 10.3 million pieces, we estimate that the total production capacity of our Group will be increased by approximately 64.7% upon the establishment of our Vietnam Factory.

Our Directors expect that our Vietnam Factory would absorb most of the garment production work we currently outsource to garment subcontractors upon commencement of its operation. For the year ended 31 December 2018, the total number of garment products

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of which we outsourced the production to garment subcontractors amounted to approximately 6.3 million pieces. On the assumption that our Vietnam Factory will take up the production of the same amount in its first year of production, it is estimated that the utilisation rate of the Vietnam Factory in its first year of operations would be approximately 61.2%.

The following table sets out our indicative timetable for the construction of our new factory in Vietnam:

| Timetable | Event |
|------------------------|---|
| Fourth quarter of 2019 | Identify and acquire the land use rights for the new factory |
| Second quarter of 2020 | Commence construction work for the factory building, and place purchase orders for the relevant equipment and machinery |
| Fourth quarter of 2020 | Conduct trial tests on the equipment and facilities |
| First quarter of 2021 | Begin staff recruitment and training and commence garment production |

Further diversification of our customer and revenue base

When selecting our customers, we place emphasis on the customer's credibility and purchasing power. Therefore, we normally select our new customers based on the scale of their operations. During the year ended 31 December 2017, we had successfully obtained new sales orders from Customer C, a major Apparel Retail Brand Customer based in Spain with stores across North America, Europe and Asia.

In the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and is listed on the New York Stock Exchange. It has over 3,500 stores in the U.S. and 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from Customer F for over 600,000 units of sleepwear products, of which we had delivered approximately 134,000 units during the five months ended 31 May 2019 and our Group has recognised approximately HK\$3.0 million in respect of the sales and delivery of these units as revenue for the five months ended 31 May 2019. We expect to deliver the rest of the orders to Customer F throughout 2019 according to the delivery schedule agreed with Customer F. Our Group had continued to conduct business with our Apparel Retail Brand Customers, namely Target, Customer A, Marks and Spencer plc, Customer C and Customer F after 31 May 2019 and up to the Latest Practicable Date.

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For the three years ended 31 December 2018 and the five months ended 31 May 2019, our new customers contributed approximately 1.5%, 1.7%, 1.2% and 2.0% of our total revenue, respectively. The table below sets out the number of our new customers by type of product or service provided by our Group during the Track Record Period:

| | 2016 | | 2017 | | 2018 | | For the five months ended 31 May 2019 | |
|----------------------------|--------------------------------|--|--------------------------------|--|--------------------------------|--|---------------------------------------|--|
| | <i>Number of new customers</i> | <i>Contribution to our total revenue (%)</i> | <i>Number of new customers</i> | <i>Contribution to our total revenue (%)</i> | <i>Number of new customers</i> | <i>Contribution to our total revenue (%)</i> | <i>Number of new customers</i> | <i>Contribution to our total revenue (%)</i> |
| Garment products | N/A | N/A | 1 | 1.2 | N/A | N/A | 1 | 1.4 |
| Garment processing service | 7 | 0.7 | 3 | 0.1 | 3 | 0.7 | N/A | N/A |
| Fabric products | 21 | 0.8 | 12 | 0.4 | 7 | 0.5 | 5 | 0.6 |
| Total | 28 | 1.5 | 16 | 1.7 | 10 | 1.2 | 6 | 2.0 |

Our Directors confirm that over the years, our Group has sought to enter into business relationships with reputable customers, and cultivating relationship with prospective customers takes time. Additionally, our prospective customers may have to conduct inspection on our factories and quality check on our products before engaging us. Our Directors consider that based on the reasons abovementioned, there was not a substantial increase in the number of our new customers during the Track Record Period and up to the Latest Practicable Date. Our Group will continue to strive to maintain business relationships with existing customers as well as to cultivate relationship with new customers.

In terms of sales and marketing activities, our Group will continue to have regular meetings with our customers as well as prepare samples and designs for our customers' consideration. We may also consider participating in industry exhibitions to exhibit our products to a wider customer audience.

Adjustment in our product mix

During the Track Record Period, our products mainly comprised sleepwear and loungewear products. For the three years ended 31 December 2018 and the five months ended 31 May 2019, sleepwear products accounted for approximately 80.5%, 78.4%, 71.6% and 66.2% respectively of our total revenue while loungewear products accounted for approximately 16.9%, 17.8%, 25.4% and 31.7% of our total revenue, respectively. The proportion of our loungewear products gradually increased over the Track Record Period and our Directors believe that this was attributable to our ability to enrich the variety of our loungewear products based on our experience in garment manufacturing.

According to the Industry Consultant, the increasing popularity of loungewear products was due to consumers looking for relaxing and comfortable clothes which is in line with recent wellness trends. Our Directors therefore believe that there will be an increasing demand for our loungewear products and we plan to continue to increase the proportion of

BUSINESS

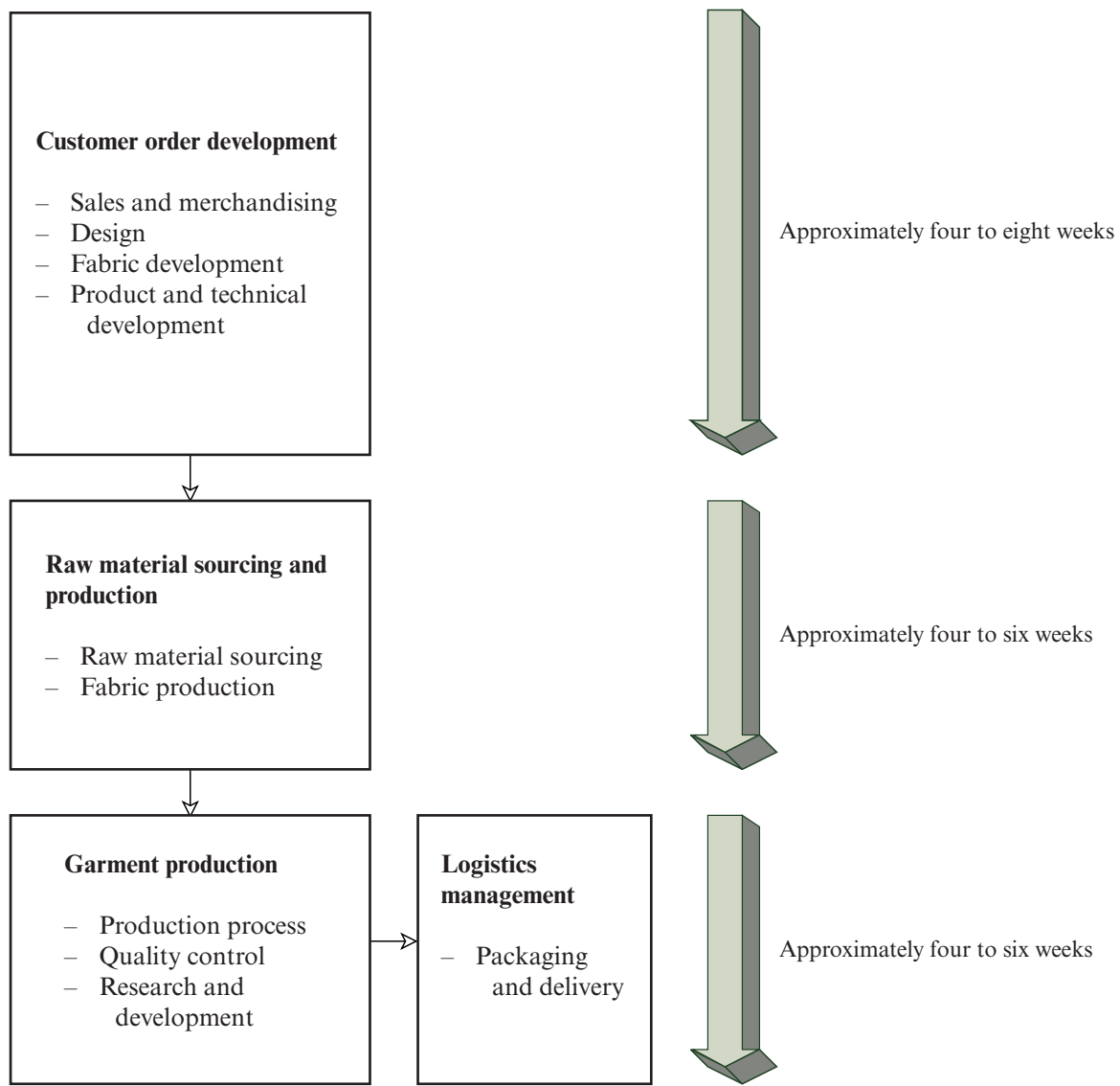
loungewear products in our overall product mix. Our Directors also believe that we are able to leverage our expertise in producing sleepwear products to add variety to our loungewear product lines because sleepwear and loungewear products share similarities in terms of designs and fabrics used.

OUR BUSINESS MODEL

Business model

There are four major steps in our business model, namely (i) customer order development; (ii) raw material sourcing and production; (iii) garment production; and (iv) logistics management.

The flowchart below illustrates the flow of operations of our business process:



Customer order development

Our customer order development is divided into the following components:

Sales and merchandising

Our sales and merchandising team is responsible for cultivating and maintaining our customer relationships. In particular, they are responsible for handling customer enquiries and follow up on orders and shipments as well as maintaining existing customer relationships.

Our sales and merchandising team acts as the coordinator in collating information from different teams in our Group to prepare a quotation for customers' order enquiries.

As at the Latest Practicable Date, our sales and merchandising team consisted of 58 members and is led by Mrs. Tam, our executive Director, who has over 35 years of experience in the garment industry.

Design

Our in-house design team works closely with our sales and merchandising team to understand our customers' needs and make recommendations to them. Our design team either suggests product designs to our customers; or designs products based on our customers ideas or specifications.

As at the Latest Practicable Date, our design team consisted of 10 members and our head of our design team has over eight years of experience in garment design.

Fabric development

Our fabric team leverages our experience in fabric sourcing as well as our understanding in fabric features to recommend the types of fabric to be used in our customers' products. Our fabric team may also suggest alternative fabrics to our customers. Our fabric team works with our research and development team to understand fabric structure and aims to identify different fabric we source and improve the quality and comfort of the fabric that we produce.

As at the Latest Practicable Date, our fabric team consisted of 20 members and our head of our fabric team has over 10 years of experience in the garment industry.

Product and technical development

Our product and technical development team is mainly responsible for developing samples of products, preparing structural and production guidance of products as well as producing paper patterns for our garment production team.

As at the Latest Practicable Date, our product and technical development team consisted of 38 members and our head of product and technical development team has over 10 years of experience in the garment industry.

BUSINESS

Raw material sourcing and production

Upon confirmation of the order from our customers, our sales and merchandising team informs our fabric team to carry out raw material sourcing.

Our major raw materials for our garment production include fabric and accessories. We source finished fabric from our suppliers for garment production and we also produce our own greige fabric at our Henan Factory, which is then further processed by our subcontractors to become finished fabric. For greige fabric production, our major raw material is yarn which mainly sourced from yarn producers in the PRC. As part of our expansion plan, we intend to establish a spinning mill at our Henan Factory. Please refer to the paragraph headed “Our business strategies — Vertical expansion of our fabric production capability” below in this section for further details.

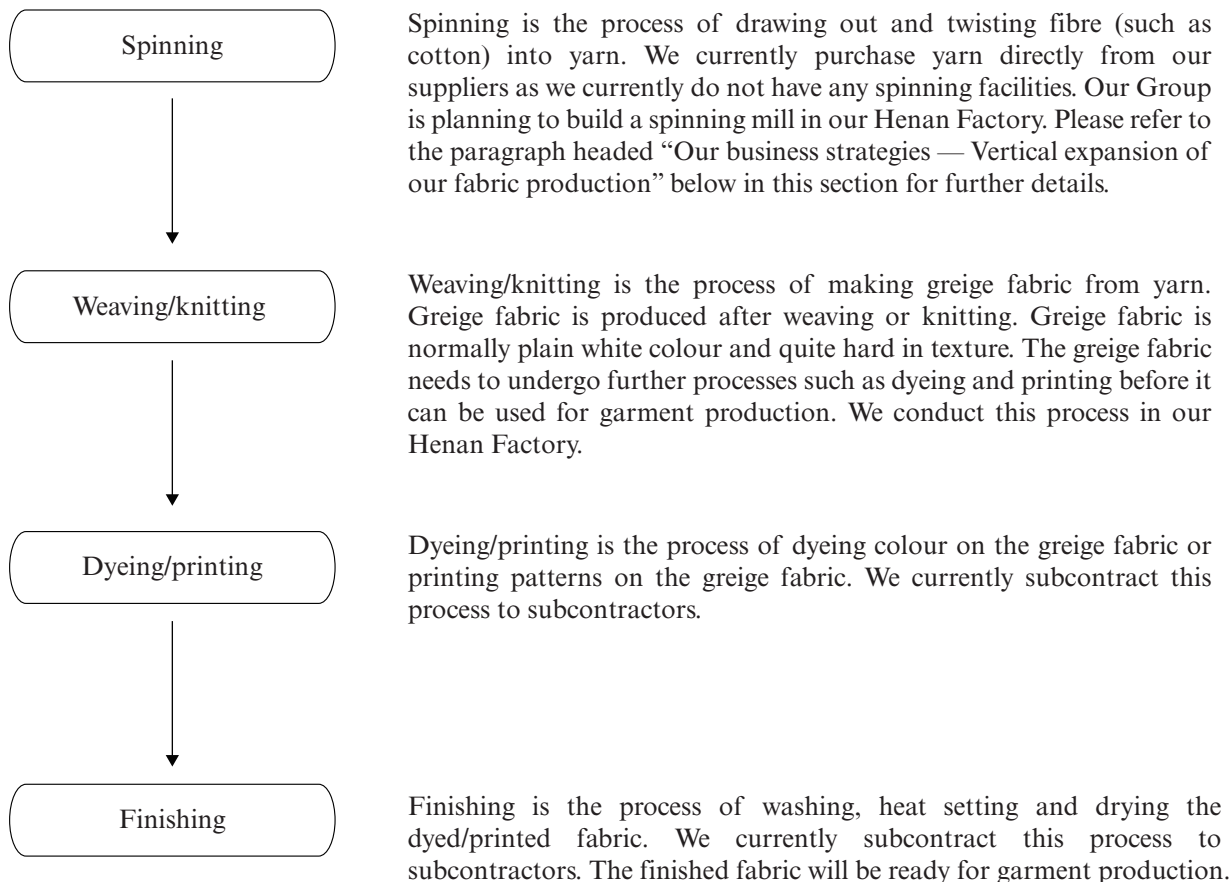
The table below sets out our raw material costs for the periods indicated:

| | 2016 | | For the year ended 31 December | | | | For the five months ended 31 May | | | |
|-------------|----------------|--------------|--------------------------------|--------------|----------------|--------------|----------------------------------|--------------|----------------|--------------|
| | HK\$'000 | % | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Fabric | 117,959 | 48.8 | 146,765 | 59.8 | 169,103 | 60.5 | 45,187 | 63.5 | 58,364 | 57.1 |
| Yarn | 71,721 | 29.7 | 48,297 | 19.7 | 55,691 | 19.9 | 13,695 | 19.2 | 28,045 | 27.5 |
| Accessories | | | | | | | | | | |
| (Note) | <u>52,136</u> | <u>21.5</u> | <u>50,540</u> | <u>20.5</u> | <u>54,845</u> | <u>19.6</u> | <u>12,296</u> | <u>17.3</u> | <u>15,771</u> | <u>15.4</u> |
| | <u>241,816</u> | <u>100.0</u> | <u>245,602</u> | <u>100.0</u> | <u>279,639</u> | <u>100.0</u> | <u>71,178</u> | <u>100.0</u> | <u>102,180</u> | <u>100.0</u> |

Note: Accessories mainly included buttons, hangers and labels.

BUSINESS

The procedures for fabric production are normally divided into the following stages: (i) spinning; (ii) weaving/knitting; (iii) dyeing/printing; and (iv) finishing.



Our fabric team normally requires approximately four to six weeks to source raw materials from our suppliers and produce greige fabric as a raw materials at our Henan Factory for garment production.

As at the Latest Practicable Date, our greige fabric production team in our Henan Factory consisted of 116 members.

Garment production

Production process

Upon confirmation of the order from our customers, our sales and merchandising team informs our production team to prepare for the production process. Our garment production process is normally designed by our production team and our product and technical development team together. The production plan sets out the steps for the production team to follow in garment production.

BUSINESS

Our production team considers different factors such as our production capacity, preferred manufacturing location of our customers and raw material availability in order to determine whether the garment manufacturing will be carried out in (i) our Henan Factory; or (ii) our Cambodia Factory.

Our standard garment production procedures are summarised as follows:

| Major step | Description |
|----------------------------|---|
| Paper patterning | <ul style="list-style-type: none">To transfer the dimensions to paper patterns and make adjustments for size differences according to the design of garments |
| Fabric cutting | <ul style="list-style-type: none">To cut fabrics based on the dimensions of the paper patterns |
| Sewing | <ul style="list-style-type: none">To sew fabric into garments |
| Interim quality inspection | <ul style="list-style-type: none">To inspect quality of semi-finished garments and identify any material default in production lines |
| Trimming | <ul style="list-style-type: none">To trim accessories onto garments |
| Washing | <ul style="list-style-type: none">To wash the finished garment products |
| Ironing | <ul style="list-style-type: none">To iron and restore the original size of garments and maintain the shape of presentation through application of appropriate temperature, humidity and pressure during ironing process |
| Final quality inspection | <ul style="list-style-type: none">To perform final inspection on finished garments to ensure the product quality and specifications are consistent with customers' requirements before delivery |

Quality control

Our Group places strong emphasis on product quality and has stringent quality control system over the course of our entire production processes, which our Directors believe is one of the key factors contributing to our success.

Fabric quality control

We inspect the quality of the fabric provided by our suppliers. Throughout the fabric production process (including our subcontractors who perform fabric production processes to produce finished fabric from greige fabric produced in our Henan Factory), we may visit our suppliers to conduct quality inspection and testing at different stages to ensure the quality of the fabric meets our standards. Our quality control team also works together with our research and development team to conduct certain tests on our fabric to confirm that the fabric meets requirements of our own and as well as our customers.

Garment quality control

Throughout the manufacturing process of garment products, we perform quality inspection and testing at different stages to ensure the quality of our garment products. Our quality control team members record their quality control check results as well as remove any product which does not meet our requirement. We inform subcontractors the specific requirements pursuant to instructions from our customers for each purchase order. We may send our quality control team to the production facilities of the subcontractors for on-site monitoring and provide relevant guidance such as the specific requirements from our customers from time to time. We may also send our quality control team to our subcontractors to inspect on the quality of the garment products in accordance with our customers' requirements before delivery to our customers.

During the Track Record Period, we passed the inspections conducted by our customers and our Directors confirm that we had not received any material complaints from our customers in relation to any or any material quality control issue during the Track Record.

Product returns, warranty and liabilities

We are exposed to potential product liability claims in respect of injuries alleged to be caused by our products purchased by the end user. Our Directors consider that the risk of potential product liability claim is relatively low in view of the nature of our products. Nonetheless, for further details of potential product liability claims, please refer to paragraph headed "Risk factors — Risks relating to our business — We are exposed to product liability claims and product recall" in this prospectus.

We provide warranties to certain of our customers as to the quality of products that we manufacture. As a general policy, we will accept any product return made due to defects caused by us and bear the relevant costs. We will also conduct an investigation to ascertain the cause of the defect. Depending on the circumstances of each case, we may repair or replace the defective products to our customers. If we receive a defective product complaint from a customer, we will conduct an investigation to ascertain the cause of the defect and may seek compensation from any third-party supplier or subcontractor if they are at fault.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, there was no product liability claim against us, and we had neither experienced any product return nor any customer complaint against our products which would lead to any material adverse impact on our Group.

Research and development

Members of our research and development team are located in our Shanghai office as well as our Henan Factory. We have in-house laboratories in our Henan Factory and our Shanghai office and have various equipment for analysis of fabric, including the weight, strength, colour, pattern and textures of the fabric. Our research and development team also works with our product and technical development team as well as our fabric team to study fabric structure and fabric production processes to enhance the quality of our fabric and improve on the efficiency of our fabric production process. Our research and development costs for the three years ended 31 December 2018 and the five months ended 31 May 2019 were approximately HK\$1.9 million, HK\$2.8 million, HK\$3.0 million and HK\$0.3 million, respectively.

Logistics management

Packaging and delivery

We pack our products in accordance with our customers' specifications. At the request of our customers, our Group arranges for them to be delivered to our customers' specified logistics providers. The delivery term of our garment products is usually on a FOB basis.

Inventory control

Our inventory mainly consisted of (i) raw materials; (ii) work in progress; and (iii) finished goods. Our raw materials mainly included finished fabric, yarn and accessories. Our work in progress consisted of fabric or garment products which were still under production. Our finished goods consisted of our finished fabric or garment products which had not yet been delivered to our customers. As at 31 December 2016, 2017, 2018 and 31 May 2019, our total value of raw materials in our inventory were approximately HK\$63.7 million, HK\$62.1 million, HK\$57.9 million and HK\$75.8 million, respectively.

We generally procure raw materials and supplies which are specific to our customers' sales orders and generally on an order-by-order basis. We use an inventory management system for the management of our inventories, which help to ensure that our inventory records are up-to-date and are properly and accurately kept for the purpose of monitoring the quantity and movements of inventories.

Our inventory turnover days for the three years ended 31 December 2018 and the five months ended 31 May 2019 were approximately 69 days, 82 days, 83 days and 113 days respectively.

BUSINESS

During the Track Record Period and up to the Latest Practicable Date, we had not experienced any material shortage of raw materials and any incidents which our customers failed to honour their purchase orders that resulted in any material loss to our Group during the Track Record Period.

OUR PRODUCTION FACILITIES

We have two garment manufacturing facilities, namely our Cambodia Factory, a leased property, and our Henan Factory, a self-owned property, which commenced production in 2011 and 2014, respectively. During the Track Record Period, we also outsourced some of the production of garment products and fabric to our subcontractors.

We undertake the production of our garment products in both our Cambodia Factory and our Henan Factory. As at the Latest Practicable Date, we had approximately 2,000 employees in our Cambodia Factory and Henan Factory.

The table below sets out the details of our Cambodia Factory and Henan Factory:

| | Address | Approximate area (<i>sq.m.</i>) | Functions | Number of our employees as at the Latest Practicable Date |
|---------------------|---|---|--|---|
| Cambodia Factory | Trapeang Thloeng Village Sangkat Chaom Chau Khan Pur Senchey Phnom Penh Cambodia | 9,376 | Production of sleepwear and loungewear products | 1,264 |
| | Paparak Khang Tboung Village Sangkat Chaom Chau Khan Pur Senchey Phnom Penh Cambodia | 1,200 | | |
| | Paparak Khang Tboung Village Sangkat Kakab Khan Pur Senchey Phnom Penh Cambodia | 603 | | |
| Henan Factory | Eastern Side of Gongye Avenue Southern Side of Keji Avenue Yanling County Xu Chang City Henan Province the PRC | 38,533 | Production of greige fabric and sleepwear and loungewear products | 723 |

BUSINESS

As advised by our Cambodia Legal Advisers, our Group had obtained all relevant and valid licenses, permits and certificates necessary for the production activities carried out at the Cambodia Factory.

As advised by our PRC Legal Advisers, our Group had obtained all relevant and valid licenses, permits and certificates necessary for the production activities carried out at the Henan Factory.

We carry out regular maintenance on our production machinery. We have our own technicians in our Cambodia Factory and Henan Factory to maintain our production machinery.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, we had not experienced any suspension or termination of any material license, permit or certificate necessary for the operation of our production facilities or any material disruption of production in our production facilities.

BUSINESS

Production capacity

As at the Latest Practicable Date, our Group owned 980 sets of weaving machines and knitting machines for greige fabric production and 919 sets of sewing machines for garment production in our Henan Factory and over 1,500 sets of sewing machines in our Cambodia Factory for garment production. As at the Latest Practicable Date, these production machinery and equipment had an estimated useful life from five to 10 years.

The following table sets out the estimated annual production capacity and estimated utilisation rate for each of our production facilities during the Track Record Period:

| | For the year ended 31 December | | | For the five months ended 31 May |
|--|---|-------------|-------------|---|
| | 2016 | 2017 | 2018 | 2019 |
| Cambodia Factory (Garment production) | | | | |
| Estimated annual production capacity <i>(Note 1) (pieces in million)</i> | 11.8 | 10.5 | 8.6 | 3.3 |
| Actual annual production volume <i>(pieces in million)</i> | 8.6 | 7.3 | 8.1 | 3.0 |
| Utilisation rate (%) <i>(Note 2)</i> | 72.7 | 69.6 | 94.2 | 90.9 |
| Henan Factory (Garment production) | | | | |
| Estimated annual production capacity <i>(Note 1) (pieces in million)</i> | 6.4 | 6.3 | 4.3 | 1.4 |
| Actual annual production volume <i>(pieces in million)</i> | 5.4 | 4.3 | 4.0 | 1.4 |
| Utilisation rate (%) <i>(Note 2)</i> | 84.1 | 67.8 | 93.0 | 100.0 |
| Subcontractors (Garment production) | | | | |
| Actual annual production volume <i>(pieces in million)</i> | 2.8 | 5.1 | 6.3 | 2.0 |
| Utilisation rate (%) (assuming the production of garment products by subcontractors were conducted by our own production facilities) <i>(Note 3)</i> | 91.9 | 99.5 | 142.6 | 136.2 |
| Henan Factory (Fabric production) | | | | |
| Estimated annual production capacity <i>(Note 1) (metres in million)</i> | 8.2 | 7.9 | 7.0 | 2.3 |
| Actual annual production volume <i>(metres in million)</i> | 6.7 | 6.9 | 6.6 | 2.5 |
| Utilisation rate (%) <i>(Note 2)</i> | 81.5 | 87.8 | 94.3 | 108.7 <i>(Note 4)</i> |

BUSINESS

Notes:

1. For each of the three financial years ended 31 December 2018 and the five months ended 31 May 2019, the estimated production capacity of each of our Cambodia Factory and Henan Factory is calculated by using the quarter of that financial year/period (in the case of five months ended 31 May 2019) in which the relevant factory recorded the highest actual production volume or three months ended 31 March 2019 (as it is the only quarter during the period of five months ended 31 May 2019), and dividing the figure by 78 (total number of working days per quarter assuming 26 working days per month) then multiplying the result by 312 (total number of working days per year assuming 26 working days per month) or by 130 for the five months ended 31 May 2019. The calculation does not take into account the different production processes and duration of production of different garment products due to variation of differences in types, styles and complexity and assumes that the same garment product will be made and that the same production volume could be achieved for the each month. On the basis of assumptions made above, our Directors consider that the estimated production capacity and utilisation rate may not be an accurate indication of the use of our annual production capacity or meaningful in evaluating our future profitability.
2. The estimated utilisation rate is the actual number of products produced divided by the estimated production capacity for the relevant year.
3. During the Track Record Period, our Group had subcontracted a portion of our garment production to subcontractors in Vietnam. Assuming these garment products to be produced by our own factories, our actual production volume will increase and the utilisation rates were calculated based on our current production capacities of our Cambodia Factory and Henan Factory for illustration purposes only.
4. For the five months ended 31 May 2019, the utilisation rate for fabric production of our Henan Factory was approximately 108.7%. Such utilisation rate was calculated by the actual production volume for the five months ended 31 May 2019 divided by the estimated production capacity for the same period, in which the estimated production capacity was estimated based on the actual production volume of the first quarter of 2019 (as it is the only quarter during the period of the five months ended 31 May 2019). Our Directors confirm that, due to seasonal fluctuation, our average production volume for the two months ended 31 May 2019 was higher than the average production volume for the three months ended 31 March 2019 and therefore the utilisation rate for the five months ended 31 May 2019 was over 100%.

BUSINESS

SALES

Our products

Our garment products can be categorised into the following main categories: (i) sleepwear products; and (ii) loungewear products. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total revenue was approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million and HK\$214.6 million, respectively.

The following table sets out our revenue by product and service for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|---------------------------------------|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|----------------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| Sleepwear products | 376,787 | 80.5 | 411,547 | 78.4 | 435,834 | 71.6 | 138,912 | 75.0 | 141,978 | 66.2 |
| Loungewear products | 78,882 | 16.9 | 93,568 | 17.8 | 154,379 | 25.4 | 40,487 | 21.9 | 68,090 | 31.7 |
| Greige fabric | 4,558 | 1.0 | 8,465 | 1.6 | 9,619 | 1.6 | 4,215 | 2.3 | 4,380 | 2.0 |
| Processing services ^(Note) | <u>7,636</u> | <u>1.6</u> | <u>11,272</u> | <u>2.2</u> | <u>8,554</u> | <u>1.4</u> | <u>1,594</u> | <u>0.8</u> | <u>153</u> | <u>0.1</u> |
| Total | <u>467,863</u> | <u>100.0</u> | <u>524,852</u> | <u>100.0</u> | <u>608,386</u> | <u>100.0</u> | <u>185,208</u> | <u>100.0</u> | <u>214,601</u> | <u>100.0</u> |

Note: Our revenue from processing service mainly represented manufacturing fees from other garment manufacturers for which we acted as subcontractors to provide garment production service.

Sleepwear products

Sleepwear is normally worn indoors and worn to bed. Our sleepwear products mainly include (i) pyjama sets; (ii) t-shirts; (iii) pants; (iv) shorts; (iv) sleep dress; and (v) robes. The main characteristics of our sleepwear products are softness and comfortableness. Our sleepwear products are mainly produced using materials such as cotton, rayon, tencel and polyester. A selection of our Group's sleepwear products is shown below:



Loungewear products

Our loungewear products mainly include (i) hoodies; (ii) t-shirts; and (iii) joggers. The main characteristic of our loungewear products is comfortableness. Our loungewear products are designed to be worn both indoors and outdoors and for multiple purposes such as leisure and housework. Our loungewear products are mainly produced using natural fibres such as cotton, rayon, modal and polyester. Synthetic fibres, such as polyester, are also used in producing loungewear products. A selection of our Group's loungewear products is shown below:



BUSINESS

Sales volume and average selling price

Our Group determines the selling price of our products based on a variety of factors including (i) costs of raw materials; (ii) size of orders; (iii) product design and technical requirements of production; (iv) type of fabric; (v) production lead time; and (vi) production and labour costs.

The table below sets out our sales volume and average selling price by our products for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|--|---|--|---|--|---|--|---|--|---|--|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | Average Sales volume (<i>'000</i>) | Average selling price (<i>HK\$</i>) | Average Sales volume (<i>'000</i>) | Average selling price (<i>HK\$</i>) | Average Sales volume (<i>'000</i>) | Average selling price (<i>HK\$</i>) | Average Sales volume (<i>'000</i>) | Average selling price (<i>HK\$</i>) | Average Sales volume (<i>'000</i>) | Average selling price (<i>HK\$</i>) |
| Sleepwear products (<i>pieces</i>) | 13,747 | 27.4 | 13,865 | 29.7 | 14,189 | 30.7 | 4,678 | 29.7 | 4,436 | 32.0 |
| Loungewear products (<i>pieces</i>) | 1,690 | 46.7 | 2,042 | 45.8 | 3,780 | 40.8 | 1,110 | 36.5 | 1,860 | 36.6 |
| Greige fabric (<i>metres</i>) | 662 | 6.9 | 1,145 | 7.4 | 1,408 | 6.8 | 606 | 7.0 | 592 | 7.4 |

Our customers

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total revenue was approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million and HK\$214.6 million, respectively. The revenue attributable to our five largest customers was approximately HK\$458.7 million, HK\$509.6 million, HK\$594.0 million and HK\$211.9 million, respectively, which accounted for approximately 98.0%, 97.0%, 97.6% and 98.8% of our total revenue, respectively, during the same periods. Three, four, four and four of our five largest customers during the Track Record Period were Apparel Retail Brand Customers. Among which, Target, Customer A and Marks and Spencer plc had established long-term business relationships with our Group ranging between six to 14 years as at Latest Practicable Date.

We set out below a brief background of our five largest customers during the Track Record Period.

BUSINESS

For the year ended 31 December 2016

| Customers | Type of products or services provided by our Group | Principal business activities | Credit term (days) | Settlement method | Numbers of years of relationship as at the Latest Practicable Date | Total amount of revenue (HK\$'000) | As a percentage of our total revenue (%) |
|--------------------------|--|---|-----------------------|-------------------|--|---------------------------------------|--|
| 1 Target | Sleepwear and loungewear products | A U.S. based department store retailer listed on the New York Stock Exchange | 60 (Note 1) | Wire transfer | 14 | 324,413 | 69.3 |
| 2 Customer A (Note 2) | Sleepwear and loungewear products | A multinational fashion retailer headquartered in Ireland which is part of a company listed on the London Stock Exchange | 30 | Wire transfer | Six | 104,903 | 22.4 |
| 3 Marks and Spencer plc | Sleepwear and loungewear products | A multinational retailer that specialises in selling clothing, home products and food products, headquartered in the U.K. and listed on the London Stock Exchange | 75 | Wire transfer | Six | 24,361 | 5.2 |
| 4 Samil Cambo Co., Ltd | Processing services | A private company primarily engaged in manufacturing of garment products | 15 | Cheque | Four | 2,865 | 0.6 |
| 5 Customer B (Note 3) | Sleepwear and loungewear products | A private company primarily engaged in manufacturing of garment products | 0 | Wire transfer | N/A (Note 3) | 2,193 | 0.5 |

BUSINESS

For the year ended 31 December 2017

| Customers | Type of products or services provided by our Group | Principal business activities | Credit term (days) | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of revenue (HK\$'000) | As a percentage of our total revenue (%) |
|--------------------------|--|---|-----------------------|-------------------|---|---------------------------------------|--|
| 1 Target | Sleepwear and loungewear products | A U.S. based department store retailer listed on the New York Stock Exchange | 120 (Note 1) | Wire transfer | 14 | 382,679 | 72.9 |
| 2 Customer A (Note 2) | Sleepwear and loungewear products | A multinational fashion retailer headquartered in Ireland which is part of a company listed on the London Stock Exchange | 30 | Wire transfer | Six | 99,717 | 19.0 |
| 3 Marks and Spencer plc | Sleepwear and loungewear products | A multinational retailer that specialises in selling clothing, home products and food products, headquartered in the U.K. and listed on the London Stock Exchange | 75 | Wire transfer | Six | 16,426 | 3.1 |
| 4 Customer C | Sleepwear and loungewear products | A multinational fashion retailer listed on the Madrid Stock Exchange in Spain | 90 | Wire transfer | Two | 6,293 | 1.2 |
| 5 Customer D | Greige fabric | A private company primarily engaged in sales of fabric and textile related products | 30 | Wire transfer | Three | 4,460 | 0.8 |

BUSINESS

For the year ended 31 December 2018

| Customers | Type of products or services provided by our Group | Principal business activities | Credit term (days) | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of revenue (HK\$'000) | As a percentage of our total revenue (%) |
|--------------------------|--|--|-----------------------|-------------------|---|---------------------------------------|--|
| 1 Target | Sleepwear and loungewear products | A U.S. based department store retailer listed on the New York Stock Exchange | 120 (Note 1) | Wire transfer | 14 | 412,656 | 67.8 |
| 2 Customer A (Note 2) | Sleepwear and loungewear products | A multinational fashion retailer headquartered in Ireland which is part of a company listed on the London Stock Exchange | 30 | Wire transfer | Six | 159,501 | 26.2 |
| 3 Marks and Spencer plc | Sleepwear and loungewear products | A multinational retailer that specialises in selling clothing, home products and food products, headquartered in the U.K. and listed on the London Stock Exchange | 75 | Wire transfer | Six | 11,852 | 1.9 |
| 4 Customer C | Sleepwear and loungewear products | A multinational fashion retailer listed on the Madrid Stock Exchange | 90 | Wire transfer | Two | 6,204 | 1.0 |
| 5 Customer E | Greige fabric | A private company primarily engaged in wholesale of fabric and clothing and provision of export and import services, a subsidiary of a company listed on the Shanghai Stock Exchange | 7 | Wire transfer | One | 3,790 | 0.6 |

BUSINESS

For the five months ended 31 May 2019

| Customers | Type of products or services provided by our Group | Principal business activities | Credit term (days) | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of revenue (HK\$'000) | As a percentage of our total revenue (%) |
|--------------------------|--|---|-----------------------|-------------------|---|---------------------------------------|--|
| 1 Target | Sleepwear and loungewear products | A U.S. based department store retailer listed on the New York Stock Exchange | 120 (Note 1) | Wire transfer | 14 | 137,300 | 64.0 |
| 2 Customer A (Note 2) | Sleepwear and loungewear product | A multinational fashion retailer headquartered in Ireland which is part of a company listed on the London Stock Exchange | 30 | Wire transfer | Six | 62,521 | 29.1 |
| 3 Marks and Spencer plc | Sleepwear and loungewear products | A multinational retailer that specialises in selling clothing, home products and food products, headquartered in the U.K. and listed on the London Stock Exchange | 75 | Wire transfer | Six | 7,296 | 3.4 |
| 4 Customer F | Sleepwear and loungewear products | A retailer based in the U.S. and is listed on the New York Stock Exchange | 90 | Wire transfer | one | 2,950 | 1.4 |
| 5 Customer G | Greige fabric | A private company primarily engaged in sales of fabric and textile relaxed products | 30 | Wire transfer | four | 1,871 | 0.9 |

Notes:

1. The credit term for Target was extended from 60 days for the year ended 31 December 2016 to 120 days for the two years ended 31 December 2018. For further details of the reasons for the extension in credit term for Target, please refer to the paragraph headed “Financial information — Description of selected items of consolidated statements of financial position — Trade and other receivables” in this prospectus.
2. This includes four affiliated entities which are under same apparel retail brand and under common control of the same parent company listed on the London Stock Exchange.

BUSINESS

3. Customer B was placed into administration in May 2016. Our Company made provision for its trade receivables from such customers for the year ended 31 December 2016. For further details, please refer to the paragraph headed “Financial information — Description of selected items from consolidated statements of comprehensive income — Other gains and losses” in this prospectus.

We enter into individual purchase orders with our customers for sales of our products. We generally grant our customers a credit period ranging from zero to 120 days.

The purchase orders from our Apparel Retail Brand Customers normally contain details, including (i) the pricing terms; (ii) specifications of the goods which they have ordered; (iii) volume; (iv) date of delivery; (v) delivery terms; and (vi) payment methods.

Further, most of our Apparel Retail Brand Customers have their sets of standard terms and conditions of business which form part of the contracts between us and our customers. For illustration purposes, we have set out the salient terms and conditions of Target in the paragraph headed “Our relationship with Target and Customer A” below in this section.

During the Track Record Period, we had not entered into any long-term contracts with our Apparel Retail Brand Customers. According to the Industry Consultant, it is an industry practice for garment manufacturing industry to accept customers/order on an order-by-order basis without entering into long-term contracts. For the related risks, please refer to the paragraph headed “Risk factors — Risks relating to our business — We do not enter into long-term contracts with our Apparel Retail Brand Customers” in this prospectus.

Our Directors confirm that none of our Directors, their associates, or any shareholder who owned more than 5% of the share capital of our Company, had any interest in any of the five largest customers of our Group during the Track Record Period.

Our customers which were also our suppliers during the Track Record Period

During the Track Record Period, two of our customers, namely Samil Cambo Co., Ltd. and Customer D, (the “**Two Customers**”) were also our suppliers. Samil Cambo Co., Ltd. primarily engaged in the manufacturing of garment products. We purchased fabric from Samil Cambo Co., Ltd. as raw material for our garment production in our Cambodia Factory and we also provided garment production subcontracting services through our Cambodia Factory to Samil Cambo Co., Ltd. during the Track Record Period. Customer D primarily engaged in sales of fabric and textile related products. Customer D purchased greige fabric produced by our Henan Factory and sold a small amount of finished fabric to us during the Track Record Period.

BUSINESS

The table below sets out our revenue and purchase from the Two Customers as a percentage of our total revenue and total purchase during the Track Record Period:

| | For the year ended 31 December | | | For the five months ended 31 May 2019 |
|---|--------------------------------|------|------|---|
| | 2016 | 2017 | 2018 | 2019 |
| Revenue from the Two Customers | | | | |
| — Revenue from the Two Customers as percentage of our total revenue during the relevant year/period (%) | 0.9 | 1.4 | 0.3 | 0.1 |
| Purchase from the Two Customers | | | | |
| — Purchase from the Two Customers as percentage of our total purchase during the relevant year/period (%) | 0.001 | 1.4 | 2.2 | 3.4 |
| Gross profit generated from the Two Customers (<i>HK\$'000</i>) | 278 | 326 | 81 | 2 |

Our Directors confirmed that (i) the negotiations of the terms of our sales to and purchases from the Two Customers were conducted separately and on individual basis and the sales and purchases were neither inter-connected nor inter-conditional with each other; and (ii) the terms of transactions with the Two Customers are in line with the market and similar to those transactions with our other customers and suppliers.

Our relationship with Target and Customer A

Background of Target and Customer A

Target is a U.S. based department store retailer and listed on the New York Stock Exchange. Target had over 1,800 physical stores in the U.S. according to its annual report issued in 2018. Customer A is a multinational fashion retailer headquartered in Ireland and is part of a company listed on the London Stock Exchange.

Historical business relationship with Target and Customer A

Target was our largest customer during the Track Record Period. We started an indirect business relationship with Target when we sold our sleepwear products to its sourcing agent in 1995. In 2004, we began to supply our garment products directly to Target. Customer A was our second largest customer during the Track Record Period. We started our business relationship with Customer A in 2012 by selling our sleepwear products to it.

Contractual relationship with Target and Customer A

Our Group does not enter into any long-term contracts with Target or Customer A, which is in line with industry practice. Instead, both Target and Customer A place individual purchase orders with our Group on an order-by-order basis from time to time. According to the Industry Consultant, it is an industry practice for garment manufacturers to enter into individual purchase orders on an order-by-order basis with its customers. In relation to the purchase orders entered into with Target and Customer A, our Group has agreed the following salient terms and conditions with these customers.

Commitment: In respect of Target: Commitment to purchase goods arises only upon Target's issuance of a purchase order to our Group.

The purchase order generally includes, amongst others, the following major terms:

- (i) specifications of the products;
- (ii) quantity;
- (iii) pricing terms; and
- (iv) date of delivery.

In respect of Customer A: Commitment to purchase goods arises only upon Customer A's issuance of an official numbered purchase order to our Group.

Acceptance: In respect of Target: A purchase order is deemed to be accepted by us if our written rejection of such purchase order is not received by within five days.

In respect of Customer A: A purchase order is deemed to be accepted by us if our written rejection of such purchase order is not received by within five days.

Breach: In respect of Target: we will be in breach of the terms and conditions if, amongst others we fail to ship the garment products within the delivery dates; or the products are defective in whole or in part.

In respect of Customer A: we will be in breach of the terms and conditions if, amongst others:

- (a) we cease or threaten to cease to carry on business; or

- (b) our financial position deteriorates to such an extent that in the opinion of Customer A the capability of our Group to adequately fulfil its obligations under the purchase orders with them have been placed in jeopardy.

Cancellation:

Target may cancel any purchase order, at any time prior to shipment or delivery of the products. In the event of such cancellation, we shall immediately stop all work under the purchase order and cause any of our suppliers or subcontractors to cease work.

Target shall refund to us the purchase price of finished goods and our costs reasonably incurred for the order.

However, the refund amount will be deducted by, among others, any cost which may have been saved as a result of the cancellation, and any amount realised by us by reselling the products.

Customer A may cancel any purchase order, at any time prior to shipment or delivery of the products.

Customer A shall refund to us the value for the work in progress relating to the supply of goods specified in the purchase orders less the amount obtained by us for selling on such goods or work in progress.

Our Directors confirmed that we had not experienced any material cancellation of purchase orders during the Track Record Period and up to the Latest Practicable Date.

Remedies for breach:

In the event of any breach of the conditions by us, Target may:

- (i) accept the products;
- (ii) cancel any purchase order; or
- (iii) reject and return products to us at our expense.

In the event of the foregoing, Target shall not be liable to us for any product other than those accepted by Target.

BUSINESS

In the event of any breach of the conditions by us, Customer A may:

- (i) accept the products;
- (ii) rescind the purchase order or cancel the purchase order;
- (iii) reject and return products to us at our risk and expense;
- (iv) an option for us to remedy defect in products at our own expense.

Our Directors confirmed that we did not commit any material breach of any terms of the purchase order during the Track Record Period and up to the Latest Practicable Date.

Disposition of rejected goods:

Target may reject and return products to us when: (i) Target believes that the products contain defects or hazards that could create a substantial risk of injury to any person or property; or (ii) products which fail any test of Target's standards. We will be responsible for all the related costs and expenses.

Customer A may reject and return products to us at our own risk and expense on the basis that the price for the products shall be apportioned accordingly.

Credit term:

We normally grant a credit period of 120 days to Target.

We normally grant a credit period of 30 days to Customer A.

Nominated suppliers

Target may request our Group to purchase certain supplies such as accessories (clothes hangers) from nominated suppliers. Our Group bears all the costs when we are required to purchase materials from the nominated suppliers and we take into account the costs of the raw materials from the nominated suppliers when deciding on the price of our products. Our Directors confirmed that Customer A has not made such request to us.

BUSINESS

Reliance on Target and Customer A

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from our sales to Target was approximately HK\$324.4 million, HK\$382.7 million, HK\$412.7 million and HK\$137.3 million, respectively, representing 69.3%, 72.9%, 67.8% and 64.0% of our total revenue for the same periods.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our revenue generated from our sales to Customer A was approximately HK\$104.9 million, HK\$99.7 million, HK\$159.5 million and HK\$62.5 million, respectively, representing 22.4%, 19.0%, 26.2% and 29.1% of our total revenue for the same periods.

For further details of our customer concentration risk, please refer to the paragraph headed “Risk factors — Risks relating to our business — Our Group relied heavily on Target and Customer A during the Track Record Period” in this prospectus. Notwithstanding our reliance on Target and Customer A during the Track Record Period, our Directors are of the view that we will be able to control the risk of reliance, and our reliance on both Target or Customer A would not adversely affect our business operation, our financial performance and would not impact on our Group’s suitability for Listing due to the following reasons:

(i) Valued business partner and mutual benefits

We have cultivated long-term relationships with both Target and Customer A. We started an indirect business relationship with Target in 1995 when we sold our sleepwear products to a sourcing agent of Target. In 2004, we started a direct business relationship with Target. In line with our business strategy to place more emphasis on sizeable customers, our Group has continued our business relationship with Target. Revenue generated from Target was approximately HK\$324.4 million, HK\$382.7 million, HK\$412.7 million and HK\$137.3 million for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. On the other hand, we started our relationship with Customer A in 2012 by selling our sleepwear products to it. Revenue generated from our sales to Customer A was approximately HK\$104.9 million, HK\$99.7 million, HK\$159.5 million and HK\$62.5 million for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively.

Our Directors believe that the increase in revenue generated from both Target and Customer A can demonstrate that both customers are satisfied with our products and therefore continued to place orders to us. Additionally, we were awarded with “Partner Award of Excellence” by Target in multiple years, which recognised our performance as well as our business practices. Target also granted us the status of “Strategic Business Partner” in 2008 which allows us to have a collaborative and transparent working relationship with Target. Further, during the Track Record Period, we provided garment products to Customer A according to the requirement and preferences of Customer A. Our Directors believe that both Customer A and our Group benefited from such arrangement.

BUSINESS

Given the above reasons, our Directors believe that both customers treat our Group as their valued business partner, and that we have established a long-term strategic relationship with them and such relationship will have mutual benefits. As such, our Directors believe that it would be commercially sensible for Target and Customer A to continue to place orders for our products and the likelihood of termination of our relationship with Target and Customer A is low.

(ii) Diversification of customers base and ability to source new customers

Our Directors consider that we have made considerable efforts to reduce our reliance on Target and Customer A by pursuing business opportunities with new customers. In the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and is listed on the New York Stock Exchange. It has over 3,500 stores in the U.S. and over 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from Customer F for over 600,000 units of sleepwear products, of which we had delivered approximately 134,000 units during the five months ended 31 May 2019 and our Group recognised approximately HK\$3.0 million in respect of the sales and delivery of these units as revenue for the five months ended 31 May 2019. Leveraging on our Group's track record and experience in the garment industry, we believe that we are able to secure substantial orders and derive recurring revenue from Customer F. Meanwhile, we will continue to expand our customer base by strengthening our reputation as well as to establish preliminary contact with our potential customers. In view of our Group's progress on reducing reliance on Target, our Directors do not foresee any difficulties for our Group to continue diversifying our customer and revenue base in the future.

(iii) Adaptability of our production facilities

Our Group's production facilities are not specifically designed to cater solely for Target, Customer A, or any of our Apparel Retail Brand Customers. If any of our Apparel Retail Brand Customers ceases to place new purchase orders with us, we are capable of allocating our production capacity to service other existing and new customers.

(iv) Industry Landscape

According to the Industry Consultant, it is common for garment manufacturers to have a relatively high level of customer concentration and to enter into individual purchase orders on an order-by-order basis with its customers. Our Directors believe that our relatively high level of customer concentration was in line with the industry norm.

Seasonality

Our business and operating results are subject to seasonal fluctuations. During the Track Record Period, we typically generated higher revenue from our customers for sales of products in winter season. Due to such seasonality effect, the revenue of our Group between August and October of the year typically represents a substantially larger share of total revenues and profits for that year.

BUSINESS

For further details about the risks relating to seasonality, please refer to the paragraph headed “Risk factors — Risks relating to our business — Our business, financial condition and results of operations may be materially and adversely affected by seasonality” in this prospectus.

Export arrangements

Most of our garment products are exported to our customers on FOB terms as stipulated in our customers’ purchase orders. During the Track Record Period, we had our own logistics team to arrange for the delivery of finished products from our Henan Factory and Cambodia Factory to the forwarders at the designated ports of shipment of our customers in the U.S., Europe and other designated areas. We are responsible for the cost of transportation incurred from the delivery of our products to our customers’ designated ports of shipment. Henan Kaiyu, one of our Company’s principal operating subsidiaries, possesses the relevant licenses/permits to conduct import-export operations. For further details relating to such licenses/permits, please refer to the paragraph headed “Business — Licenses and permits” of this prospectus. During the Track Record Period, our Group had also entered into agreements with independent import-export corporations for export services from the PRC to overseas when it considered to be more cost efficient for import-export corporations to provide the export services. The import-export corporations would usually charge us a commission fee based on certain percentage of the value of the raw materials and finished goods cleared, and such commission fee paid/payable by us was recorded as selling and distribution expenses of our Group. During the Track Record Period, our Group engaged a total of two import-export corporations. According to the Industry Consultant, it is an industry practice for manufacturers to engage import-export corporations to handle logistics arrangements between the PRC and the export destinations as these manufacturers may not possess the relevant licenses and/or in-depth knowledge in import-export regulations. According to the Industry Consultant, those manufacturers that are qualified to handle export arrangements themselves may also engage import-export corporations to handle export arrangements for them for efficiency or cost-saving purposes.

BUSINESS

Our Company has an internal control policy based on which our Group selects and evaluates the import-export corporations. Our Group would perform preliminary due diligence on the import-export corporations, including reviewing the corporate information and checking whether they possess the relevant licenses to ensure that they are qualified to provide such services, prior to our Group entering into written service agreements with them. Following the commencement of services, our Group would have our staff monitoring the custom clearance procedures undertaken by the import-export corporations to ensure the export arrangements handled by them are in compliance with the relevant import-export regulations. We would also perform an annual evaluation on the performance of the import-export corporations including reviewing the service quality and responsiveness as well as checking whether they continue to hold the relevant licenses. We set out below the respective background and relationships of the two import-export corporations engaged by our Group during the Track Record Period:

| | Import-export corporation A engaged by our Group for the Track Record Period | Import-export corporation B engaged by our Group for the Track Record Period |
|-----------------------------------|---|---|
| Background and principle business | Mainly engaged in the manufacturing of fabrics | Mainly engaged in the import and export of yarn, fabric, and various types of clothing products |
| Relationship with our Group | <p>Import-export corporation A was also Supplier B, one of our five largest suppliers during the Track Record Period. It supplied us with fabric for the two years ended 31 December 2017</p> <p>Import-export corporation A is an Independent Third Party, which had no past or present relationship with any of our Company, subsidiaries, shareholders, directors, senior management or their any other respective associates during the Track Record Period and up to the Latest Practicable Date</p> | <p>Import-export corporation B is an Independent Third Party, which had no past or present relationship with any of our Company, subsidiaries, shareholders, directors, senior management or their any other respective associates during the Track Record Period and up to the Latest Practicable Date</p> |

BUSINESS

| | Import-export corporation A engaged by our Group for the Track Record Period | Import-export corporation B engaged by our Group for the Track Record Period |
|---------|---|---|
| Pricing | Approximately 1.0% of the value of the goods being exported or imported | Approximately 1.0% of the value of the goods being exported or imported |

Set out below are the salient terms of the agreements entered into between our Group and the import-export corporations:

Major roles and responsibilities

Import-export corporations

- responsible for customs clearance
- handle tax rebate for the export company and return the amount of tax rebate to the export company

Dispute resolution

- any disputes among the parties to be resolved by negotiations
- if disputes could not be resolved by negotiations, any party may as plaintiff initiate proceedings in its own court of jurisdiction

Marketing

Our sales and merchandising team undertakes the following activities to develop new customer relationships and maintain existing customer relationships:

(i) Sourcing trips

Our fabric team meets with our fabric suppliers regularly to learn about the latest updates in fabric supply as well as to provide feedback for the fabric that we purchase from them. Our sales and merchandising team attends these meetings so that they can present the latest fabric trends to our customers.

(ii) Customer visits

We visit our customers regularly to present our new fabric and garment samples as well as designs. Our Directors believe that these regular visits help us to maintain and strengthen customer relationships.

Pricing policy

Our customers provide us with their desired unit prices, their product specifications and requirements when they place orders with us. Our product and technical development team will then conduct analysis on the manufacturing cost before our sales and merchandising team submits the quotation to our customers. If the desired unit prices of our customers cannot meet our target profit margin, our sales and merchandising team may further negotiate with our customers to use alternate raw material or design before the final quotation is submitted.

We adopt a cost-plus pricing model which takes into account a number of factors when determining the price of our products. Such factors include (i) costs of raw materials; (ii) size of orders; (iii) technical production requirements; (iv) production lead time; (v) product design; and (vi) other costs of production.

Credit term and payment terms

Our customers generally settle payments in U.S. dollars through wire transfer. We would issue an invoice to our customers after each purchase order was shipped. We provided a credit period to our customers ranging from zero to 120 days after negotiation with them and assessment on their creditability during the Track Record Period. Credit limits and credit term granted to customers are reviewed regularly.

The average trade receivable turnover days were 57 days, 61 days, 40 days and 22 days for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. We made provision for the amounts of recoverability in doubt and provision of approximately HK\$2.4 million, HK\$2.2 million, HK\$2.4 million and HK\$2.3 million had been made for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively.

OUR SUPPLIERS

During the Track Record Period, our suppliers mainly consisted of (i) suppliers of raw materials; and (ii) subcontractors to which we outsourced the production of some of our garment products and certain fabric production processes.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, we had purchased raw materials from approximately 186, 190, 209 and 94 suppliers, respectively. Our suppliers are located in the PRC, Vietnam, Cambodia and Hong Kong. For the three years ended 31 December 2018 and the five months ended 31 May 2019, purchases from our five largest suppliers amounted to approximately HK\$121.9 million, HK\$102.3 million, HK\$132.2 million and HK\$52.2 million respectively, which accounted for approximately 40.0%, 33.2%, 35.9% and 38.9% of our total purchases, respectively, during the same periods.

BUSINESS

We source raw materials, fabric and accessories from our suppliers and procure garment manufacturing and fabric processing services from our subcontractors. Our Apparel Retail Brand Customers may nominate specific suppliers. Please refer to the paragraph “Our relationship with Target and Customer A — Nominated suppliers” above in this section for further details.

In order to deal with fluctuations in the costs of raw materials, we have established sourcing procedures as follows:

- (i) monitor the price of raw materials through public domains and maintain updates with our suppliers on current market prices;
- (ii) analyse and suggest the required amount of fabric for our customer’s order;
- (iii) obtain preliminary quotations from at least two raw material suppliers for raw materials unless our customer has nominated suppliers;
- (iv) negotiate the price with our raw material suppliers. Final decisions on the engagement of suppliers and material terms are made by our fabric department and sales and merchandising team, taking into account of the size and delivery schedule of our existing orders from customers and the anticipated trend of raw material prices; and
- (v) purchase our raw materials in batches. We conduct the initial purchase amount with a range of approximately 30% to 50% of the entire raw material required, for the preparation of forthcoming garment production of the order mainly due to storage reasons.

The following sets out the general terms of a typical purchase order with our suppliers:

- (i) for the purchase of raw materials, a brief description of the types of raw materials, volume and colour;
- (ii) order volume and unit price of each product;
- (iii) credit term: we generally have a credit term of 0 to 90 days to our suppliers; and
- (iv) delivery: we usually require our raw material suppliers to deliver the raw materials to our production facilities or to our Group’s designated logistics provider which will then ship such products to our Cambodia Factory if such products are sourced from the PRC.

Our Directors confirm that none of our Directors, their associates, or any shareholder who owned more than 5% of the share capital of our Company, had any interest in any of the five largest suppliers of our Group during the Track Record Period. During the Track Record Period, none of our five largest suppliers were also our customers.

BUSINESS

We did not encounter any material difficulties in sourcing raw materials for our requirements during the Track Record Period. We did not have any material disruption to our business due to a shortage of raw materials during the Track Record Period.

We set out below a brief background of our five largest suppliers for each year/period during the Track Record Period.

For the year ended 31 December 2016

| Suppliers | Type of products/services provided to our Group | Principal business activities of supplier | Credit terms | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of purchase (HK\$'000) | As a percentage of total purchases (%) | |
|-----------|---|---|--|-----------------------|---|--|--|------|
| 1 | Supplier A | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Eight | 58,138 | 19.1 |
| 2 | Supplier B (Note) | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | 13 | 31,526 | 10.3 |
| 3 | Supplier C | Clothes hangers | A Hong Kong private company primarily engaged in the sales of plastic hangers | 30 days | Wire transfer | 11 | 11,850 | 3.9 |
| 4 | Supplier D | Fabric | A PRC private company primarily engaged in the sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Three | 10,332 | 3.4 |
| 5 | Supplier E | Fabric | A PRC private company primarily engaged in the manufacturing and processing of fabric and textile related products | Paid on monthly basis | Wire transfer | Nine | 10,084 | 3.3 |

Note: Supplier B was also the Import-Export Corporation A engaged by us during the Track Record Period. For further details, please refer to paragraph headed “Export arrangements” above in this section.

BUSINESS

For the year ended 31 December 2017

| Supplier | Type of products/services provided to our Group | Principal business activities of supplier | Credit term | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of purchase (HK\$'000) | As a percentage of total purchases (%) |
|------------------------|---|---|------------------------------------|-------------------|---|--|--|
| 1 Supplier A | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Eight | 30,919 | 10.0 |
| 2 Supplier B (Note) | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | 13 | 23,475 | 7.6 |
| 3 Supplier F | Fabric | A PRC company primarily engaged in the manufacturing and sales of fabric and garment products and listed in Shenzhen Stock Exchange | 15 days before shipment date | Wire transfer | Two | 19,139 | 6.2 |
| 4 Supplier G | Subcontracting services for garment products | A Vietnam state-owned company primarily engaged in garment production | Within 15 days after delivery date | Wire transfer | Three | 18,214 | 5.9 |
| 5 Supplier H | Subcontracting services for garment products | A Vietnam state-owned company primarily engaged in garment production | Within 15 days after delivery date | Wire transfer | Three | 10,600 | 3.5 |

Note: Supplier B was also the Import-export corporation A engaged by us during the Track Record Period. For further details, please refer to paragraph headed “Export arrangements” above in this section.

BUSINESS

For the year ended 31 December 2018

| Supplier | Type of products/services provided to our Group | Principle business activities of supplier | Credit term | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of purchase (HK\$'000) | As a percentage of total purchases (%) |
|--------------|---|---|------------------------------------|-------------------|---|-------------------------------------|--|
| 1 Supplier A | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Eight | 37,322 | 10.1 |
| 2 Supplier I | Fabric | A PRC private company primarily engaged in the sales of fabric and garment products | Paid on monthly basis | Wire transfer | Two | 33,977 | 9.2 |
| 3 Supplier G | Subcontracting services for garment products | A Vietnam state-owned company primarily engaged in garment production | Within 15 days after delivery date | Wire transfer | Three | 23,262 | 6.3 |
| 4 Supplier J | Fabric | A PRC private company primarily engaged in the sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Two | 20,866 | 5.7 |
| 5 Supplier H | Subcontracting services for garment products | A Vietnam state-owned company primarily engaged in garment production | Within 15 days after delivery date | Wire transfer | Three | 16,772 | 4.6 |

BUSINESS

For the five months ended 31 May 2019

| Suppliers | Type of products/services provided to our Group | Principle business activities of supplier | Credit term | Settlement method | Number of years of relationship as at the Latest Practicable Date | Total amount of revenue (HK\$'000) | As a percentage of our total revenue (%) |
|--------------|---|---|------------------------------------|-------------------|---|---------------------------------------|---|
| 1 Supplier A | Fabric | A PRC private company primarily engaged in the manufacturing and sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Eight | 14,387 | 10.7 |
| 2 Supplier I | Fabric | A PRC private company primarily engaged in the sales of fabric and textile related products | Paid on monthly basis | Wire transfer | Two | 12,940 | 9.6 |
| 3 Supplier K | Fabric | A PRC private company primarily engaged in the sales of fabric and textile related products | 30 days | Wire transfer | One | 10,783 | 8.0 |
| 4 Supplier L | Subcontracting services for garment products | A Vietnamese garment company primarily engaged in garment production | Paid on monthly basis | Wire transfer | One | 7,588 | 5.6 |
| 5 Supplier H | Subcontracting services for garment products | A Vietnam state-owned company primarily engaged in garment production | Within 15 days after delivery date | Wire transfer | Three | 6,526 | 4.9 |

Our subcontractors

Due to the limited production capacities of our Henan Factory and Cambodia Factory, we outsourced a portion of our garment manufacturing as well as certain fabric production processes such as dyeing and finishing to subcontract during the Track Record Period. For further details of our garment production and fabric production, please refer to the paragraphs headed “Our business model — Raw material sourcing and production” and “Our business model — Garment production” above in this section. For the three years ended 31 December 2018 and the five months ended 31 May 2019, our Group had engaged 28, 32, 39 and 21 subcontractors, respectively, of which three, four, six and four were garment subcontractors, and 25, 28, 33 and 17 were fabric subcontractors, for the corresponding periods.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our total subcontracting costs were approximately HK\$62.9 million, HK\$62.7 million, HK\$88.7 million and HK\$32.2 million, respectively, representing approximately 20.6%, 20.3%, 24.1% and 24.0% of our total purchases.

BUSINESS

The table below sets out the subcontracting costs by type of product for the periods indicated:

| | For the three years ended 31 December | | | | | | For the five months ended 31 May | | | |
|--------------|---------------------------------------|--------------|-----------------|--------------|-----------------|--------------|----------------------------------|--------------|-----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| | <i>(unaudited)</i> | | | | | | | | | |
| Fabric | 43,941 | 69.9 | 25,325 | 40.4 | 40,512 | 45.7 | 11,887 | 50.1 | 14,829 | 46.0 |
| Garment | 18,951 | 30.1 | 37,420 | 59.6 | 48,148 | 54.3 | 11,824 | 49.9 | 17,390 | 54.0 |
| Total | 62,892 | 100.0 | 62,745 | 100.0 | 88,660 | 100.0 | 23,711 | 100.0 | 32,219 | 100.0 |

Our garment subcontracting costs increased by approximately 97.5% from approximately HK\$19.0 million for the year ended 31 December 2016 to approximately HK\$37.4 million for the year ended 31 December 2017 and further increased by approximately 28.7% to HK\$48.1 million for the year ended 31 December 2018. The increase in garment subcontracting costs was primarily due to the increase in our outsourcing to garment subcontractors as a result of the increase in demand from our customers and the limited production capacity of our Henan Factory and Cambodia Factory. Such increasing trend was generally in line with the number of garment products we outsourced the production of which to subcontractors. For the three years ended 31 December 2018 and the five months ended 31 May 2019, we outsourced the production of approximately 2.8 million, 5.1 million and 6.3 million and 2.0 million pieces of garment products to subcontractors, respectively.

Our fabric subcontracting costs decreased by approximately 42.4% from approximately HK\$43.9 million for the year ended 31 December 2016 to approximately HK\$25.3 million for the year ended 31 December 2017 as we have purchased more finished fabric. Hence, we produced less fabric on our own and required less fabric subcontracting services such as spinning and dyeing. Our fabric subcontracting costs then increased by approximately 60.0% from approximately HK\$25.3 million for the year ended 31 December 2017 to HK\$40.5 million for the year ended 31 December 2018 as we engaged subcontractors to produce more customised fabric.

Before selecting our subcontractors, we will conduct site visits to the factories of potential subcontractors to evaluate their technical and physical production capabilities, including but not limited to: (i) production capacity of factories; (ii) historical performance on product quality and delivery; (iii) pricing; (iv) factory facilities and safety; and (v) financial condition. Some of our Apparel Retail Brand Customers have certain restrictions on us from subcontracting the production of our sleepwear and loungewear products such that we can only subcontract to certain approved subcontractors. All of our garment subcontractors are approved subcontractors, which have undergone all the relevant approval procedures of our Apparel Retail Brand Customers including factory inspection and financial audit.

We review the performance, standard of services provided and subcontracting fees charged by our subcontractors.

BUSINESS

We do not enter into any long-term contract with our subcontractors and place orders with them on an order-by-order basis. Our typical subcontracting arrangement with our subcontractors includes the following terms:

- pricing;
- specifications of services to be subcontracted;
- quantity of products;
- quality requirement; and
- date of delivery of products.

We may provide technical requirements and raw materials sourced from our suppliers or greige fabric produced by our Henan Factory to subcontractors. We inform our subcontractors the specific requirements pursuant to instructions from our customers for each purchase order. We may also send members of our quality control team to the production facilities of the subcontractors for on-site monitoring and provide relevant guidance such as the specific requirements from our customers from time to time. We may inspect the quality of the garment products in accordance with our customers' requirements before the delivery of our garment products to our customers. Please see "Quality control — Garment quality control" in this section for further details.

Our Directors intend to further reduce the subcontracting costs and minimise the possible operational risks to which our Group may be exposed, including but not limited to, (i) our possible reliance on existing subcontractors for carrying out our garment and fabric production processes; (ii) possible failure to identify a sufficient number of new subcontractors that meet our quality standards and possess adequate capacity to accept our orders from time to time; (iii) not being able to ensure all the fabric and garment products produced by our subcontractors fulfil our customers quality standards and delivery schedules from time to time; and (iv) possible increasing management efforts, staff resources and costs to monitor the quality standard of the processes undertaken by our subcontractors.

As confirmed by our Directors, during the Track Record Period and up to the Latest Practicable Date, we did not experience any material dispute with our subcontractors. Moreover, we did not experience any material difficulty in engaging subcontractors that are able to satisfy our subcontracting requirements during the same period.

Credit period and payment terms

We generally obtain credit period ranging from 0 to 90 days from our suppliers and subcontractors. We generally settle our payments by wire transfer in RMB for our PRC suppliers and subcontractors and U.S. dollars for our overseas suppliers.

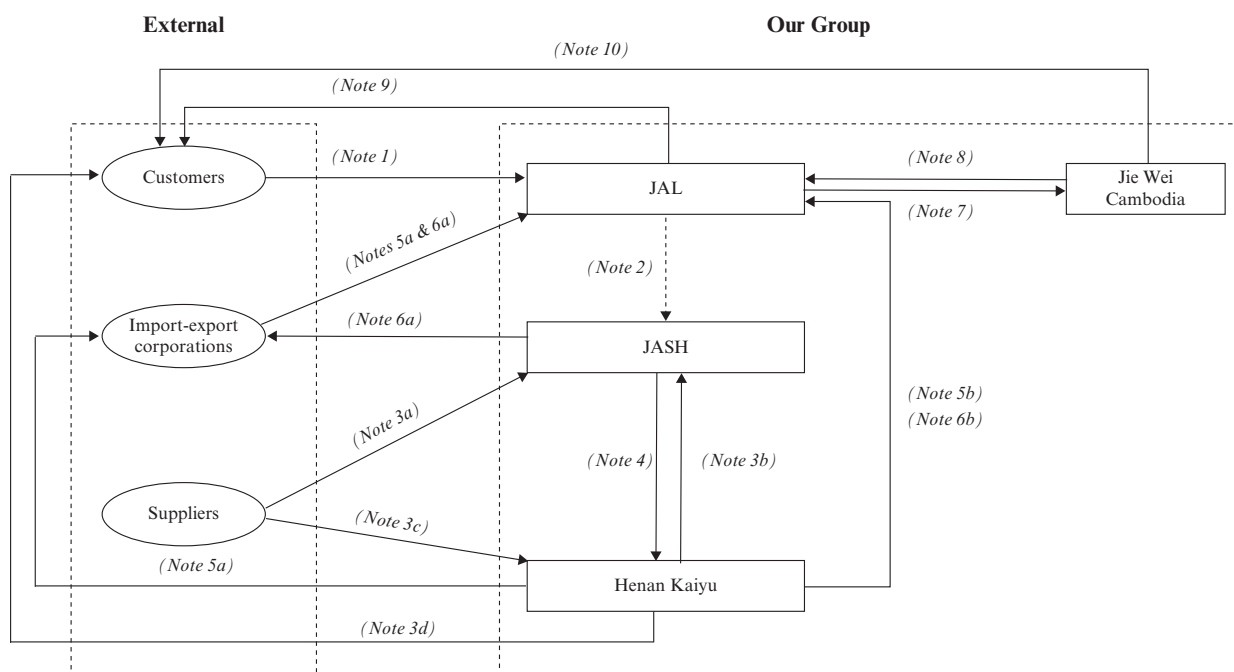
BUSINESS

The average trade payable turnover days were 26 days, 37 days, 33 days and 40 days for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively.

TRANSFER PRICING ARRANGEMENT

During the Track Record Period, our Group conducted our operations primarily through our subsidiaries, namely JAL, JASH, Henan Kaiyu and Jie Wei Cambodia. JAL is our Company's principal operating subsidiary which engages in the sales of sleepwear and loungewear products to our customers and controls the pricing decisions for such sales while JASH is our internal trading entity and Henan Kaiyu and Jie Wei Cambodia are our production entities.

The diagram below shows the flow of intra-group transactions during the Track Record Period:



Notes:

1. Customers placed order with JAL
2. JAL instructed JASH to source raw materials for the production
- 3a. JASH sourced raw materials from external suppliers
- 3b. JASH also sourced greige fabric from Henan Kaiyu (i.e. Transaction 1 as described below)
- 3c. Henan Kaiyu also sourced raw materials from external suppliers
- 3d. Henan Kaiyu sold greige fabric to external customers

BUSINESS

Garment products manufactured by our Henan Factory

4. JASH sold raw materials to Henan Kaiyu
- 5a. Henan Kaiyu sold completed garment products to JAL through import-export corporations (i.e. Transaction 1 as described below)
- 5b. Henan Kaiyu also sold completed garment products to JAL directly (i.e. Transaction 1 as described below)

Garment products manufactured by our Cambodia Factory

- 6a. JASH sold the raw materials to JAL via import-export corporations
- 6b. Henan Kaiyu also sold raw materials (such as finished fabric) to JAL directly (i.e. Transaction 2 as described below)
7. JAL delivered raw materials to Jie Wei Cambodia for garment manufacturing
8. Jie Wei Cambodia provided garment production services to JAL in consideration for garment processing fee
9. JAL sold garment products to external customers
10. Jie Wei Cambodia provided garment production services to external customers

Upon receipt of sales orders from our customers, JAL instructed JASH to source raw materials for the production of our garment products. JASH sourced raw materials from external suppliers or sourced greige fabric from Henan Kaiyu.

In respect of the garment products manufactured by our Henan Factory

For garment products which were manufactured by our Henan Factory, JASH sold the raw materials to Henan Kaiyu which then conducted manufacturing of sleepwear and loungewear products with such raw materials. After the garment manufacturing processes were completed, Henan Kaiyu then sold the finished sleepwear and loungewear products to JAL which then sold such finished products to our customers.

In respect of the garment products manufactured by our Cambodia Factory

For garment products which were manufactured by our Cambodia Factory, JASH sold raw materials to import-export corporations which would then sell such raw materials to JAL. Henan Kaiyu may also sell raw materials to JAL directly. JAL then delivered such raw materials to our Cambodia Factory and procured garment manufacturing services from Jie Wei Cambodia while JAL still retains the title to such raw materials and finished sleepwear and loungewear products manufactured by Jie Wei Cambodia. JAL then sold the finished products manufactured by Jie Wei Cambodia to our customers.

The reason for having different operation models of our Henan Factory and Cambodia Factory was mainly because the Cambodia regulations allowed for companies to operate under the business model of cut, make and trim (i.e. the business model of our Cambodia factory) and our Directors preferred this model as Jie Wei Cambodia did not need extra

working capital for purchase of raw materials and to pay for the related VAT (since all raw materials were provided by JAL and Jie Wei Cambodia was only required to bear labour cost and overhead expenses, which are relatively less).

Our finished goods produced in our Cambodia Factory or our Henan Factory were exported on a FOB basis and were delivered to our customers by our designated logistics services providers.

Henan Kaiyu and Jie Wei Cambodia are the manufacturing arms of our Group and are the only two of our subsidiaries which make revenue from both external customers and our group companies. Henan Kaiyu produces greige fabric which may be sold to our external customers or JASH for garment production. Jie Wei Cambodia provides garment production services to our external customers or JAL which will then sell garment products to our external customers. Our Directors considered that the pricing and profit margin for such transactions are similar for external customers and our group companies. JASH is responsible for centralised sourcing of raw materials for our Group and does not have any external customers.

JAL undertakes most of the operational functions, which include entering into contracts with overseas customers, coordinating logistics arrangement and invoicing our customers. JAL also bears operational risks, such as production costs, marketing risk, credit risk and product liability risk. Our Group adopts a cost-plus pricing policy which takes into account a number of factors such as (i) cost of raw materials; (ii) technical production requirement; and (iii) product design. Given most of the operational functions and risks were undertaken by JAL, the profits and the respective profits tax of JAL during the Track Record Period were much higher than those of Henan Kaiyu, JASH and Jie Wei Cambodia. Our Directors consider that our intra group transactions are conducted on an arm's length basis and are on similar terms with external customers and the corresponding profit margins are reasonable and commensurate with the functions and risks of the relevant group companies.

Transfer pricing review

Our Group has engaged an independent tax consultant, an international professional accounting firm in Hong Kong to conduct transfer pricing review on our Group's intra-group transactions during the Track Record Period and evaluate our compliance with the relevant transfer pricing regulations. Our tax consultant applied the transactional net margin method as the transfer pricing review methodology, with the net cost plus margin (i.e. the ratio of operating profit to total operating costs) ("NCP") as the profit level indicators. Our tax consultant performed comparable searches by employing a third-party database, where different quantitative and qualitative screening were used to come up with a set of comparable companies for each relevant transaction and establish an arm's length profit range based on the latest financials of the comparable companies accordingly.

The key qualitative and quantitative criteria applied in the comparable searches include geography, standard industry classification codes, independence indicator, financial availability, functional comparability and product/service comparability.

BUSINESS

The table below sets out the NCP margin of each of our Company's operating subsidiaries and the respective benchmarking NCP interquartile range results ("IQR") established by the comparable companies during the Track Record Period:

In respect of Henan Kaiyu

| Transaction 1 (Note 1) | NCP (%) | IQR (%) |
|---------------------------------------|-------------------|-------------------|
| For the year ended 31 December | | |
| 2018 | 5.67 | 1.26–8.60 |
| 2017 | 4.81 | 1.50–8.03 |
| 2016 | 0.72 | 1.95–6.48 |

| Transaction 2 (Note 2) | NCP (%) | IQR (%) |
|---------------------------------------|----------------------------|----------------------------|
| For the year ended 31 December | | |
| 2018 | –1.90 | 0.98–3.34 |
| 2017 | 2.47 | 0.98–3.34 |
| 2016 | not applicable (Note 3) | not applicable (Note 3) |

In respect of JASH (Note 4)

| For the year ended 31 December | NCP (%) | IQR (%) |
|---------------------------------------|-------------------|-------------------|
| 2018 | 1.14 | 0.98–3.34 |
| 2017 | 0.76 | 0.98–3.34 |
| 2016 | 0.40 | 0.73–3.19 |

In respect of Jie Wei Cambodia (Note 5)

| For the year ended 31 December | NCP (%) | IQR (%) |
|---------------------------------------|-------------------|-------------------|
| 2018 | 0.29 | 2.89–6.52 |
| 2017 | –8.39 | 2.02–5.67 |
| 2016 | 4.23 | 0.92–5.79 |

Notes:

- 1: Transaction 1 represented (i) Henan Kaiyu's sales of greige fabric to JASH; and (ii) Henan Kaiyu's sales of finished garment products to JAL (directly or through import-export corporations).
- 2: Transaction 2 represented Henan Kaiyu's sales of finished fabric to JAL (which will then pass such finished fabric to Jie Wei Cambodia for production of garment products).

BUSINESS

- 3: For the year ended 31 December 2016, Henan Kaiyu did not conduct Transaction 2 with JAL as JAL sourced finished fabric from JASH through import-export corporations instead.
- 4: The transactions relating to JASH represented (i) JASH sales of raw materials to Henan Kaiyu and (ii) JASH sales of raw materials to JAL (through import-export corporations).
- 5: The transaction relating to Jie Wei Cambodia represented Jie Wei Cambodia charging garment processing services fee to JAL.

For the year ended 31 December 2016, Henan Kaiyu and JASH both recorded a NCP margin outside the benchmark NCP interquartile range of the benchmarking results established by comparable companies. According to our tax consultant, the potential transfer pricing tax adjustment which our Group may bear would be approximately HK\$193,000, which is the difference in tax payable calculated by adopting the lower quartile of the IQR for the respective year.

For the year ended 31 December 2017, JASH and Jie Wei Cambodia both recorded a NCP margin outside the benchmark NCP interquartile range of the benchmarking results established by comparable companies. According to our tax consultant, the potential transfer pricing tax adjustment which our Group may bear would be approximately HK\$317,000, which is the difference in tax payable calculated by adopting the lower quartile of the IQR for the respective year.

For the year ended 31 December 2018, Henan Kaiyu recorded a NCP margin in respect of Transaction 2 outside the benchmark NCP interquartile range of the benchmarking results established by comparable companies. According to our tax consultant, there is no potential transfer pricing tax adjustment even though the NCP margin is outside of the interquartile range. According to our tax consultant, as Henan Kaiyu directly sold products to JAL under Transaction 2, JAL can apply for a tax refund to offset any additional tax which may be caused by the potential increase in enterprise income tax payable by Henan Kaiyu.

For the year ended 31 December 2018, Jie Wei Cambodia recorded a NCP margin outside the benchmark NCP interquartile range of the benchmarking results established by comparable companies. According to our tax consultant, the potential transfer pricing adjustment which our Group may bear would be approximately HK\$280,000, which is the difference in tax payable calculated by adopting the lower quartile of the IQR for the respective year.

Having considered that (i) our Directors were not aware of any outstanding enquiry, audit or investigation by any tax authorities in Hong Kong, the PRC and Cambodia with respect to our transfer pricing arrangements; and (ii) the NCP margins of certain Group companies had been increasing during the Track Record Period, our tax consultant therefore considers that the likelihood of triggering transfer pricing audit by the tax authority is remote.

BUSINESS

Based on the above, our tax consultant is of the view that our Group is considered to be in compliance with the applicable transfer pricing laws and regulations in Hong Kong, the PRC and Cambodia in all material aspects and that there was no need for any transfer pricing adjustment for our Group.

Measures to ensure on-going compliance with the relevant transfer pricing laws and regulations

Our Group has adopted the following measures to ensure ongoing compliance with the relevant transfer pricing laws and regulations in the PRC, Hong Kong and Cambodia:

- our Directors will review the terms of the inter-company transactions and regularly monitor our transfer pricing policy of the inter-company transactions to ensure they are carried out on arm's length basis from time to time;
- the finance and accounting team will closely monitor the inter-company transactions to ensure they are properly recorded, filed and maintained for inspection, and the records of the transactions with related party(ies) are reconciled between Group companies on a monthly basis; and
- the finance and accounting team will monitor the amount of transactions with related party(ies) to determine whether contemporaneous documentation reports in relation to transfer pricing are required to be prepared and filed to the relevant tax authority.

MARKET AND COMPETITION

According to the Industry Consultant, the top 10 PRC manufacturers captured approximately 10.1% of the total sleepwear and loungewear sales in the PRC in 2017. There were over 50 sleepwear and loungewear manufacturers in Cambodia with the majority of small and medium sized players in 2018. The competitive landscapes of the sleepwear and loungewear OEM manufacturing industries in the PRC and Cambodia are fairly fragmented.

According to the Industry Consultant, the leading players in sleepwear and loungewear manufacturing industry have invested in vertical integration including increasing their garment and fabric production capabilities and developing design and research and development teams. As a result, the industry landscape is expected to be more consolidated as leading players will continue to gain market share from enhanced competitive advantages.

With our competitive strengths and business strategies set out in the paragraphs headed "Our competitive strengths" and "Our business strategies" in this section, our Directors believe that we will continue to maintain and grow our market position in this competitive business environment.

BUSINESS

For further details of the competitive landscape of the industry in which we operate in, please refer to the paragraph headed “Industry overview — Competitive landscape and competitive advantages” in this prospectus.

SOCIAL RESPONSIBILITY COMPLIANCE REQUIREMENT

We agree to abide by the respective terms and conditions or respective codes of conduct of our Apparel Retail Brand Customers which include the requirements of our production process to conform to certain laws or regulations and to our their requirements. As such, we have adopted comprehensive quality control procedures to ensure that our production process meets the relevant standards as set out by local laws as well as requirements of our customers.

The requirements of the code of conduct of each customer may differ, but they generally include requirements in relation to discrimination and harassment, child labour, wages, working hours and environment, health and safety.

Our customers may conduct annual audits at our production facilities to ensure that the requirements as stipulated under their respective codes of conduct have been complied with. Our Directors confirm that our Group had passed such annual audits and our customers did not report any material non-compliance or irregularities to their codes of conduct during the Track Record Period.

INSURANCE

Our Group maintains insurance coverage against the risk of loss or damage to our raw material, inventory and finished products stored within our Henan Factory and Cambodia Factory, as well as for the risk of loss or damage to our assets, machinery and equipment in our Henan Factory and Cambodia Factory. We also maintain product liability insurance for our products as this is required by some of our Apparel Retail Brand Customers.

We maintain insurance policies against loss or damage to our offices in Hong Kong and Shanghai. We also maintain employee occupational health and safety insurance for our employees in Hong Kong.

As at the Latest Practicable Date, our Group had not been the subject of any material insurance claim.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had registered one trademark in Hong Kong and the PRC, respectively. We registered a domain name for our website. Please refer to the paragraph headed “Statutory and General Information — Further information about the business of our Group — 2. Intellectual property rights of our Group” in Appendix V to this prospectus.

BUSINESS

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 any intellectual property rights. Our Directors also confirm that we were not aware of any threatened proceedings or claims relating to intellectual property rights against us as at the Latest Practicable Date.

LAND AND PROPERTY INTEREST

Owned properties

As at the Latest Practicable Date, we owned six properties in Hong Kong and the PRC which were principally for our Henan Factory and our offices in Shanghai and Hong Kong. Please refer to the section headed “Property valuation report” in Appendix III to this prospectus for further details of our property interests.

The following table sets out a summary of certain information regarding our owned properties as at the Latest Practicable Date:

| | Properties held | Address | Our subsidiary owning the property | Approximate area (<i>sq.m.</i>) | Usage of property |
|---|---|---|--|---|---|
| 1 | Land usage rights in respect of Henan Owned Land | | Henan Kaiyu | 162,439 | Industrial use |
| 2 | Production plant situated on the Henan Owned Land | Eastern Side of Gongye Avenue, Southern side of Keji Avenue Yanling County Xuchang City Henan Province the PRC (“ Henan Owned Land ”) | Henan Kaiyu | 38,533 | Production |
| 3 | Other ancillary facilities situated on the Henan Owned Land | | Henan Kaiyu | 7,602 | Office, dormitory, canteen and other ancillary buildings |
| 4 | Factory building (under construction) (<i>Note</i>) | | Henan Kaiyu | Under construction | Production |
| 5 | Part of the Shanghai office (5th Floor) | Units 5A to 5C and 5E to 5H, Level 5, Block 2 Huanxian Plaza No. 515 Yishan Road Xuhui District Shanghai the PRC | JASH | 580 | Office |

BUSINESS

| | Properties held | Address | Our subsidiary owning the property | Approximate area (sq.m.) | Usage of property |
|---|---|---|---|---|------------------------------|
| 6 | Part of the Shanghai office (6th Floor) | Units 6A to 6H, Level 6 Block 2 Huanxian Plaza No. 515 Yishan Road Xuhui District Shanghai the PRC | JASH | 672 | Office |
| 7 | Hong Kong office | 31st Floor, Excel Centre No. 483A Castle Peak Road Cheung Sha Wan Kowloon Hong Kong; and car parking space No. P49 on the 9th floor of the building | JAL | 399 | Office/ Car park |

Note: The building is currently under construction and our Group proposes to install the spinning mill production facility in this building.

Leased properties

As at the Latest Practicable Date, we leased three properties in Cambodia and four properties in the PRC which served as sites for our Cambodia Factory and our office in Shanghai and the respective lease term is between one to five years.

The following table sets forth a summary of certain information regarding our leased properties as at the Latest Practicable Date:

| Address of the leased properties | Approximate area (sq.m.) | Usage | Our subsidiary which leased the property | Term | Rental amount |
|---|---|--------------|---|--------------------------------------|--|
| Flat A, Level 19, Block 2, No. 515 Yishan Road, Xuhui District, Shanghai the PRC (<i>Note 1</i>) | 106.5 | Office | JASH | 1 January 2019 – 31 December 2021 | RMB8,500 per month |
| Flat C, D, E and part of flat F, Level 8, Block 2, No. 515 Yishan Road, Xuhui District, Shanghai the PRC (<i>Note 2</i>) | 256.61 | Office | JASH | 1 January 2019 – 31 December 2023 | First and second year: RMB384,000 per year Third to fifth year: RMB422,400 per year |

BUSINESS

| Address of the leased properties | Approximate area (sq.m.) | Usage | Our subsidiary which leased the property | Term | Rental amount |
|---|-----------------------------|---------|--|--|-------------------------|
| Flat B, Level 10, Block 2, No. 515 Yishan Road, Xuhui District, Shanghai the PRC (Note 2) | 67.4 | Office | JASH | 15 May 2019 – 14 May 2020 | RMB5,670 per month |
| Flat A, Level 7, Block 2, No. 515 Yishan Road, Xuhui District, Shanghai the PRC (Note 2) | 106.5 | Office | JASH | 1 March 2019 – 28 February 2021 | RMB11,000 per month |
| Trapeang Thloeng Village, Sangkat Chaom Chau, Khan Pur Senchey, Phnom Penh, Cambodia ("Cambodia Trapeang Premises") | 9,376.0 | Factory | Jie Wei Cambodia | 1 June 2018 – 28 February 2022 (Note 3) | US\$18,568 per month |
| Paparak Khang Tbound Village, Sangkat Chaom Chau, Khan Pur Senchey, Phnom Penh, Cambodia ("Cambodia Paprak 1 Premises") | 1,200.0 | Factory | Jie Wei Cambodia | 1 October 2018 – 30 September 2020 (Note 3) | US\$2,500 per month |
| Paparak Khang Tbound Village, Sangkat Kakab, Khan Pur Senchey, Phnom Penh, Cambodia ("Cambodia Paprak 2 Premises") | 603.0 | Factory | Jie Wei Cambodia | 16 September 2018 – 15 September 2020 (Note 3) | US\$1,000 per month |

Notes:

1. Except for this leased property, all properties leased by our Group were leased from Independent Third Parties. As this lease agreement was entered into between JASH and Mrs. Tam, who is our executive Director and our Controlling Shareholder and the lease agreement is expected to continue after the Listing, it constitutes a continuing connected transaction of our Company under the Listing Rules. Please refer to the section headed "Connected transactions" in this prospectus for details.
2. During the Track Record Period and as at the Latest Practicable Date, our Group had leased these properties in the PRC from different lessors which had yet to be registered with the relevant government authorities. Our PRC Legal Advisers advised us that according to the Administration Measures for Commodity House Leasing (《商品房屋租賃管理辦法》), lease agreements have to be registered with the relevant authorities within 30 days of signing. We may be subject to a fine of RMB1,000 to RMB10,000 for each unregistered lease. Our PRC Legal Advisers further advised that the non-registration of leases would however not affect the enforceability of the current leases.

BUSINESS

3. If the landlord of the different premises of our Cambodia Factory does not renew our lease or terminate our lease prior to the expiry date, our Directors are of the view that there will be no material adverse impact on our operations and financial results as our Directors, after obtaining quotations from local property agents, consider that our Group will be able to relocate the Cambodia Factory to a new location quickly as (i) it is relatively easy to find and lease another factory of similar size nearby in Cambodia with a similar rent based on rental quotations received by our Group relating to similar factory space and (ii) our Cambodia Factory mainly utilises light machinery which will be easy to move. Our Directors believe that it would take approximately two weeks to move the factory to a new factory during which the operations of the factory will be suspended.

Our operating lease expenses amounted to approximately HK\$1.3 million, HK\$2.5 million and HK\$2.8 million for the three years ended 31 December 2018, respectively. Our expenses related to short-term leases amounted to approximately HK\$0.5 million for the five months ended 31 May 2019.

Our Directors confirmed that we had not experienced any material difficulty in renewing our lease agreements with our landlords during the Track Record Period.

EMPLOYEES

As at the Latest Practicable Date, our Group employed over 2,100 employees who were based in Hong Kong, the PRC and Cambodia.

The following table sets out the number of our employees by geographical locations as at the Latest Practicable Date:

| Location | Number of our employees |
|-------------------|-------------------------|
| Hong Kong | 10 |
| Shanghai, the PRC | 131 |
| Henan, the PRC | 723 |
| Cambodia | 1,264 |

The table below sets out the number of our employees by function as at the Latest Practicable Date:

| Team | Number of our employees |
|-----------------------------------|-------------------------|
| Administration | 140 |
| Design | 10 |
| Sales and merchandising | 58 |
| Fabric | 20 |
| Product and technical development | 38 |
| Finance | 38 |
| Management | 17 |
| Production | 1,655 |
| Quality control | 155 |
| Research and development | 3 |

BUSINESS

We have entered into employment contracts with our employees which set out, amongst others, remuneration, benefits and termination provisions. Our Group has an annual review system to assess the performance of our employees. Our Group provides regular training to our employees.

Our Directors confirmed that during the Track Record Period and up to the Latest Practicable Date, (i) there was no labour union for employees of our Group; and (ii) we had not experienced any material labour dispute which disrupted our operation.

We had not made full MPF statutory contributions for Mr. Tam, Mrs. Tam and one former director in Hong Kong as required by the applicable laws during the Track Record Period. For further details, please refer to the paragraph headed “Legal proceedings and non-compliance — Non-compliance” below in this section.

According to the relevant PRC laws, we are required to contribute to social insurance funds and housing provident funds. During the Track Record Period, Henan Kaiyu had not made full social insurance payment and housing provident fund contributions for certain employees. For further details, please refer to the paragraph headed “Legal proceedings and non-compliance — Non-compliance” below in this section.

According to the relevant Cambodia laws, we shall be registered with the national social security fund and made statutory social security contributions for our employees. Our Cambodia Legal Advisers are of the view that our Company has complied with the social security fund contributions in all material aspects.

HEALTH AND SAFETY

Our Directors confirmed that 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 any material disciplinary action with respect to work safety issues.

We have implemented measures at our production facilities 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, warehouse safety, emergency and evacuation procedures.

Our PRC Legal Advisers are of the view that our Group has complied with all applicable laws and regulations in the PRC in all material respects in relation to occupational health and safety.

Our Cambodia Legal Advisers are of the view that our Group has complied with all applicable laws and regulations in Cambodia in all material respects in relation to occupational health and safety.

ENVIRONMENTAL PROTECTION

Most of our production activities take place in the PRC and we are subject to certain environmental laws and regulations in the PRC. Please refer to the paragraph headed “Regulatory overview — PRC regulatory overview — Environmental laws” in this prospectus for details.

We generate industrial waste, such as lubricants from our production process. In order to ensure our regulatory compliance in this respect, we have specific waste management procedures.

Our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we had not been subject to any material penalty or fine imposed by the relevant environmental protection authorities and our Group had complied with the applicable laws and regulations in all material aspects.

Our PRC Legal Advisers are of the view that our Group has complied with all laws and regulations in the PRC in all material respects in relation to environmental protection.

Our Cambodia Legal Advisers are of the view that our Group has complied with all laws and regulations in Cambodia in all material respects in relation to environmental protection.

AWARDS AND ACCREDITATIONS

Our Group received numerous awards and certifications from Target in recognition of our achievements, including but not limited to the following:

| Year | Award |
|-------------|----------------------------------|
| 2004 | Partner Award of Excellence 2004 |
| 2008 | Strategic Business Partner |
| 2008 | Partner Award of Excellence 2008 |
| 2009 | Partner Award of Excellence 2009 |
| 2014 | Partner Award of Excellence 2014 |
| 2015 | Partner Award of Excellence 2015 |

BUSINESS

LICENCES AND PERMITS

The table below lists the material licenses held by our subsidiaries.

| | Name of our subsidiary | License/certificate/permit | Issuing authority | Valid term |
|----------|------------------------|--|--|--|
| Cambodia | Jie Wei Cambodia | Certificate for factory-handicraft operation | Ministry of Industry and Handicraft (as the successor of the Ministry of Industry, Mines and Energy as stipulated in such law) | From 24 August 2018 to 24 August 2021 |
| | | Environmental protection contract | Phnom Penh Capital Department of Environment | Not applicable as there is no expiration date of the Environmental Protection Contract |
| | | Customs registration | General Department of Customs and Exercise (GDCE) | Jie Wei Cambodia has registered with the GDCE. There is no expiry date of the registration |
| | | Confirmation of fire protection system | Phnom Penh Police Fire Brigade | From 9 April 2019 to 9 April 2020 |
| The PRC | Henan Kaiyu | Business license | Xuchang Municipal Administration Bureau for Industry and Commerce* (許昌市工商行政管理局) | From 1 June 2011 to 31 May 2061 |
| | | Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC (《中華人民共和國台港澳僑投資企業批准證書》) | People's Government of Henan Province* (河南省人民政府) | From 18 May 2011 to 17 May 2061 |
| | | Certificate of work safety Standardisation (《安全生產標準化證書》) | Xuchang Municipal Supervision and Management Bureau of Production Safety* (許昌市安全生產監督管理局) | From 13 February 2018 to February 2021 |
| | | Certificate of sewage discharge Permit* (《排污許可證》) | Yanling County Bureau of the Environmental Protection* (鄆陵縣環境保護局) | From 11 January 2017 to 10 January 2020 |
| | | Certificate of water intaking permit* (《取水許可證》) | Yanling County Bureau of Water Affairs* (鄆陵縣水務局) | From 28 December 2017 to 28 December 2022 |

BUSINESS

| Name of our subsidiary | License/ certificate/permit | Issuing authority | Valid term |
|------------------------|--|---|---------------------------------------|
| | Certificate of social insurance register (《社會保險登記證》) | Yanling County Bureau of Human Resources and Social Security* (鄢陵縣人力資源和社會保障局) | From 4 January 2017 to 3 January 2022 |
| | Certificate of enterprise customs registration* (《中華人民共和國海關報關單位註冊登記證書》) | Zhengzhou Customs of the People's Republic of China* (中華人民共和國鄭州海關) | Since 17 August 2015 |
| | Certificate of self-inspection and inspection enterprise registration* (《自理報檢企業備案登記證明書》) | Xuchang Exit-Entry Administration Bureau of Inspection and Quarantine* (許昌出入境檢驗檢疫局) | Since 3 March 2015 |
| JASH | Business license | Shanghai Administration Bureau for Industry and Commerce* (上海市工商局) | From 9 June 2006 to 30 October 2031 |
| | Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC (《中華人民共和國台港澳僑投資企業批准證書》) | People's Government of Shanghai* (上海市人民政府) | From 22 August 2012 to 21 August 2032 |
| | Certificate of opening bank account* (《開戶許可證》) | Shanghai Branch of the People's Bank of China | Since 17 January 2012 |
| | Certificate of the consignees or consignors of imported/exported goods registration* (《進出口貨物收發貨人報關註冊登記證書》) | Shanghai Xinzhuang District Customs of People's republic of China* (中華人民共和國莘莊海關) | Since 20 November 2012 |
| | Financial registration for enterprises with foreign investment (《外商投資企業財政登記證》) | Shanghai Minhang District Finance Bureau* (上海市閔行區財政局) | From 9 June 2006 to 30 October 2031 |

* This does not have an official English name. The English name is for identification purpose only.

According to our Cambodia Legal Advisers, during the Track Record Period our Group has complied with all applicable laws and regulations in Cambodia in all material respects and have obtained all material permits and licenses required for its operation in Cambodia.

BUSINESS

According to our PRC Legal Advisers, during the Track Record Period save as disclosed in the paragraph headed “Legal Proceedings and Compliance — Non-compliance” of this section below, our Group has complied with all applicable laws and regulations in the PRC in all material respects and has obtained and renewed all material permits, licenses and approvals required for its operation in the PRC.

According to our Hong Kong Legal Counsel, our Group does not require any material license to carry out our operation in Hong Kong.

LEGAL PROCEEDINGS AND NON-COMPLIANCE

Hong Kong legal proceeding

During the Track Record Period, our Company, JAL, Mr. Tam and Mrs. Tam (the “**Respondents**”) had been involved in a litigation case initiated by Mr. Kwok, one of the Pre-IPO Investors. On 9 December 2016, Mr. Kwok filed a winding up petition against our Company, Mr. Tam, Mrs. Tam and JAL (HCCW 442 of 2016) (the “**Petition**”). In the Petition, Mr. Kwok alleged Mr. Tam and Mrs. Tam, among others, for not managing the affairs of our Company including historical dividend payment arrangements in his interests. As a result, Mr. Kwok sought for our Company to be wound up, or that Mr. Kwok’s Shares be bought out by Mr. Tam and Mrs. Tam. In response to the Petition, Mr. Tam and Mrs. Tam sought to strike out the claims as they were against our Company, but in fact Mr. Kwok did not have a locus to sue since he was not a Shareholder (Mr. Kwok was a shareholder of JA Overseas at the material time). Further, Mr. Tam and Mrs. Tam were of the view that Mr. Kwok’s claims were groundless due to the following reasons:

- (i) the relevant corporate actions of our Company taken in relation to the alleged claims were to be decided by simple majority of the board of directors and the shareholders of our Company, not by unanimous consent in accordance with the Articles of Association of our Company and in the interest of our Company; and
- (ii) Mr. Kwok was not granted any veto power against the corporate actions of JA Overseas and other members of our Group when he became a Pre-IPO Investor.

The case was heard in the High Court of Hong Kong in May 2017 where the Respondents sought to strike out the claim of Mr. Kwok as the Respondents were of the view that Mr. Kwok’s claims disclosed no reasonable cause of action and were frivolous. Mr. Kwok subsequently withdrew the case, which was approved by the Hong Kong High Court in May 2017 and was ordered to pay costs to the Respondents. On 27 February 2019, a deed of confirmation (“**Deed of Confirmation**”) was entered into between our Company and Mr. Kwok, pursuant to which Mr. Kwok confirmed the withdrawal of the Petition and that he will not apply to the court to proceed with the Petition. Mr. Kwok also remained as a Pre-IPO Investor as at the Latest Practicable Date.

PRC legal proceeding

During the Track Record Period, our Group was involved in a litigation case involving a labour dispute initiated by our former employee, namely Mr. Zhou Changjun (“**Mr. Zhou**”) in November 2017 against Henan Kaiyu. Following a trial in the Yanling County People’s Court, the court awarded Mr. Zhou damages of approximately RMB104,460. Both Henan Kaiyu and Mr. Zhou appealed against the decision and the appeal case was heard on 28 March 2019 where the decision of the Yanling County People’s Group was upheld. Our PRC Legal Advisers are of the view that Mr. Zhou has no recourse against our Group. Our Directors confirm that the said litigation case had no material effect, whether financial or operational or otherwise, on our Group.

Our Controlling Shareholders have agreed to indemnify our Group in respect of any compensation or damages which may be imposed on us by the court arising from any future claims from Mr. Kwok above. Save as disclosed above, our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us that would have a material and adverse effect on our results of operations or financial condition.

Non-compliance

During the Track Record Period, we had complied with all applicable laws, rules and regulations in material respects save for the following incident(s):

| Potential operational and financial impacts on our Group | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Possible legal consequences and maximum penalty | Reasons for the non-compliance | Non-compliance incident |
|---|---|--|---|---|
| <p>Our Group, Mr. Tam, Mrs. Tam and a former director of JAL may be subject to a fine of HK\$4,000 to HK\$12,000 for each offence.</p> | <p>Without admission of any criminal liability in failing to comply with Section 7 and 7AA of the MPFSO, we informed the MPF Authority of the situation.</p> | <p>Section 7 of the MPFSO requires an employer to arrange for employees to become a member of a MPF scheme.</p> | <p>Our Directors confirmed that the such non-compliance was not wilful and due to inadvertent oversight of our human resource staff who believed that directors fees were not subject to MPF contributions without seeking any professional advice at the material time. Our Directors had no direct or wilful involvement in the breach.</p> | <p>1. During the Track Record Period, JAL failed to contribute the required payments under the MPF scheme for Mr. Tam, Mrs. Tam and a former director of JAL.</p> |
| <p>As advised by our Hong Kong Legal Counsel, the chance of prosecution is low because our Group has taken initiative to rectify the non-compliant incident.</p> | <p>Upon discovery of the breach, JAL as well as the relevant individuals have subsequently made payments for the relevant MPF contributions.</p> | <p>Section 43B (1) of the MPFSO provides that if an employer who, without reasonable excuse fails to ensure the employee to become a member of a registered scheme in time under section 7 of the MPFSO, the employer may be prosecuted and the maximum sentence for each offence is a fine of HK\$350,000 and an imprisonment for three years and a daily default of HK\$500 for continued offence.</p> | | |
| <p>Our Directors also confirm that the Group has contacted the MPF Authority by telephone and was informed by an officer of the MPF Authority that the MPF Authority accepts late submission of MPF payments and surcharges and the MPF Authority normally does not carry out any investigations in relation to late payments. Our Directors confirm that our Group has neither received any written response confirmation from the MPF Authority in relation to the repayment of MPF contributions and surcharges in relation to the MPF contributions of the relevant directors of JAL nor has our Group received any notice from the MPF Authority in relation to any further penalties or action taken against our Group.</p> | <p>Our Directors are of the view that our human resource staff has acquired the relevant knowledge of timely MPF registrations and payments for employees and our Directors to comply with relevant regulations and laws in connection with the MPF requirements.</p> | | | |
| | <p>Relevant professional advice will also be sought when dealing with similar incidents in the future.</p> | | | |

| Non-compliance incident | Reasons for the non-compliance | Possible legal consequences and maximum penalty | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Potential operational and financial impacts on our Group |
|-------------------------|--------------------------------|--|---|--|
| | | <p>Section 7AA of the MPFSO requires an employer to pay MPF contribution to the MPFSA where the employee is not a member of a registered scheme.</p> <p>Section 43B (1D) of the MPFSO provides that if an employer who, without reasonable excuse, fails to comply with section 7AA of the MPFSO commits an offence and is liable on conviction to a fine of HK\$100,000 and an imprisonment for 6 months on the first occasion on which the person is convicted of the offence; and (b) to a fine of \$200,000 and an imprisonment for 12 months on each subsequent occasion on which the person is convicted of the offence.</p> <p>Section 43B(1C) of the MPFSO provides that for failure without reasonable excuse to ensure contributions in respect of an employee are paid to an approved trade, the maximum penalty is a fine of HK\$450,000 and an imprisonment for four years and a daily default fine of HK\$700 (if income of the employee is deducted for contribution) and in any other case, a fine of HK\$350,000 and to imprisonment for three years and a daily default fine of HK\$500.</p> | | |

| Non-compliance incident | Reasons for the non-compliance | Possible legal consequences and maximum penalty | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Potential operational and financial impacts on our Group |
|---|--|---|---|---|
| <p>2. During the Track Record Period, we failed to register and make social insurance and housing provident fund contributions for certain employees of Henan Kaiyu as required under the relevant PRC laws and regulations. We estimated that the amounts of social insurance and housing provident fund contributions that we did not pay during each of the three years ended 31 December 2018 and the five months ended 31 May 2019 were approximately RMB7.5 million, RMB6.3 million, RMB6.8 million and RMB3.4 million, respectively.</p> | <p>The reasons for the non-compliant incidents were mainly due to the fact that certain employees were not willing to register or make full payment for social insurance and contribute to housing provident fund in Yanling County where Henan Kaiyu is located for (i) having contributed to social insurance in their own hometowns; or (ii) being rural registered permanent residence and having participated in the “new rural cooperative medical care” and “new rural social endowment insurance”; or (iii) being rural registered permanent residence with rural residence land and thus having no needs to purchase commercial</p> | <p>According to Social Insurance Law of the PRC (中華人民共和國社會保險法) and Regulations on the Administration of Housing Provident Funds (住房公積金管理條例), we are required to provide our employees with social insurance funds, including funds for basic pension insurance, unemployment insurance, basic medical insurance, work-related injury insurance and maternity insurance and housing provident funds, respectively. As advised by our PRC Legal Advisers, if Henan Kaiyu fails to make social insurance and housing provident fund contributions for our employees in full amount in a timely manner, Henan</p> | <p>We have engaged our PRC Legal Advisers to conduct interviews with the Yanling County Management of Xuchang Municipal Housing Fund Management Center (鄆陵縣人力資源和社會保障局) and the Bureau of Human Resources and Social Security of Yanling County (許昌市住房公積金管理中心鄆陵縣管理部) (collectively as “Yanling Authorities”) regarding the non-compliant incidents, which Yanling Authorities had confirmed that:</p> <p>(i) Henan Kaiyu had made contributions for social insurance based on the standard recognised by the Yanling Authorities for certain employees who were willing to register and make payment in a timely manner starting from August 2013 and had opened housing provident fund account and had made contributions to the housing provident fund based on the standard recognised by the Yanling Authorities for certain employees who were willing to register and make payment starting from March 2018, which the Yanling Authorities believe the current practice for making social insurance and housing</p> | <p>As at the Latest Practicable Date, no administrative action, fine or penalty had been imposed by the relevant government authorities with respect to the non-compliant incidents, and we have not received any order by the relevant governmental authorities to settle the outstanding amount of payment due under the non-compliant incidents.</p> |

| Non-compliance incident | Reasons for the non-compliance | Possible legal consequences and maximum penalty | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Potential operational and financial impacts on our Group |
|-------------------------|---|--|---|---|
| | <p>housing; or (iv) having been insured for 15 years in other regions and the fact that relevant staff of our human resources department had different interpretation towards the relevant PRC laws and regulations.</p> <p>If the employees are not willing to make social insurance payments and housing provident fund contributions, we cannot make our contribution on their behalf without their consents and/or force them to make contributions or deduct such amounts from their salaries without their consents. Therefore, we are unable to make our contributions to the social insurance and housing provident fund for the employees mentioned above.</p> | <p>Kaiyu may be ordered to make the contributions and pay the outstanding amounts within a specified period. A late charge equivalent to 0.05% of the outstanding social insurance contributions per day will be levied on Henan Kaiyu for the outstanding social insurance contributions and should Henan Kaiyu fail to pay the outstanding social insurance contributions and/or the late charge, Henan Kaiyu may be subject to a fine that equals up to three times of the outstanding social insurance contributions. Also, the relevant government authority may apply to the relevant PRC court for the enforcement of the payments of the outstanding housing provident fund contributions.</p> | <p>provident fund contributions of Henan Kaiyu complies with the relevant PRC laws and regulations;</p> <p>(ii) the Yanling Authorities would not require us to pay the outstanding amounts of social insurance and housing provident fund contributions;</p> <p>(iii) Henan Kaiyu was not subject to any investigation as a result of the non-compliant incidents and no penalties have been imposed on us;</p> <p>(iv) as the Yanling Authorities regard the “new rural cooperative medical care” and the “new rural social endowment insurance” as part of the social insurance system of the PRC, if an employee of Henan Kaiyu has already contributed to their rural funds, then they will not be required to make social insurance and housing provident funds at their employment. As confirmed by the Directors, a number of employees of Henan Kaiyu have contributed to the rural schemes and hence have not contributed to the social insurance and housing provident fund; and</p> | <p>Our PRC Legal Advisers have confirmed that, based on the confirmation letters, the interviews with the Yanling Authorities and as no employee complaint was received regarding the non-compliant incidents, the risks of Henan Kaiyu being fined by the Yanling Authorities for failing to make sufficient contributions to the social insurance and housing provident fund on time or being required to pay the outstanding amounts in social insurance and housing provident funds are remote.</p> <p>On these bases, our Directors are of the view that no provision had to be made and the financial impact on our operations as a result of the unpaid contributions and penalty during the Track Record Period was immaterial.</p> |

| Non-compliance incident | Reasons for the non-compliance | Legal consequences and maximum potential penalty | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Potential operational and financial impacts on our Group |
|-------------------------|--------------------------------|--|---|--|
| | | | <p>(iv) the Yanling Authorities will not voluntarily require employees who had participated in the “new rural cooperative medical care” and “new rural social endowment insurance” to enrol in social insurance; and it is not a material breach of PRC laws and regulations by Henan Kaiyu for not making social insurance and housing provident fund contributions for certain employees who are not willing to enroll for social insurance and contribute to housing provident fund in Yanling County for their own reasons. The Yanling Authorities will not take any action or require Henan Kaiyu to repay the outstanding amounts for the non-compliant incidents.</p> | |
| | | | <p>Our employees who have not paid social insurance and housing provident fund payments have signed confirmation letters to confirm that they will not make any claims against Henan Kaiyu for any outstanding payment relating to social insurance or housing provident fund.</p> | |

Potential operational and financial impacts on our Group

Remedial actions and measures in place to prevent recurrence of the non-compliant incidents

Our PRC Legal Advisers are of the view that the Yanling Authorities are the competent authorities in relation to the contributions of social insurance and housing provident fund.

We also obtained the confirmation letter dated 10 October 2019 issued by the Yanling Authorities that no administrative penalty has been imposed on Henan Kaiyu in relation to the non-compliant incident since 1 June 2011; and Henan Kaiyu had opened housing provident fund account and had made contributions to the housing provident fund for its employees starting from March 2018.

In March 2018, our Group had provided training to our employees in the PRC in relation to their obligations to contribute to their social insurance payments and the housing provident fund contributions in compliance with the applicable PRC laws and regulations and the consequences of non-compliance and has since then provided the same training to new employees of our Group. Our Group had also provided training in March 2018 to our executive Directors and relevant senior management in relation to our Group's obligations in social insurance and housing provident fund payments. Our Directors confirm that we will continue to persuade our employees to make social insurance payments and housing provident fund contributions.

Our Directors confirm that they will use their best endeavours to comply with applicable laws and regulations. Our Group intends to continue rectifying this non-compliance as soon as reasonably practicable until it is fully rectified.

Our Directors confirm that our Group will require a confirmation from any new employees which Henan Kaiyu may employ that he/she will be willing to contribute to social insurance and housing provident fund before they are employed as employees of our Group.

Legal consequences and maximum potential penalty

Reasons for the non-compliance

Non-compliance incident

| Potential operational and financial impacts on our Group | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Legal consequences and maximum potential penalty | Reasons for the non-compliance | Non-compliance incident |
|---|---|--|---|--|
| <p>Our Directors are of the view that the failure of registering lease agreements with the relevant government authorities would not have material operational and financial impact on our Group.</p> | <p>Our Directors confirm that our Group has notified the lessor in relation to the unregistered lease and will further liaise with the lessor in relation to the status of the registration of the lease.</p> <p>Our Group has assigned a team to oversee the compliance with the rules in relation to the leases in PRC. The team will be responsible for the management of leased properties, communication with government departments, checking the relevant ownership certificates and requiring the landlords to register the leases before entering into lease agreements.</p> | <p>According to our PRC Legal Advisers, a fine ranging between RMB1,000 to RMB10,000 for each unregistered lease may be imposed on both the lessor and the lessee to the lease agreements for failing to register the lease within the given period.</p> | <p>Our Directors confirmed that as the lessors failed to register the lease agreements with relevant government authorities, our Group was not in a position to take the initiative in registering the lease agreements on behalf of the lessors.</p> | <p>During the Track Record Period, our Group had leased properties in the PRC from different lessors which had failed to register the lease agreements with the relevant government authorities.</p> |

| Potential operational and financial impacts on our Group | Remedial actions and measures in place to prevent recurrence of the non-compliant incidents | Legal consequences and maximum potential penalty | Reasons for the non-compliance | Non-compliance incident |
|--|---|--|---|--|
| <p>Our Directors further confirmed that even if the government authorities take action against the landlords and block or demolish the factory buildings, our operations and financial results will not be materially and adversely affected because (i) the Cambodia Paprak 1 Premises and the Cambodia Paprak 2 Premises (which are located next to each other) are separate from the Cambodia Trapeng Premises, where the larger part of our Cambodia Factory is located. Therefore, in the event that our factory buildings situated on the Cambodia Paprak 1 Premises and/or the Cambodia Paprak 2 Premises are blocked and/or demolished, our garment production will not cease completely as the larger Cambodia Trapeng Premises is still in operation; (ii) it would be easy to relocate to new premises as (a) it is relatively easy to find and lease another factory in Cambodia at a similar rent based on rental quotations received by our Group relating to similar factory space; and (b) our Cambodia Factory mainly utilises light machinery which will be easy to move. Our Directors believe that it would take approximately two weeks to move the factory to a new factory during which the operation of the factory will be suspended.</p> | <p>Our Group has notified the landlord in relation to the Relevant Permit and will liaise with the landlord to obtain such Relevant Permit.</p> | <p>The landlords can be liable to fines or may be required to submit applications for the Relevant Permit or in the worst scenario, having the buildings blocked for use or even demolished by the authorities. As advised by our Cambodia Legal Advisers, the likelihood of any government action to block or demolish the factory building is remote because as to the best of the knowledge of our Cambodia Legal Advisers, there has been no reported case that a factory building has been ordered to be blocked from use or to be demolished due to the sole reason for the lack of Relevant Permit.</p> | <p>As advised by our Cambodia Legal Advisers, the responsibility of obtaining the Relevant Permit lies with the landlord and our Group is not able to register on behalf of the landlord.</p> | <p>As at the Latest Practicable Date, the landlords of certain premises where part of our Cambodia Factory was located, namely the Cambodia Paprak 1 Premises and the Cambodia Paprak 2 Premises, had not obtained construction permits (“Relevant Permit”) for the construction of the buildings on the respective properties.</p> |

INTERNAL CONTROL AND RISK MANAGEMENT

We have established an internal control system to facilitate our effective management of our Group, which covers areas such as: (i) corporate level controls, (ii) financial reporting and disclosure controls; (iii) revenue management; (iv) expenditure management; (v) human resources and payroll management; (vi) fixed assets management; (vii) cash and treasury management; (viii) general computer controls; and (ix) insurance management. The Board is responsible for overseeing the management in the design, implementation and monitoring of the internal control system.

We have engaged an independent third party internal control consultant to perform a review of our internal control system. We have implemented the recommendations from the internal control consultant to improve and enhance our internal control system. Our internal control consultant also performed a follow-up review and noted no material deficiencies upon closing review.

To strengthen our internal control and ensure future compliance with the applicable laws and regulations after the Listing, we have adopted the following measures:

- our Directors will continuously monitor, evaluate and review our internal control system to ensure compliance with the applicable legal and regulatory requirements and will adjust, refine and enhance our internal control system as appropriate;
- our Group will arrange for regular trainings on legal and regulatory requirements applicable to our business operations from time to time for our Directors, senior management as well as relevant employees;
- our Group will establish policies and procedures in respect of financial reporting and operational processes;
- our Group will establish written policies and procedures for human resources and payroll management, as well as for insurance management;
- our Group will establish formal procedures for fixed assets, as well as for cash and treasury management process; and
- our Directors, with the assistance of external legal counsels as appropriate, endeavor to ensure that our Group has obtained and maintained all necessary permits and licenses required of our existing operations as well as any of our planned new operations.

View of our Directors and the Sole Sponsor

Taking into account the internal control and risk management measures implemented by us in relation to the non-compliance incidents described above, our Directors are of the view, and the Sole Sponsor concurs that, our Group has adequate internal control and risk management measures and policies in place to prevent further occurrence of the above non-compliance in the future.

BUSINESS

Our Directors are of the view, and the Sole Sponsor concurs, that our historical non-compliance incidents do not affect the suitability of our Directors to act as directors of a listed company under Rules 3.08 and 3.09 of the Listing Rules or the suitability of our Company to be listed under Rule 8.04 of the Listing Rules after considering the following:

- (i) the historical non-compliance incidents were unintentional, did not involve dishonesty or fraudulent act on part of our Directors, and did not raise any questions as to the integrity of our Directors;
- (ii) remedial actions were carried out, and where applicable, will be carried out as soon as practicable to rectify the non-compliance incidents;
- (iii) the nature of the non-compliance incidents and the possible consequences as advised by our PRC Legal Advisers and our Hong Kong Legal Counsel; and
- (iv) our internal control system already covers our major business aspects and it is effectively supervised by the management of our Group.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Our Board consists of six Directors, comprising three executive Directors and three independent non-executive Directors. The following table sets out certain information on our Directors:

| Name | Age | Date of joining our Group | Date of appointment as Director | Position in our Group | Roles and responsibilities in our Group | Relationship with our Directors and senior management |
|---------------------------------------|-----|---------------------------|---------------------------------|---|---|---|
| Mr. Tam Kwok Pui (談國培先生) | 68 | 21 June 1983 | 31 May 2013 | Chairman, executive Director, chief executive officer | Responsible for overseeing the operation and overall decision making of our Group | Spouse of Mrs. Tam/brother of Mr. Raymond Tam |
| Ms. Yeung Suk Foon Paulina (楊淑歡女士) | 64 | 1 April 1987 | 19 November 2013 | Executive Director, president | Responsible for overseeing the sales and marketing team of our Group | Spouse of Mr. Tam/sister-in-law of Mr. Raymond Tam |
| Mr. So Lie Mo Raymond (蘇禮木先生) | 70 | 19 November 2013 | 19 November 2013 | Executive Director | Responsible for overseeing the operation of our Group | Not applicable |
| Mr. Lai Yat Kwong Fred (黎日光先生) | 71 | 26 July 2019 | 26 July 2019 | Independent non-executive Director | Responsible for providing independent advice to the Board | Not applicable |
| Mr. Lui Ho Ming Paul (呂浩明先生) | 54 | 26 July 2019 | 26 July 2019 | Independent non-executive Director | Responsible for providing independent advice to the Board | Not applicable |
| Mr. Woo Chun Fai (胡振輝先生) | 45 | 26 July 2019 | 26 July 2019 | Independent non-executive Director | Responsible for providing independent advice to the Board | Not applicable |

DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information of our senior management:

| Name | Age | Date of joining our Group | Position in our Group | Roles and responsibilities in our Group | Relationship with our Directors and senior management |
|--------------------------------------|-----|---------------------------|---|---|---|
| Mr. Foo Tin Chung, Victor (傅天忠先生) | 50 | April 2018 | Vice president, chief financial officer | Overseeing our Group's finance team | Not applicable |
| Ms. Wu Qian (吳茜女士) | 37 | July 2006 | Chief operation officer | Responsible for merchandising, operation, shipping, production and factory evaluation | Not applicable |
| Mr. Tam Kwok Hee (談國禧先生) | 71 | July 1983 | Vice president — overseas operations | Overseeing the management of our Cambodia Factory | Brother of Mr. Tam/brother-in-law of Mrs. Tam |
| Ms. Li Yan Ting (李彥婷女士) | 33 | April 2018 | Financial controller | Managing and supervising our finance team in Shanghai | Not applicable |

Executive Directors

Mr. Tam Kwok Pui (談國培先生), aged 68, our founder, was appointed as a Director on 31 May 2013, re-designated as our executive Director and appointed as our Chairman and chief executive officer on 27 February 2019. Mr. Tam is primarily responsible for overseeing the operation and overall decision making of our Group. He is also the chairman of our Nomination Committee and a member of our Remuneration Committee. In 2018, Mr. Tam was named Outstanding Entrepreneur by the city government of XuChang in the PRC.

Mr. Tam graduated from The Chinese University of Hong Kong in October 1973 with a bachelor's degree in business administration. He has more than 30 years of experience in the garment industry. Prior to the founding of our Group, he was a director of Lagain International Limited, a company engaged in the manufacturing of garment and distribution of apparel in Hong Kong, from September 1976 to September 1981.

Mr. Tam is our Controlling Shareholder as well as the spouse of Mrs. Tam and the brother of Mr. Raymond Tam.

Mr. Tam was previously a legal representative of the Shanghai Representative Office of JAL (香港凱威有限公司上海代表處) prior to its deregistration.

Mr. Tam confirmed that (i) there was no wrongful act on his part leading to the dissolution of the above company; (ii) he was not aware of any actual or potential claim that has been or will be made against him as a result of the dissolution of the above company; and (iii) the above company was solvent at the time of its dissolution.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tam also served as the legal representative and manager of Anqing Yijia Zhizao Yinran Company Limited* (安慶怡家織造印染有限公司) during the period from 20 July 2001 to 22 September 2004 and its principal business included fabric production. Its business licence was revoked on 22 September 2004 due to discontinuation of annual inspection filings after cessation of business. According to PRC Company Law, a person who acts as the legal representative of a company or enterprise, the business license of which is revoked due to violation of the laws and is personally liable for the revocation of the business license, is prohibited from acting as a director, supervisor or senior management within three years from the date of revocation of the business license. As at the Latest Practicable Date, on the basis that no competent PRC authority had confirmed that Mr. Tam should be held personally liable for such revocation of business license, our PRC Legal Advisers were of the view that such revocation would not have any impact on Mr. Tam's eligibility to act as director of other PRC companies including JASH.

Ms. Yeung Suk Foon Paulina (楊淑歡女士), aged 64, was appointed as an executive Director on 19 November 2013 and re-designated as our executive Director on 27 February 2019. She has been a director of JAL since May 2008 and a director of JA Overseas since July 2012. Mrs. Tam has been the company secretary of JAIC since June 2015. She joined JAL in 1987 as merchandising manager. Mrs. Tam is currently the president of our Group and is principally responsible for the sales and marketing operation of our Group. Mrs. Tam has more than 30 years of experience in the garment industry.

Prior to joining our Group, Mrs. Tam worked for Dodwell International Export Buying Offices Ltd., a company engaged in the business of export of garment products, from August 1974 to March 1987, with her last position held as an assistant merchandise manager.

Mrs. Tam is our Controlling Shareholder as well as the spouse of Mr. Tam and sister-in-law of Mr. Raymond Tam.

Mr. So Lie Mo Raymond (蘇禮木先生), aged 70, was appointed as our executive Director on 19 November 2013 and re-designated as our executive Director on 27 February 2019. Mr. So is principally responsible for overseeing the operation of our Group.

Mr. So graduated from The Chinese University of Hong Kong in October 1972 with a bachelor's degree in business administration. Mr. So has more than 26 years of management experience in the information technology industry in Hong Kong, China and Taiwan. He was the managing director of Novell Hong Kong Ltd from 2000 to 2001. During the period of 2001 to 2004, he was the regional director of Datacraft Hong Kong Ltd.

Mr. So was an independent non-executive director of Melcolot Limited (presently known as Late Interactive Limited) (stock code: 8198), the share of which are listed from September 2007 to November 2013.

DIRECTORS AND SENIOR MANAGEMENT

Mr. So was previously a director of the following companies prior to their dissolutions.

| Company name | Place of incorporation or establishment | Principal business activity immediately prior to cessation of business | Date of dissolution | Reason for dissolution |
|------------------------------------|---|--|---------------------|------------------------|
| T.A. Systems Limited | Hong Kong | Computer services | 15 July 2015 | Cessation of business |
| Tomorrow Bloom Limited (偉感有限公司) | Hong Kong | Property holding | 10 February 2006 | Cessation of business |

Mr. So confirmed that (i) there was no wrongful act on his part leading to the above dissolutions of the above companies; (ii) he was not aware of any actual or potential claim that has been or will be made against him as a result of the above dissolutions of the companies; and (iii) the above companies were solvent at the time of their dissolutions.

Independent non-executive Directors

Mr. Lai Yat Kwong Fred (黎日光先生), aged 71, was appointed as our independent non-executive Director on 26 July 2019. He is the chairman of our Audit Committee and a member of our Nomination Committee and Remuneration Committee.

Mr. Lai graduated from The Chinese University of Hong Kong in October 1972 with a bachelor's degree in business administration. He has over 30 years of experience in accounting, audit and company secretarial matters. He is a member of the Association of Chartered Certified Public Accountants, Hong Kong Institute of Certified Public Accountants (Practising) and Hong Kong Institute of Directors. Mr. Lai's directorships or positions in other companies listed on the Stock Exchange are as follows:

| Company name | Position held | Position Period |
|---|------------------------------------|-------------------------------|
| Chinalco Mining Corporation International (stock code: 3668) (<i>Note 1</i>) | Independent non-executive director | April 2012 to March 2017 |
| Champion Technology Holdings Limited (stock code: 92) | Executive director | April 1996 to October 2016 |
| Kantone Holdings Limited (stock code: 1059) | Executive director | November 1996 to October 2016 |
| DigitalHongKong.com (stock code: 8007) | Non-executive director | January 2005 to October 2014 |
| Trony Solar Holdings Company Limited (stock code: 2468) (<i>Note 2</i>) | Independent non-executive director | October 2011 to February 2013 |

DIRECTORS AND SENIOR MANAGEMENT

Notes:

1. This company was delisted from the Stock Exchange in March 2017.
2. This company was delisted from the Stock Exchange in August 2018.

Mr. Lai was previously a director of Link-Order Limited (協令有限公司), a company incorporated in Hong Kong and principally engaged in property holding, prior to its dissolution by deregistration on 4 March 2011. Link-Order Limited, a property holding company, was deregistered after cessation of business.

Mr. Lai confirmed that (i) there was no wrongful act on his part leading to the above dissolution of company; (ii) he was not aware of any actual or potential claim that has been or will be made against him as a result of the above dissolution of the company; and (iii) the above company was solvent at the time of its dissolution.

Mr. Lui Ho Ming Paul (呂浩明先生), aged 54, was appointed as our independent non-executive Director on 26 July 2019. He is a member of our Audit Committee and the chairman of our Remuneration Committee.

Mr. Lui graduated from Macquarie University in April 1993 with a master of economics and Open University of Hong Kong in December 2007 by distance learning with a master's degree in electronic commerce. He has over 16 years' experience in corporate finance industry.

Mr. Lui has been the managing director and responsible officer of Success New Spring Capital Limited (previously known as New Spring Capital Limited), a licensed corporation to carry on type 6 (advising on corporate finance) regulated activities under the SFO since June 2011. He is licensed to advise on corporate finance advisory matters. Mr. Lui was previously the director and responsible officer of SinoPac Securities (Asia) Limited from April 2003 to December 2010.

Mr. Woo Chun Fai (胡振輝先生), aged 45, was appointed as our independent non-executive Director on 26 July 2019. He is a member of our Audit Committee and our Nomination Committee.

Mr. Woo graduated from Cambridge University in July 2000 with a master of arts and from the University of Hong Kong in June 1997 with a Postgraduate Certificate in Laws. He has over 20 years' experience in the legal industry. He is a qualified solicitor in Hong Kong.

Mr. Woo is currently a consultant of K Y Woo & Co, a law firm in Hong Kong, and was previously a partner in the Hong Kong offices of a number of international law firms, including Latham & Watkins, Freshfields Bruckhaus Deringer, Orrick, Herrington & Sutcliffe and Allen & Overy, specialising in corporate work.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed in this prospectus, each of our Directors: (i) did not hold any other positions in our Company or other members of our Group as of the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or Controlling Shareholders as of the Latest Practicable Date; (iii) did not hold any other directorships in any public companies in Hong Kong and overseas in the three years immediately preceding the date of this prospectus; and (iv) is not interested in any business apart from our Company's business, which competes or is likely to compete, either directly or indirectly, with our Company's business.

As at the Latest Practicable Date, except as disclosed in “B. Further information about the business of our Group — 4. Directors — (a) Disclosure of interests — interests and short positions of our Directors and chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations” in Appendix V to this prospectus, each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

Except as disclosed in this prospectus, to the best of the knowledge, information and belief of our Directors, having made all reasonable enquiries, there is no additional information relating to our Directors that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules, and there is no other matter with respect to their appointments as Directors that needs to be brought to the attention of our Shareholders as at the Latest Practicable Date.

SENIOR MANAGEMENT

Mr. Foo Tin Chung, Victor (傅天忠先生), aged 50, joined our Group in April 2018 as the vice president and chief financial officer of our Company. He is responsible for overseeing the finance team of our Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Foo obtained a bachelor's degree in accounting and information system from the University of New South Wales in Australia in April 1994 and a master of business administration from the Australia Graduate School of Management in July 2007. He is a member of Australia Society of Certified Practising Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. The following sets out the working experience of Mr. Foo with companies listed on the Stock Exchange:

| Company name | Position held | Period |
|--|------------------------------------|-----------------------------|
| China Grand Pharmaceutical and Healthcare Holdings Limited (stock code: 512) | Company secretary | September 2011 to present |
| Shandong Luoxin Pharmaceutical Group Stock Co., Ltd. (stock code: 8058) <i>(Note)</i> | Independent non-executive director | November 2007 to present |
| Huisheng International Holdings Limited (stock code: 1340) | Company secretary | July 2013 to September 2017 |
| Sino Haijing Holdings Limited (stock code: 1106) | Independent non-executive director | April 2015 to July 2016 |
| Ngai Shun Holdings Limited (currently known as Boill Healthcare Holdings Limited) (stock code: 1246) | Independent non-executive director | March 2015 to July 2015 |
| Jinheng Automotive Safety Technology Holdings Limited (currently known as TUS International Limited) (stock code: 872) | Executive director | July 2004 to September 2014 |
| RBI Holdings Limited (currently known as Hanergy Thin Film Power Group Limited) (stock code: 566) | Independent non-executive director | July 2007 to May 2008 |

Note: This company was delisted from the Stock Exchange in June 2017.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Wu Qian (吳茜女士), aged 37, joined our Group in July 2006 and is currently our chief operation officer. She is mainly responsible for merchandising, operations, shipping, production and factory evaluation functions of our Group.

Ms. Wu graduated from Shanghai Institute of Technology majoring in international trade in January 2011. Ms. Wu previously worked in APL Logistics China, Ltd, a global supply chain services provider from January 2003 to April 2006.

Mr. Tam Kwok Hee Raymond (談國禧先生), aged 71, joined our Group in July 1983 as the director of JAL until August 1990. He is currently a director of Jie Wei Cambodia and the vice president — overseas operations responsible for the management of our Cambodia Factory.

Prior to joining our Group, Mr. Raymond Tam was the sales assistant and later promoted to be the head of the trousers and jeans division of Yangtzekiang Garment Mfg. Co., Ltd. from March 1970 to March 1975. He later joined Clover Garment Mfy. Ltd. as a factory manager from October 1975 to February 1979.

Mr. Raymond Tam received a diploma in management studies from The Hong Kong Polytechnic (presently known as The Hong Kong Polytechnic University) in 1979. He has approximately 48 years of experience in the garment industry.

Mr. Raymond Tam is also an executive board member of Garment Manufacturer Association in Cambodia, a board member of Cambodia Federation of Employer and Business Association, a director of Hong Kong Business Association of Cambodia and the vice chairman of China Hong Kong & Macao Expatriate & Business Association of Cambodia.

Mr. Raymond Tam is the brother of Mr. Tam and brother-in-law of Mrs. Tam, executive Director and Controlling Shareholder of our Company. He is also one of our Pre-IPO Investors.

Ms. Li Yan Ting (李彥婷女士), aged 33, joined our Group in March 2010 as the finance manager until June 2017. Ms. Li rejoined our Group as the financial controller since April 2018. She is mainly responsible for management and supervision of our finance team of our head office in Shanghai.

Ms. Li obtained a bachelor's degree in management in July 2007 and a master's degree in national economics from University of Shanghai for Science and Technology in March 2010. She has over eight years of working experience in the finance and accounting field.

Save as disclosed above, each of our senior management confirmed that (i) he had no interest in our Shares within the meaning of Part XV of the SFO; (ii) he is independent from and did not have any other relationship with any Directors, senior management of our Company, substantial shareholders or controlling shareholders; and (iii) did not hold any directorship in any other public companies, the securities of which were listed on any securities market in Hong Kong or overseas in the last three years.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Mak Ka Chun Billy (麥嘉俊先生) was appointed as the company secretary of our Company in April 2018.

Mr. Mak has been an associate member of both Hong Kong Institute of Chartered Secretaries and Institute of Chartered Secretaries and Administrators in the U.K. since March 2016. Mr. Mak obtained a master of business administration and a master of corporate governance from Open University of Hong Kong in June 2002 and November 2015 respectively, and a bachelor of business administration from Shenzhen University in July 1998.

Mr. Mak has more than 14 years of experience in accounting and financial management. He served as a finance manager in T S Telecom Technologies Limited (presently known as Great World Company Holdings Ltd.) (stock code: 8003) between December 1998 and March 2004. He also served as a finance manager between August 2011 and May 2017 and served as a company secretary between September 2016 and May 2017 in China Fiber Optic Network System Group Ltd. (stock code: 3777), which was delisted from the Stock Exchange in February 2019.

BOARD COMMITTEES

Our Audit Committee, Remuneration Committee and Nomination Committee were approved to be established by resolutions passed by our Board on 17 October 2019 with effect upon the Listing.

Audit Committee

Our Company established our Audit Committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Audit Committee consists of all the independent non-executive Directors, namely, Mr. Lai Yat Kwong Fred, Mr. Lui Ho Ming Paul and Mr. Woo Chun Fai. Mr. Lai Yat Kwong Fred is the chairman of our Audit Committee.

The primary duties of our Audit Committee are to conduct an independent view of effectiveness of our Group's financial reporting and internal control systems and compliance of the Listing Rules, oversee the audit process, nominee and monitor external auditors, ensure the effective communication between internal and external auditors and provide advice to our Board.

DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Company established the Remuneration Committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Remuneration Committee consists of three members, namely, Mr. Tam, Mr. Lai Yat Kwong Fred, and Mr. Lui Ho Ming Paul. Mr. Lui Ho Ming Paul is the chairman of the Remuneration Committee.

The primary duties of our Remuneration Committee are to evaluate the performance and make recommendations on the remuneration of our Directors and senior management, review the remuneration policies and determine remuneration packages for our Directors and senior management.

Nomination Committee

Our Company established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The Nomination Committee consists of three members, namely, Mr. Tam, Mr. Lai Yat Kwong Fred, and Mr. Woo Chun Fai. Mr. Tam is the chairman of our Nomination Committee.

The primary duties of our Nomination Committee are to review structure and composition of our Board and review and formulate Board diversity policy make recommendations to our Board regarding candidates to fill vacancies on our Board.

BOARD DIVERSITY POLICY

In order to enhance the effectiveness of our Board and to maintain a high standard of corporate governance, our Board has adopted a diversity policy on 17 October 2019 (the “**Board Diversity Policy**”) which sets forth the objective and the approach to achieve and maintain an appropriate balance of diversity of perspective of our Board. The Board Diversity Policy provides that our Company should endeavour to ensure that our Board members have the appropriate balance of skills, experience and diversity of perspective to enhance the quality of its performance. Pursuant to the Board Diversity Policy, the selection of Directors will be based on a number of factors, including but not limited to, gender, skills, age, professional experience, knowledge, culture and educational background, and length of service. The final decision of the appointment of members of our Board will be based on the merit and contribution that the selected candidates may bring to our Board. Our Board reflects the current management of our Group and comprises six members, including three executive Directors and three independent non-executive Directors. Our Directors have a balanced mixed of experiences including entrepreneurship, sales and marketing, management, accounting and company secretarial, corporate finance and legal experiences. Furthermore, the ages of our Directors range from 45 years old to 70 years old. Our Board currently has a mixed of gender diversity, including one female Director and five male Directors. Our Board recognizes the importance of gender diversity and will continue to identify and recommend female candidates to our Board from time to time as appropriate and in accordance with the Board Diversity Policy.

DIRECTORS AND SENIOR MANAGEMENT

After Listing, our Nomination Committee will review the Board Diversity Policy from time to time to ensure its continued effectiveness and monitor and report annually in our corporate governance report about the implementation of the Board Diversity Policy.

CORPORATE GOVERNANCE

Pursuant to code provision A.2.1 of the Corporate Governance Code, companies listed on the Stock Exchange are expected to comply with, but may choose to deviate from the requirement that the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. We do not have a separate chairman and chief executive officer and Mr. Tam currently performs these two roles. While this will constitute a deviation from Code Provision A.2.1 of the Corporate Governance Code, our Board believes that this structure will not impair the balance of power and authority between our Board and the management of our Company, given that (i) decision to be made by our Board requires approval by at least a majority of our Directors and that our Board comprises three independent non-executive Directors out of six Directors, and we believe there is sufficient check and balance in our Board; (ii) Mr. Tam and the other Directors are aware of and undertake to fulfil their fiduciary duties as Directors, which require, among other things, that he acts for the benefit and in the best interests of our Company and will make decisions for our Group accordingly. Further as Mr. Tam is our founder and our Controlling Shareholder, our Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within our Group and enables more effective and efficient overall strategic planning for our Group. Our Board will continue to review the effectiveness of the corporate governance structure of our Group in order to assess whether separation of the roles of chairman and chief executive officer is necessary.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and senior management receive remuneration including salaries, allowances and benefits in kind, including our contribution to the pension plan on their behalf.

The aggregate amounts of remuneration (including salaries, bonus, allowances and retirement benefits scheme contributions) of our Directors for the three years ended 31 December 2018 and the five months ended 31 May 2019 were approximately HK\$4.8 million, HK\$2.3 million, HK\$2.3 million and HK\$1.0 million, respectively.

The aggregate amounts of remuneration (including salaries, bonus, allowances and retirement benefits scheme contributions) paid to the three highest paid employees (excluding Directors) of our Group for the three years ended 31 December 2018 and the five months ended 31 May 2019 were approximately HK\$1.5 million, HK\$1.6 million, HK\$1.7 million and HK\$2.4 million respectively.

Save as disclosed, no other payments had been paid or were payable in respect of the three years ended 31 December 2018.

DIRECTORS AND SENIOR MANAGEMENT

During the Track Record Period, no remuneration was paid by our Company to our Directors or the five highest paid individuals as an inducement to join or upon joining our Company or as a compensation for loss of office.

COMPLIANCE ADVISER

We have appointed Guotai Junan Capital Limited on 27 February 2019 as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (iii) 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
- (iv) where the Stock Exchange makes an inquiry of us under Rule 13.10 of the Listing Rules.

The term of the appointment of our compliance adviser will commence on the Listing Date and end on the date on which we distribute our annual report including our financial results for the first full financial year commencing after the Listing Date, or until the agreement is terminated, whichever is earlier.

SHARE OPTION SCHEME

Our Company has conditionally adopted the Share Option Scheme pursuant to which selected participants maybe granted options to subscribe for shares as incentives or rewards for their service rendered to our Group and any entity in which any member of our Group holds an equity interest. For details of the Share Option Scheme, please refer to the paragraph headed “B. Further Information about the business of our Group — 6. Share Option Scheme” in Appendix V to this prospectus.

GENERAL

Save as disclosed above, none of our Directors (i) has any other relationship with any Directors, senior management or Substantial Shareholders or Controlling Shareholders as; (ii) holds any other directorships in any public companies in Hong Kong and overseas in the three years immediately preceding the date of this prospectus; and (iii) is interested in any business apart from our Company’s business, which competes or is likely to compete, either directly or indirectly with our Company’s business.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in the paragraph headed “Relationship with Controlling Shareholders — Deed of Non-Competition” in this prospectus, each of our Directors has confirmed that none of them is engaged in, or interested in any business (other than our Group) which, directly or indirectly, competes or may compete with our business.

Save as disclosed above, there is no other information relating to our Directors that needs to be disclosed under Rule 13.51(2)(a) to (v) of the Listing Rules and there are no other material matters relating to our Directors that need to be brought to the attention of our Shareholders.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our Group's financial condition and results of operations in conjunction with our audited consolidated financial statements as of and for the three years ended 31 December 2018 and the five months ended 31 May 2019, including notes thereto set forth in the Accountants' Report included as Appendix I to this prospectus (the "Consolidated Financial Information"). Our Consolidated Financial Information have been prepared in accordance with the HKFRS. You should read the whole Accountants' Report and not merely rely on the information contained in this section.

The following discussion and analysis contains certain forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historic trends, current conditions and expect future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. For further information, you should refer to the section "Risk factors" and "Forward-looking statements" in this prospectus.

OVERVIEW

Established in Hong Kong in 1983, our Group primarily engages in the business of OEM garment manufacturing specialising in the production of sleepwear and loungewear products. We have a vertically integrated business operation which comprises raw materials sourcing and greige fabric production, product development which may involve advising on the product designs and the use of fabrics, conducting key garment production processes with our own production facilities and carrying out quality control at various key production stages and on finished garment products. As such, we are capable of offering one-stop apparel solutions comprising fabric development, product development, raw materials sourcing, garment manufacturing, quality control and logistics management to our customers.

Our garment products can be categorised into the following two main categories: (i) sleepwear; and (ii) loungewear. According to the Industry Consultant, while both sleepwear and loungewear are normally made from comfortable materials and are designed to fit comfortably, sleepwear refers to apparel designed to be worn indoors and worn to bed. Loungewear, on the other hand, is apparel designed for indoors and outdoors use and for multiple purposes such as leisure and housework. We also produce greige fabric in our Henan Factory for our own garment production as well as sales to third-party garment manufacturers.

For the three years ended 31 December 2018 and the five months ended 31 May 2019, we recorded revenue of approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million and HK\$214.6 million, respectively, and our net profit was approximately HK\$45.8 million, HK\$51.4 million, HK\$42.2 million and HK\$10.4 million, respectively.

For further details of our business and operations, please refer to the section headed "Business" in this prospectus.

FINANCIAL INFORMATION

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Our Company was incorporated as a limited liability company in the Cayman Islands on 31 May 2013. Our Company is an investment holding company since the date of its incorporation. In preparation for the Listing, our Group underwent the Reorganisation, pursuant to which our Company became the holding company of the subsidiaries now comprising our Group by way of share swaps with JA Overseas. Please refer to the section headed “History and Development” in this prospectus for further details in relation to the Reorganisation. Our Company was incorporated for the purpose of the Reorganisation and has not carried out any business since the date of our incorporation. 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 all companies now comprising our Group, have been prepared as if the current structure had been in existence throughout the Track Record Period, or since their respective dates of acquisition or incorporation/establishment, and where there is a shorter period, up to the dates of disposal. Our consolidated statements of financial position of our Group as at 31 December 2016, 2017, 2018 and 31 May 2019 have been prepared as if the current structure had been in existence at these dates or since their respective dates of acquisition or incorporation/establishment, whichever is the shorter period, and up to date of disposal. All material intra-group transactions and balances have been eliminated on combination. For the purpose of the Accountants’ Report set out in Appendix I to this prospectus, our Directors have prepared the consolidated financial statements of our Group for the Track Record Period in accordance with HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), the disclosure requirements of the Main Board Listing Rules and the Companies Ordinance. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKAS”) and Interpretations.

CRITICAL ACCOUNTING POLICIES

Our Group has identified certain accounting policies which we consider are significant in the preparation of our financial statements. These significant accounting policies are important for understanding our financial conditions and results of operations and are set forth in note 3 to the Accountants’ Report in Appendix I to this prospectus.

For the purpose of preparing and presenting the historical financial information for the Track Record Period, our Group has consistently applied all new amendments to HKFRSs, Hong Kong Accounting Standards (“HKASs”), amendments and interpretations (“HK(IFRIC)-Int”) issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2019 throughout the Track Record Period, except that (1) we adopted HKFRS 9 “Financial Instruments” on 1 January 2018 and HKAS 39 “Financial Instruments: Recognition and Measurement” during the two years ended 31 December 2017 and (2) we adopted HKFRS 16 “Leases” on 1 January 2019 and HKAS 17 “Leases” during the three years ended 31 December 2018. Our Directors consider that the adoption of HKFRS 9 and HKFRS 16 did not have a significant impact on our financial position and performance.

Our Group has also assessed the effect of adopting HKFRS 15 as compared to the adoption of HKAS 18 and our Directors considered that the adoption of HKFRS 15 did not have a significant impact on our financial position and performance.

FINANCIAL INFORMATION

MAJOR FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The results of operations and financial condition of our Group have been and will continue to be, affected by a number of factors, including those discussed below and under the section headed “Risk Factors” in this prospectus.

Reliance on key customers

Our top five customers accounted for a significant portion of our revenue during the Track Record Period. Revenue attributable to our top five customers was approximately HK\$458.7 million, HK\$509.6 million, HK\$594.0 million and HK\$211.9 million for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively and in particular, our revenue from Target, our largest customer during the Track Record Period with whom we had 14 years of business relationship, amounted to approximately 69.3%, 72.9%, 67.8% and 64.0% of our total revenue during the Track Record Period. For further details of our reliance on Target, please refer to the paragraph headed “Business — Reliance on Target and Customer A” in this prospectus.

Generally, we do not enter into long-term contracts with our customers while we enter into purchase orders with our customers on an order by order basis. In the event that our major customers decide not to purchase any products from us, change their suppliers or propose new terms of sales that are not acceptable for us, or terminate their respective relationships with us at any time in the future, our revenue may decline if we are unable to find alternative customers in a timely manner.

Seasonality

Our business and operating results are subject to seasonal fluctuations in the demand of our sleepwear and loungewear products. During the Track Record Period, we typically recorded higher revenue from the sales of our products in August to October. For further details of the changes of our seasonality, please refer to the paragraph headed “Business — Seasonality” in this prospectus. Nonetheless, our operating results for any of our peak or low season in the past should not be taken as an indication of our performance for the entire financial year. The seasonality may vary from year to year and seasonality for the latest financial year does not necessarily indicate the seasonality in future years. Hence, potential investors should be aware of these seasonal fluctuations when making any comparison of our operating results.

Cost of raw materials and direct labour costs

During the Track Record Period, our major raw materials for our garment production include fabric and accessories. For greige fabric production, our major raw material is yarn mainly sourced from yarn producers in the PRC. The purchase of raw materials accounted for a substantial amount of our total cost of sales, representing approximately 69.3%, 62.5%, 63.6% and 65.5% of our total cost of sales for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. The price of cotton, being the major components of yarn which we purchase can be volatile and affected by factors such as weather, industry demand and supply.

FINANCIAL INFORMATION

We cannot assure you that we can fully pass the cost of increase in raw materials on to our customers. Future price increases in raw materials or changes in the supply of raw materials may materially and adversely affect our business, financial condition and results of operation.

Further, the number of our employees increased and thus our direct labour costs increased to cater for our business growth in both the PRC and Cambodia during the Track Record Period. Our direct labour costs accounted for approximately HK\$58.2 million, HK\$61.5 million, HK\$61.3 million and HK\$24.4 million, respectively, for the three years ended 31 December 2018 and the five months ended 31 May 2019, representing approximately 16.7%, 15.7%, 13.9% and 15.6% of our cost of sales for the same year/period. Our Directors believe that in the event that our direct labour costs continue to rise and our Group is unable to increase the price of our products to the same or higher extend, our Group's profitability may be adversely affected.

Sensitivity analysis

For illustrative purpose only, the following sensitivity analysis illustrates the impact of hypothetical fluctuations of our cost of raw materials and direct labour costs on our profit before tax during the Track Record Period. Hypothetical fluctuations in our cost of raw materials are assumed to be 5%, 10% and 15% while fluctuations in direct labour cost are assumed to be 5%, 10% and 15%.

| | Increase/decrease in the cost of raw materials | | |
|---|---|-----------------|-----------------|
| | -/+ 5% | -/+ 10% | -/+ 15% |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Increase/decrease in profit before tax | | | |
| Year ended 31 December 2016 | 12,091 | 24,182 | 36,272 |
| Year ended 31 December 2017 | 12,280 | 24,560 | 36,840 |
| Year ended 31 December 2018 | 13,982 | 27,964 | 41,946 |
| Five months ended 31 May 2019 | 5,109 | 10,218 | 15,327 |

| | Increase/decrease in the direct labour costs | | |
|---|---|-----------------|-----------------|
| | -/+ 5% | -/+ 10% | -/+ 15% |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Increase/decrease in profit before tax | | | |
| Year ended 31 December 2016 | 2,911 | 5,821 | 8,732 |
| Year ended 31 December 2017 | 3,075 | 6,151 | 9,226 |
| Year ended 31 December 2018 | 3,063 | 6,126 | 9,190 |
| Five months ended 31 May 2019 | 1,218 | 2,435 | 3,653 |

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

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Consumer consumption level and macroeconomic conditions

A substantial amount of our products are sold to our customers in the U.S. and Europe. Our Group's performance and profitability are dependent on the consumer consumption level and the macroeconomic conditions around the world especially in the U.S.. There are many factors which may affect the level of consumer spending including but not limited to the level of disposable income, interest rate, currency exchange rate, inflation, political uncertainties, taxation, unemployment level and general consumer confidence. The current trade policies and trade protection measures between U.S. and the PRC may also affect our business.

We are subject to foreign exchange fluctuations and regulatory regimes of the jurisdictions where we operate. We operate in various locations and most of our sales and purchases transactions are denominated in US\$, HK\$ and RMB. We are also subject to local laws and regulations and government policies of jurisdictions where we operate. Any changes to the relevant local government regulations or policies, whether relating to work place safety, labour and labour union, tax treatment, environmental protection or any other aspects, may have a direct impact on our operating costs, profitability and financial results.

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items such as assets, liabilities, income and expenses. In each case, the determination of these items requires management estimates based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the estimates affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. For our estimates on depreciation and impairment of property, plant and equipment, we had not noted material difference of our estimates from the actual results during the Track Record Period. The method and assumptions on such estimates will unlikely be changed in the future. Our significant accounting policies and estimates, which are important for an understanding of our financial condition and results of operations, are summarised below and the full text is set out in notes 3 and 4 to the Accountants' Report contained in Appendix I to this prospectus for details. Our estimates are based on historical experience and other factors which our Directors believe to be reasonable under the circumstances. Results may differ under different assumptions and conditions. Our Directors have identified in the paragraph headed "Critical accounting policies" in this section the accounting policies that are most critical to the preparation of our consolidated financial statements.

FINANCIAL INFORMATION

SUMMARY OF RESULTS OF OPERATIONS

The following table sets out the summary of our Group's consolidated results for the Track Record Period, which are derived from, and should be read in conjunction with the consolidated financial information contained in the Accountants' Report set out in Appendix I to this prospectus:

| | For the year ended 31 December | | | For the five months ended 31 May | |
|-----------------------------------|--------------------------------|------------------|------------------|----------------------------------|------------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | <i>(unaudited)</i> | |
| Revenue | 467,863 | 524,852 | 608,386 | 185,208 | 214,601 |
| Cost of sales | <u>(348,968)</u> | <u>(392,842)</u> | <u>(439,652)</u> | <u>(134,585)</u> | <u>(156,070)</u> |
| Gross profit | 118,895 | 132,010 | 168,734 | 50,623 | 58,531 |
| Other income | 10,425 | 2,128 | 2,088 | 883 | 855 |
| Other gains and losses | 313 | 2,899 | (1,020) | 1,624 | 2,270 |
| Selling and distribution expenses | (31,691) | (30,859) | (43,662) | (12,508) | (13,252) |
| Administrative expenses | (38,610) | (38,473) | (48,104) | (17,082) | (20,834) |
| Finance costs | (2,502) | (4,016) | (5,802) | (1,936) | (2,833) |
| Listing expenses | <u>—</u> | <u>(500)</u> | <u>(16,878)</u> | <u>(3,751)</u> | <u>(10,104)</u> |
| Profit before tax | 56,830 | 63,189 | 55,356 | 17,853 | 14,633 |
| Income tax expense | <u>(11,031)</u> | <u>(11,778)</u> | <u>(13,131)</u> | <u>(4,774)</u> | <u>(4,233)</u> |
| Profit for the year/period | <u>45,799</u> | <u>51,411</u> | <u>42,225</u> | <u>13,079</u> | <u>10,400</u> |

DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Revenue

During the Track Record Period, our revenue was principally generated from the sales of our sleepwear and loungewear products. For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, we recorded revenue of approximately HK\$467.9 million, HK\$524.9 million, HK\$608.4 million, HK\$185.2 million and HK\$214.6 million respectively.

Our revenue increased by approximately HK\$57.0 million or 12.2% from approximately HK\$467.9 million for the year ended 31 December 2016 to approximately HK\$524.9 million for the year ended 31 December 2017 mainly due to the increase in the revenue generated from the sales of sleepwear products by approximately HK\$34.8 million and loungewear products by approximately HK\$14.7 million.

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Our revenue increased by approximately HK\$83.5 million or 15.9% from approximately HK\$524.9 million for the year ended 31 December 2017 to approximately HK\$608.4 million for the year ended 31 December 2018 mainly due to the increase in the revenue generated from the sales of sleepwear products by approximately HK\$24.3 million and loungewear products by approximately HK\$60.8 million.

Our revenue increased by approximately HK\$29.4 million or 15.9% from approximately HK\$185.2 million for the five months ended 31 May 2018 to approximately HK\$214.6 million for the five months ended 31 May 2019 mainly due to the increase of revenue from our loungewear products by approximately HK\$27.6 million and the increase in revenue from our sales of sleepwear products to Customer F, our new Apparel Retail Brand Customer.

Revenue by product and service

The following table sets forth our revenue by product and service for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|-----------------------------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------------|--------------|----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| | <i>(unaudited)</i> | | | | | | | | | |
| Sleepwear products | 376,787 | 80.5 | 411,547 | 78.4 | 435,834 | 71.6 | 138,912 | 75.0 | 141,978 | 66.2 |
| Loungewear products | 78,882 | 16.9 | 93,568 | 17.8 | 154,379 | 25.4 | 40,487 | 21.9 | 68,090 | 31.7 |
| Greige fabric | 4,558 | 1.0 | 8,465 | 1.6 | 9,619 | 1.6 | 4,215 | 2.3 | 4,380 | 2.0 |
| Processing services <i>(Note)</i> | 7,636 | 1.6 | 11,272 | 2.2 | 8,554 | 1.4 | 1,594 | 0.8 | 153 | 0.1 |
| Total | 467,863 | 100.0 | 524,852 | 100.0 | 608,386 | 100.0 | 185,208 | 100.0 | 214,601 | 100.0 |

Note: Our revenue from processing service mainly represented manufacturing fees from other garment manufacturers for which we acted as subcontractors to provide garment production service.

Sales volume and average selling price

The table below sets out our sales volume and average selling price of our products for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|--|--------------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------------------|-----------------------|----------------------|-----------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | Average Sales volume | Average selling price | Average Sales volume | Average selling price | Average Sales volume | Average selling price | Average Sales volume | Average selling price | Average Sales volume | Average selling price |
| | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) | ('000) | (HK\$) |
| Sleepwear products <i>(pieces)</i> | 13,747 | 27.4 | 13,865 | 29.7 | 14,189 | 30.7 | 4,678 | 29.7 | 4,436 | 32.0 |
| Loungewear products <i>(pieces)</i> | 1,690 | 46.7 | 2,042 | 45.8 | 3,780 | 40.8 | 1,110 | 36.5 | 1,860 | 36.6 |
| Greige fabric <i>(metres)</i> | 662 | 6.9 | 1,145 | 7.4 | 1,408 | 6.8 | 605 | 7.0 | 592 | 7.4 |

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For the three years ended 31 December 2018, the average selling price of our sleepwear products was approximately HK\$27.4, HK\$29.7 and HK\$30.7, respectively, and the average selling price of our loungewear products was approximately HK\$46.7, HK\$45.8 and HK\$40.8 respectively. For the five months ended 31 May 2018 and 2019, the average selling price of our sleepwear products was approximately HK\$29.7 and HK\$32.0, respectively and the average selling price of our loungewear products was approximately HK\$36.5 and HK\$36.6, respectively. The price of our products depends on a range of factors including: (i) the cost of our raw materials; (ii) the size of the order; (iii) technical production requirements; (iv) the production lead time; (v) product design; and (vi) other costs of production.

For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our revenue generated from the sales of our sleepwear products was approximately HK\$376.8 million, HK\$411.5 million, HK\$435.8 million, HK\$138.9 million and HK\$142.0 million, which accounted for approximately 80.5%, 78.4%, 71.6%, 75.0% and 66.2% of our total revenue, respectively.

The revenue from the sales of our sleepwear products increased by approximately HK\$34.7 million, or approximately 9.2% from approximately HK\$376.8 million for the year ended 31 December 2016 to approximately HK\$411.5 million for the year ended 31 December 2017. Such increase was mainly due to the increase in the average selling price by approximately 8.4% of our sleepwear products sold for the year ended 31 December 2017 as a result of the change of product mix. The sales of our sleepwear products remained relatively stable for the year ended 31 December 2018.

The revenue from the sales of our sleepwear products increased by approximately HK\$3.1 million, or approximately 2.2% from approximately HK\$138.9 million for the five months ended 31 May 2018 to approximately HK\$142.0 million for the five months ended 31 May 2019. The increase was mainly due to the increase in the revenue generated from the sales of sleepwear products to Customer F, our new Apparel Retail Brand Customer.

For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our revenue generated from the sales of our loungewear products was approximately HK\$78.9 million, HK\$93.6 million, HK\$154.4 million, HK\$40.5 million and HK\$68.1 million which accounted for approximately 16.9%, 17.8%, 25.4%, 21.9% and 31.7% of our total revenue, respectively.

The revenue from the sales of our loungewear products increased by approximately HK\$14.7 million, or approximately 18.6% from approximately HK\$78.9 million for the year ended 31 December 2016 to approximately HK\$93.6 million for the year ended 31 December 2017 mainly due to the increase in the sales volume of loungewear products by approximately 20.8% due to the change of product mix for the year ended 31 December 2017. The revenue from the sales of our loungewear products increased by approximately HK\$60.8 million, or approximately 65.0% from approximately HK\$93.6 million for the year ended 31 December 2017 to approximately HK\$154.4 million for the year ended 31 December 2018 mainly due to the increase in the sales volume of our loungewear products by approximately 85.1% as a result of the increase in quantities for our loungewear products placed with us by Target.

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The revenue from the sales of our loungewear products increased by approximately HK\$27.6 million, or approximately 68.2% from approximately HK\$40.5 million for the five months ended 31 May 2018 to approximately HK\$68.1 million for the five months ended 31 May 2019. The increase was mainly due to the increase in the sales of our loungewear products to Target.

The average selling price of our loungewear products remained stable for the two years ended 31 December 2017. The average selling price of our loungewear products decreased to approximately HK\$40.8 for the year ended 31 December 2018 from approximately HK\$45.8 for the year ended 31 December 2017. The average selling price of our loungewear products for the five months ended 31 May 2019 was HK\$36.6, which was similar to the average selling price of HK\$36.5 for the five months ended 31 May 2018. Our Directors confirm that the reason for the lower average selling price for the first five months of a year compared to that for the whole year is that the products sold by our Group for the first five months of a year are mainly summer clothes which generally have a lower selling price compared to autumn and winter clothes.

Revenue by geographic location

Our revenue generated from the U.S. for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019 was approximately HK\$326.1 million, HK\$385.3 million, HK\$417.4 million, HK\$121.2 million and HK\$139.0 million, respectively, representing approximately 69.7%, 73.4%, 68.6%, 65.4% and 64.8%, respectively, of our total revenue for the same period. We have also generated revenue from U.K., Ireland, Spain, the PRC, Canada and Cambodia during the Track Record Period. The table below shows the breakdown of our revenue by our customer's geographic location for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|--------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------------|------------|----------------|------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| | <i>(unaudited)</i> | | | | | | | | | |
| U.S. | 326,148 | 69.7 | 385,271 | 73.4 | 417,353 | 68.6 | 121,156 | 65.4 | 138,970 | 64.8 |
| U.K. | 94,723 | 20.2 | 69,517 | 13.2 | 83,467 | 13.7 | 24,345 | 13.1 | 35,179 | 16.4 |
| Ireland | 28,342 | 6.1 | 34,652 | 6.6 | 62,360 | 10.3 | 20,543 | 11.2 | 24,112 | 11.2 |
| Spain | 6,656 | 1.4 | 15,675 | 3.0 | 27,033 | 4.4 | 13,354 | 7.2 | 8,856 | 4.1 |
| PRC | 5,998 | 1.3 | 13,182 | 2.5 | 16,882 | 2.8 | 4,519 | 2.4 | 4,533 | 2.1 |
| Canada | — | — | — | — | — | — | — | — | 2,951 | 1.4 |
| Cambodia | 5,996 | 1.3 | 6,555 | 1.3 | 1,291 | 0.2 | 1,291 | 0.7 | — | — |
| Total | 467,863 | 100.0 | 524,852 | 100.0 | 608,386 | 100.0 | 185,208 | 100 | 214,601 | 100 |

Cost of sales

Our cost of sales for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019 amounted to approximately HK\$349.0 million, HK\$392.8 million, HK\$439.7 million, HK\$134.6 million and HK\$156.1 million, respectively.

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Our cost of sales primarily consisted of cost of raw materials, direct labour costs, subcontracting costs and manufacturing overhead. The following table sets out the breakdown of our cost of sales for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|------------------------|--------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|----------------------------------|---------------------|-----------------------|---------------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| | <i>(unaudited)</i> | | | | | | | | | |
| Cost of raw materials | 241,816 | 69.3 | 245,602 | 62.5 | 279,639 | 63.6 | 71,178 | 52.9 | 102,180 | 65.5 |
| Direct labour costs | 58,211 | 16.7 | 61,507 | 15.7 | 61,264 | 13.9 | 23,950 | 17.8 | 24,353 | 15.6 |
| Subcontracting costs | 62,892 | 18.0 | 62,745 | 16.0 | 88,660 | 20.2 | 23,711 | 17.6 | 32,219 | 20.6 |
| Manufacturing overhead | 26,465 | 7.6 | 27,359 | 7.0 | 28,489 | 6.5 | 10,927 | 8.1 | 12,539 | 8.0 |
| Change of inventories | (40,416) | (11.6) | (4,371) | (1.2) | (18,400) | (4.2) | 4,819 | 3.6 | (15,221) | (9.7) |
| Total | <u>348,968</u> | <u>100.0</u> | <u>392,842</u> | <u>100.0</u> | <u>439,652</u> | <u>100.0</u> | <u>134,585</u> | <u>100.0</u> | <u>156,070</u> | <u>100.0</u> |

Cost of raw materials

Cost of raw materials consisted of our cost of purchasing fabric, yarn and accessories. For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our cost of raw materials amounted to approximately HK\$241.8 million, HK\$245.6 million, HK\$279.6 million, HK\$71.2 million and HK\$102.2 million, respectively, representing approximately 69.3%, 62.5%, 63.6%, 52.9% and 65.5% of our total cost of sales, respectively for the same period.

The table below sets out our costs of raw material for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|---------------------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|----------------------------------|--------------|----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % | HK\$'000 | % |
| | <i>(unaudited)</i> | | | | | | | | | |
| Fabric | 117,959 | 48.8 | 146,765 | 59.8 | 169,103 | 60.5 | 45,187 | 63.5 | 58,364 | 57.1 |
| Yarn | 71,721 | 29.7 | 48,297 | 19.7 | 55,691 | 19.9 | 13,695 | 19.2 | 28,045 | 27.5 |
| Accessories <i>(Note)</i> | 52,136 | 21.5 | 50,540 | 20.5 | 54,845 | 19.6 | 12,296 | 17.3 | 15,771 | 15.4 |
| | <u>241,816</u> | <u>100.0</u> | <u>245,602</u> | <u>100.0</u> | <u>279,639</u> | <u>100.0</u> | <u>71,178</u> | <u>100.0</u> | <u>102,180</u> | <u>100.0</u> |

Note: Accessories mainly included buttons, hangers and labels.

Direct labour costs

Direct labour costs represented salaries and other employee related costs of our manufacturing facilities including the Henan Factory and the Cambodia Factory. For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our direct labour costs amounted to approximately HK\$58.2 million, HK\$61.5 million, HK\$61.3 million, HK\$24.0 million and HK\$24.4 million, respectively, representing approximately 16.7%, 15.7%, 13.9%, 17.8% and 15.6% of our total cost of sales, respectively for the same period.

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Subcontracting costs

Subcontracting costs represented charges paid and payable to third-party manufacturers who provide garment, fabric or partial garment production services to our Group. For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our subcontracting costs amounted to approximately HK\$62.9 million, HK\$62.7 million, HK\$88.7 million, HK\$23.7 million and HK\$32.2 million, respectively, representing approximately 18.0%, 16.0%, 20.2%, 17.6% and 20.6% of our total cost of sales, respectively for the same period.

The following table sets out the subcontracting costs by production service type for the periods indicated:

| | For the three years ended 31 December | | | | | | For the five months ended 31 May | | | |
|--------------|---------------------------------------|--------------|-----------------|--------------|-----------------|--------------|----------------------------------|--------------|-----------------|--------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % | <i>HK\$'000</i> | % |
| Fabric | 43,941 | 69.9 | 25,325 | 40.4 | 40,512 | 45.7 | 11,887 | 50.1 | 14,829 | 46.0 |
| Garment | 18,951 | 30.1 | 37,420 | 59.6 | 48,148 | 54.3 | 11,824 | 49.9 | 17,390 | 54.0 |
| Total | 62,892 | 100.0 | 62,745 | 100.0 | 88,660 | 100.0 | 23,711 | 100.0 | 32,219 | 100.0 |

Our garment subcontracting costs for the three years ended 31 December 2018 was approximately HK\$19.0 million, HK\$37.4 million and HK\$48.1 million respectively. The increase in garment subcontracting costs was primarily due to the increase in demand of our products and the limited production capacity of our production facilities in Henan and Cambodia. Our garment subcontracting costs for the five months ended 31 May 2019 was approximately HK\$17.4 million compared to HK\$11.8 million for the five months ended 31 May 2018. The increase in garment subcontracting costs was mainly due to our Group shifting more production to our garment subcontractors in Vietnam in preparation for the ongoing uncertainty in relation to the trade relation between the PRC and the U.S..

Our fabric subcontracting costs decreased from approximately HK\$43.9 million for the year ended 31 December 2016 to HK\$25.3 million for the year ended 31 December 2017 as we have purchased more finished fabric. Hence, we produced less fabric on our own and required less fabric subcontracting services such as spinning and dyeing. Our fabric subcontracting costs increased to HK\$40.5 million for the year ended 31 December 2018 as we engaged subcontractors to produce more customised fabric. Our fabric subcontracting costs for the five months ended 31 May 2019 was approximately HK\$14.8 million compared to HK\$11.9 million for the five months ended 31 May 2018. The increase in fabric subcontracting costs was mainly due to our Group engaging subcontractors to produce more customised fabric.

FINANCIAL INFORMATION

Manufacturing overhead

Our manufacturing overhead primarily consisted of rent, utilities and depreciation. For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our manufacturing overhead amounted to approximately HK\$26.5 million, HK\$27.4 million, HK\$28.5 million, HK\$10.9 million and HK\$12.5 million, respectively, representing approximately 7.6%, 7.0%, 6.5%, 8.1% and 8.0% of our total cost of sales, respectively for the same period.

Gross profit and gross profit margin

The following table below sets out our revenue, gross profit and gross profit margin by type of products and services for the periods indicated:

| | For the year ended 31 December | | | | | | For the five months ended 31 May | | | |
|-----------------------------------|--------------------------------|---------------|-----------------|---------------|-----------------|---------------|----------------------------------|---------------|-----------------|---------------|
| | 2016 | | 2017 | | 2018 | | 2018 | | 2019 | |
| | <i>Gross</i> | | <i>Gross</i> | | <i>Gross</i> | | <i>Gross</i> | | <i>Gross</i> | |
| | Gross | profit | Gross | profit | Gross | profit | Gross | profit | Gross | profit |
| | <i>Margin</i> | | <i>Margin</i> | | <i>Margin</i> | | <i>Margin</i> | | <i>Margin</i> | |
| | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> | <i>HK\$'000</i> | <i>%</i> |
| | <i>(unaudited)</i> | | | | | | | | | |
| Sleepwear products | 97,649 | 25.9 | 109,623 | 26.6 | 120,637 | 27.7 | 38,123 | 27.4 | 37,575 | 26.5 |
| Loungewear products | 20,592 | 26.1 | 21,367 | 22.8 | 46,903 | 30.4 | 12,208 | 30.2 | 20,662 | 30.3 |
| Greige fabric | 68 | 1.5 | 271 | 3.2 | 442 | 4.6 | 164 | 3.9 | 284 | 6.5 |
| Processing services <i>(Note)</i> | 586 | 7.7 | 749 | 6.6 | 752 | 8.8 | 128 | 8.0 | 10 | 6.5 |
| Total | 118,895 | 25.4 | 132,010 | 25.2 | 168,734 | 27.7 | 50,623 | 27.3 | 58,531 | 27.3 |

Note: Our revenue from processing services mainly represented manufacturing fees from other third-party garment manufacturers for which we acted as subcontractors to provide garment production service.

Our gross profit for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019 was approximately HK\$118.9 million, HK\$132.0 million, HK\$168.7 million, HK\$50.6 million and HK\$58.5 million respectively. Our gross profit margin for the same periods was approximately 25.4%, 25.2%, 27.7%, 27.3% and 27.3%, respectively. Our gross profit margin was relatively stable for the two years ended 31 December 2017. Our gross profit margin increased to 27.7% for the year ended 31 December 2018, which was mainly due to the increase in the gross profit margin of our loungewear product from 22.8% to 30.4%, as our Group received a relatively large batch of purchase orders of costume loungewear products from Target which had a comparatively higher gross profit margin for the year ended 31 December 2018. Our gross profit margin remained stable for the five months ended 31 May 2019 as compared to the five months ended 31 May 2018.

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Other income

Our other income primarily consisted of (i) rental income and (ii) government grant. Our other income amounted to approximately HK\$10.4 million, HK\$2.1 million, HK\$2.1 million, HK\$0.9 million and HK\$0.9 million for the three year ended 31 December 2018 and the five months ended 31 May 2018 and 2019, respectively.

| | For the year ended 31 December | | | For the five months ended 31 May | |
|------------------|---|---------------------|---------------------|---|-------------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income | 88 | 64 | 87 | 35 | 85 |
| Rental income | 1,296 | 1,249 | 1,181 | 520 | — |
| Government grant | 8,640 | 115 | — | — | 586 |
| Others | <u>401</u> | <u>700</u> | <u>820</u> | <u>328</u> | <u>184</u> |
| Total | <u>10,425</u> | <u>2,128</u> | <u>2,088</u> | <u>883</u> | <u>855</u> |

For the year ended 31 December 2016, we received a government grant of approximately HK\$8.4 million from the PRC government as a support to our operation in Henan Factory. Our rental income was derived from the rental of our investment property in Hong Kong.

Other gains and losses

Our other gains and losses primarily consisted of (i) gain (loss) on disposal/write off of property, plant and equipment; (ii) net exchange gain (loss); and (iii) net (impairment loss recognised) reversal of impairment loss recognised on trade receivables. The following table sets out a breakdown of our other gains and losses for the periods indicated:

| | For the year ended 31 December | | | For the five months ended 31 May | |
|--|---|---------------------|-----------------------|---|---------------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Gain (loss) on disposals/ write off of property, plant and equipment | 77 | (1,476) | 60 | — | (15) |
| Net exchange gain (loss) | 1,165 | 4,359 | (1,201) | 1,434 | 2,165 |
| Impairment loss (recognised) reversed on trade receivables, net | <u>(929)</u> | <u>16</u> | <u>121</u> | <u>190</u> | <u>120</u> |
| Total | <u>313</u> | <u>2,899</u> | <u>(1,020)</u> | <u>1,624</u> | <u>2,270</u> |

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The loss on disposal of property, plant and equipment of approximately HK\$1.5 million for the year ended 31 December 2017 was related to the disposal of equipment in our Henan Factory. The net exchange gain of approximately HK\$4.4 million for the year ended 31 December 2017 was mainly due to the appreciation of RMB against USD in the fourth quarter in 2017. The net exchange loss of approximately HK\$1.2 million for the year ended 31 December 2018 was due to exchange loss due to depreciation of RMB during the period.

Impairment loss recognised on trade receivables for the year ended 31 December 2016 represented the net effect of (i) the impairment of approximately HK\$2.2 million made on the trade receivables from Customer B as it was placed into administration in May 2016; and (ii) the reversal of impairment loss recognised on trade receivables of approximately HK\$1.3 million from a customer as such amount was subsequently received during the year.

Selling and distribution expenses

Our selling and distribution expenses mainly consisted of (i) staff costs; (ii) transportation expenses; (iii) custom fees; (iv) commission to import-export corporations and (v) inspection fees. The following table sets out a breakdown of our selling and distribution expenses for the periods indicated:

| | For the year ended 31 December | | | For the five months ended 31 May | |
|--|-----------------------------------|-------------------------|-------------------------|-------------------------------------|-------------------------|
| | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> | 2019 <i>HK\$'000</i> |
| | | | | <i>(unaudited)</i> | |
| Staff costs | 9,789 | 11,870 | 16,003 | 3,424 | 5,032 |
| Transportation expenses | 7,830 | 7,107 | 10,709 | 4,045 | 4,476 |
| Customs fees | 7,214 | 6,634 | 7,757 | 2,464 | 2,457 |
| Commission to import-export corporations | 3,829 | 1,989 | 5,323 | 1,410 | 708 |
| Inspection fees | 2,481 | 2,790 | 3,384 | 815 | 275 |
| Others | 548 | 469 | 486 | 350 | 304 |
| Total | <u>31,691</u> | <u>30,859</u> | <u>43,662</u> | <u>12,508</u> | <u>13,252</u> |

Staff costs mainly represented salaries paid to our sales staff, the increase in staff cost was in line with the increase of our revenue during the Track Record Period. Our staff costs increased by approximately HK\$4.1 million from approximately HK\$11.9 million for the year ended 31 December 2017 to approximately HK\$16.0 million for the year ended 31 December 2018, which was primarily due to the increase in accrued bonus to be distributed to our employees.

Transportation expenses represented transport fees for the transport of goods and raw materials between our factories and our Shanghai office as well as our suppliers.

Custom fees represented fees payable to customs department for the import and export of our products.

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Commission to import-export corporations represented the commission fee paid to independent import-export corporations for the export services from the PRC to overseas. During the Track Record Period, the commission rate charged by those import-export corporations was approximately 1% of the value of the raw materials and finished goods cleared. Such commission decreased by approximately HK\$1.8 million from approximately HK\$3.8 million for the year ended 31 December 2016 to approximately HK\$2.0 million for the year ended 31 December 2017 as our Henan Factory obtained an export license to export certain products to our customers. The commission fee increased by approximately HK\$3.3 million from approximately HK\$2.0 million for the year ended 31 December 2017 to approximately HK\$5.3 million for the year ended 31 December 2018 as we considered engaging import-export corporations would be more efficient than handling such export arrangements by ourselves. The commission to import-export corporations for the five months ended 31 May 2019 decreased to approximately HK\$0.7 million as compared to approximately HK\$1.4 million for the five months ended 31 May 2018. The reason for the decrease is that our Group changed its suppliers for certain raw materials and accessories from a Hong Kong based supplier to a PRC based supplier for the five months ended 31 May 2019 and hence the import and export procedures have been simplified, therefore the export procedures of certain products can be handled by ourselves for the five months ended 31 May 2019.

Inspection fees represented fees payable to external third-party laboratories for testing of our raw materials and fabric and garment products.

Administrative expenses

Our administrative expenses mainly consisted of (i) staff costs; (ii) depreciation expenses; (iii) travelling and transportation expenses; and (iv) others. The following table sets out a breakdown of our administrative expenses for the periods indicated:

| | For the year ended | | | For the five months | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 31 December | | | ended 31 May | |
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | | | | |
| Staff costs | 19,844 | 18,019 | 26,714 | 8,867 | 12,121 |
| Depreciation expenses | 3,734 | 4,517 | 4,943 | 2,056 | 2,479 |
| Amortisation of prepaid lease payments | 1,092 | 1,084 | 1,078 | 482 | 456 |
| Travelling and transportation expenses | 2,577 | 2,809 | 2,943 | 1,033 | 1,114 |
| Bank charges | 1,476 | 1,742 | 1,728 | 447 | 512 |
| Others (<i>Note</i>) | <u>9,887</u> | <u>10,302</u> | <u>10,698</u> | <u>4,197</u> | <u>4,152</u> |
| Total | <u>38,610</u> | <u>38,473</u> | <u>48,104</u> | <u>17,082</u> | <u>20,834</u> |

Note: Others mainly include other taxes, rental expenses and legal and professional fees, etc..

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For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our administrative expenses were approximately HK\$38.6 million, HK\$38.5 million, HK\$48.1 million, HK\$17.1 million and HK\$20.8 million, respectively.

Our administrative expenses increased by approximately 25.0% from approximately HK\$38.5 million for the year ended 31 December 2017 to approximately HK\$48.1 million for the year ended 31 December 2018 primarily due to increase in staff costs from approximately HK\$18.0 million for the year ended 31 December 2017 to approximately HK\$26.7 million for the year 31 December 2018, which was mainly attributable to the increase in accrued bonus to be distributed to our employees.

Our administrative expenses increased by approximately 22.0% from approximately HK\$17.1 million for the five months ended 31 May 2018 to approximately HK\$20.8 million for the five months ended 31 May 2019 primarily due to the increase in staff costs from approximately HK\$8.9 million for the five months ended 31 May 2018 to approximately HK\$12.1 million for the five months ended 31 May 2019, which was mainly attributable to the salaries increment and accrued bonus to be distributed to our employees.

Finance costs

Our finance costs mainly represented interest expenses on our bank borrowings. Our finance costs for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019 were approximately HK\$2.5 million, HK\$4.0 million, HK\$5.8 million, HK\$1.9 million and HK\$2.8 million, respectively.

Listing expenses

Our listing expenses amounted to nil, HK\$0.5 million, HK\$16.9 million, HK\$3.8 million and HK\$10.1 million for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, respectively.

Income tax expense

Income tax expense primarily consisted of current and deferred tax at the applicable tax rates in accordance with the relevant laws and regulations in Hong Kong, the PRC and other jurisdictions including Cayman Islands, BVI and Cambodia. Under the rules and regulations of the Cayman Islands and BVI, we are not subject to any income tax in the Cayman Islands and BVI. Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits arising in or derived from Hong Kong. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which our Group operates. Under the law of PRC on Enterprise Income Tax and implementation regulation of the Enterprise Income Tax Law, the tax rate of the PRC subsidiaries of our Group is 25%. Our subsidiary in Cambodia is subject to Cambodia corporate income tax and the tax rate is 20%.

During the Track Record Period and up to the Latest Practicable Date, our Group mainly generated sales revenue by selling our products to overseas markets. Our Group has not established any companies or appointed any sales agents in these overseas markets, and

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therefore our Directors confirm that our Group is not subject to any income tax or sales tax in these countries. Our Group would closely monitor the development of our Group's operating structure and international trade arrangement in the overseas, and if necessary, would consult international tax experts to ensure we meet the tax compliance requirements in these countries.

For the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, our income tax expense were approximately HK\$11.0 million, HK\$11.8 million, HK\$13.1 million, HK\$4.8 million and HK\$4.2 million, respectively. Our Group's overall effective tax rates which were calculated by dividing income tax expense with our profit before income tax was approximately 19.4%, 18.6%, 23.7%, 26.7% and 28.9% for the same periods. The increase in our Group's overall effective tax rate in the year ended 31 December 2018 compared to that in the year ended 31 December 2017 was primarily due to our non-deductible Listing expenses incurred. The increase in our Group's effective tax rate for the five months ended 31 May 2019 as compared to the five months ended 31 May 2018 was mainly due to the increase in the amount of Listing expenses incurred from approximately HK\$3.8 million for the five months ended 31 May 2018 to approximately HK\$10.1 million for the five months ended 31 May 2019.

The following table sets out a breakdown of our current and deferred tax expenses for the periods indicated:

| | For the year ended 31 December | | | For the five months ended 31 May | |
|---------------------------------|-----------------------------------|-------------------------|-------------------------|---|-------------------------|
| | 2016 <i>HK\$'000</i> | 2017 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> | 2018 <i>HK\$'000</i> <i>(unaudited)</i> | 2019 <i>HK\$'000</i> |
| Current tax expense | 10,522 | 12,668 | 14,724 | 5,086 | 5,185 |
| Deferred tax charge (credit) | <u>509</u> | <u>(890)</u> | <u>(1,593)</u> | <u>(312)</u> | <u>(952)</u> |
| Total | <u>11,031</u> | <u>11,778</u> | <u>13,131</u> | <u>4,774</u> | <u>4,233</u> |

Exchange difference arising on translation of foreign operations

For the purposes of presenting the historical financial information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of our 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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During the Track Record Period, our exchange difference arising on translation of foreign operations resulted in a loss of approximately HK\$6.8 million, a gain of approximately HK\$6.9 million, a loss of HK\$11.2 million, a gain of HK\$4.8 million and a gain of HK\$6.6 million for the three years ended 31 December 2018 and the five months ended 31 May 2018 and 2019, respectively. The reason for such fluctuation was mainly due to the fluctuation in the exchange rate of RMB against HK\$.

REVIEW OF HISTORICAL RESULTS OF OPERATION

Five months ended 31 May 2019 as compared to five months ended 31 May 2018

Revenue

Our revenue increased by approximately HK\$29.4 million or 15.9% from approximately HK\$185.2 million for the five months ended 31 May 2018 to approximately HK\$214.6 million for the five months ended 31 May 2019. The increase was mainly due to the increase of revenue from our loungewear products by approximately HK\$27.6 million which was mainly due to the increase in our sales of loungewear products to Target by approximately HK\$32.7 million and the increase in our sales of sleepwear products by approximately HK\$3.0 million to Customer F, our new Apparel Retail Brand Customer.

Cost of sales

Our cost of sales increased by approximately HK\$21.5 million or 16.0% from approximately HK\$134.6 million for the five months ended 31 May 2018 to approximately HK\$156.1 million for the five months ended 31 May 2019. The increase was in line with the increase in revenue.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$7.9 million or 15.6% from approximately HK\$50.6 million for the five months ended 31 May 2018 to approximately HK\$58.5 million for the five months ended 31 May 2019. The increase was in line with the increase in revenue.

Our gross profit margin remained stable for the five months ended 31 May 2019 as compared to the five months ended 31 May 2018.

Other gains and losses

Our other gains increased by approximately HK\$0.7 million or 43.8% from approximately HK\$1.6 million for the five months ended 31 May 2018 to approximately HK\$2.3 million for the five months ended 31 May 2019. The increase was mainly due to exchange gain as a result of the appreciation of RMB.

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Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$0.8 million or 6.4% from approximately HK\$12.5 million for the five months ended 31 May 2018 to approximately HK\$13.3 million for the five months ended 31 May 2019. The increase was mainly due to the increase of staff costs by approximately HK\$1.6 million, partially offset by the decrease in our commission to import-export corporations by approximately HK\$0.7 million.

Administrative expenses

Our administrative expenses increased by approximately HK\$3.7 million or 21.6% from approximately HK\$17.1 million for the five months ended 31 May 2018 to approximately HK\$20.8 million for the five months ended 31 May 2019. The increase was mainly due to the salaries increment and accrued bonus to be distributed to our employees.

Finance costs

Our finance costs increased by approximately HK\$0.9 million or 47.4% from approximately HK\$1.9 million for the five months ended 31 May 2018 to approximately HK\$2.8 million for the five months ended 31 May 2019. The increase was mainly due to the increase in our factored trade receivables to financial institutions for the five months ended 31 May 2019.

Income tax expenses

Our income tax expenses decreased by approximately HK\$0.6 million or 12.5% from approximately HK\$4.8 million for the five months ended 31 May 2018 to approximately HK\$4.2 million for the five months ended 31 May 2019. The decrease in our income tax expenses was mainly due to the decrease in our profit before tax.

Profit for the period

Our profit for the period decreased by approximately HK\$2.7 million or 20.6% from approximately HK\$13.1 million for the five months ended 31 May 2018 to approximately HK\$10.4 million for the five months ended 31 May 2019. The decrease was mainly due to Listing expenses of approximately HK\$10.1 million being recognised for the five months ended 31 May 2019.

Year ended 31 December 2018 as compared to the year ended 31 December 2017

Revenue

Our revenue increased by approximately HK\$83.5 million or 15.9% from approximately HK\$524.9 million for the year ended 31 December 2017 to approximately HK\$608.4 million for the year ended 31 December 2018 which was mainly attributable to the increase in sales of our sleepwear products to Customer A by approximately HK\$59.8

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million or 60.0% compared to the year ended 31 December 2017. Such increase was primarily due to the increase in sales volume by approximately 38.0% as well as the average selling price by approximately 15.9% of the sleepwear products sold to Customer A. We increased our sales to Customer A for the year ended 31 December 2018 when compared to that for the year ended 31 December 2017 so as to reduce the level of customer concentration and to diversify our revenue geographically. In response to the increase in production costs and cost of raw materials of certain sleepwear products sold to Customer A, we increased the selling price of those sleepwear products in order to maintain our gross profit margin. As a result, the average selling price of our sleepwear products sold to Customer A increased.

Cost of sales

Our cost of sales increased by approximately HK\$46.9 million or 11.9% from approximately HK\$392.8 million for the year ended 31 December 2017 to approximately HK\$439.7 million for the year ended 31 December 2018. The increase in cost of sales is in line with the increase in revenue.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$36.7 million or 27.8% from approximately HK\$132.0 million for the year ended 31 December 2017 to approximately HK\$168.7 million for the year ended 31 December 2018. The increase in gross profit was in line with the increase in our sales revenue for the year ended 31 December 2018.

Our gross profit margin slightly increased from approximately 25.2% for the year ended 31 December 2017 to approximately 27.7% for the year ended 31 December 2018, which was mainly due to the increase in gross profit margin of our loungewear products from 22.8% to 30.4% as our Group received a relatively large batch of purchase orders of costume loungewear products from Target which had a comparatively higher gross profit margin for the year ended 31 December 2018.

Other gains and losses

Our other losses decreased by approximately HK\$3.9 million or 135.2% from a gain of approximately HK\$2.9 million for the year ended 31 December 2017 to a loss of approximately HK\$1.0 million for the year ended 31 December 2018, which was mainly due to substantial exchange gain in the year ended 31 December 2017 and an exchange loss recognised in the year ended 31 December 2018.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$12.8 million or 41.5% from approximately HK\$30.9 million for the year ended 31 December 2017 to approximately HK\$43.7 million for the year ended 31 December 2018. Our selling and distribution expenses increased due to (i) the increase in salaries as a result of the increase in personnel in our sales and merchandising team and increase in accrued bonus to be distributed to our employees; (ii) the increase in transportation expenses to cope with the

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increase in our revenue for the year ended 31 December 2018; and (iii) increase in commission to import-export corporations as we considered engaging import-export corporations would be more efficient than handling such export arrangements by ourselves as our Group did not have a team of dedicated personnel to handle the import-export arrangements. Our Group would have to spend additional resources to provide training to a number of dedicated staff to conduct such import export procedures if we were to establish such dedicated team. Further, as the import-export corporations were experienced and familiar with the process, our Directors considered that it would be efficient in both time and costs for the import-export corporations to undertake the import-export arrangements.

Administrative expenses

Our administrative expenses increased by approximately HK\$9.6 million or 25.0% from approximately HK\$38.5 million for the year ended 31 December 2017 to approximately HK\$48.1 million for the year ended 31 December 2018. Our administrative expenses increased mainly due to the increased staff costs for additional staff, the salaries increment and increase in accrued bonus to be distributed to our employees.

Finance costs

Our finance costs increased by approximately HK\$1.8 million or 44.5% from approximately HK\$4.0 million for the year ended 31 December 2017 to approximately HK\$5.8 million for the year ended 31 December 2018. The increase was primarily due to the increase in our factored trade receivables to financial institutions for the year ended 31 December 2018.

Income tax expense

Our income tax expense increased by approximately HK\$1.3 million or 11.0% from approximately HK\$11.8 million for the year ended 31 December 2017 to approximately HK\$13.1 million for the year ended 31 December 2018. The increase in our income tax expenses was in line with the increase in our profit before Listing expenses.

Profit for the year

Profit for the year decreased by approximately HK\$9.2 million or 17.9% from approximately HK\$51.4 million for the year ended 31 December 2017 to approximately HK\$42.2 million for the year ended 31 December 2018. The decrease was mainly due to Listing expenses of approximately HK\$16.9 million being recognised during the year ended 31 December 2018. Our profit after tax but before Listing expenses has increased by approximately HK\$7.2 million or 13.9% for the same period.

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Year ended 31 December 2017 as compared to year ended 31 December 2016

Revenue

Our revenue increased by approximately HK\$57.0 million or 12.2% from approximately HK\$467.9 million for the year ended 31 December 2016 to approximately HK\$524.9 million for the year ended 31 December 2017 mainly due to the increase in our sales to Target by approximately HK\$58.3 million or 18.0%. Such increase was mainly due to the increase in the average selling price of our sleepwear products sold to Target by approximately 12.8% and the increase in the sales volume of our loungewear products sold to Target by approximately 13.1%. In response to the increase in production costs and cost of raw materials of certain sleepwear products sold to Target, we increased the selling price of those sleepwear products sold to Target in order to maintain our gross profit margin. As a result, the average selling price of our sleepwear products sold to Target increased. The increase in the sale volume of our loungewear products sold to Target was as a result of the change of product mix ordered by Target.

Cost of sales

Our Group's cost of sales increased by approximately HK\$43.8 million or 12.6% from approximately HK\$349.0 million for the year ended 31 December 2016 to approximately HK\$392.8 million for the year ended 31 December 2017. The increase in cost of sales was in line with the increase in revenue for the same period.

Gross profit and gross profit margin

Our gross profit increased by approximately HK\$13.1 million or 11.0% from approximately HK\$118.9 million for the year ended 31 December 2016 to approximately HK\$132.0 million for the year ended 31 December 2017.

Our gross profit margin slightly decreased from approximately 25.4% to approximately 25.2%. The gross profit margin of our sleepwear products remained stable for the two years ended 31 December 2017. The gross profit margin of our loungewear product decreased from approximately 26.1% to approximately 22.8% as we received a purchase order of a batch of festival related loungewear products from Target, which had a comparatively lower gross profit margin for the year ended 31 December 2017 and no such order was received for the year ended 31 December 2016.

Other income

Our other income decreased by approximately HK\$8.3 million or 79.8% from approximately HK\$10.4 million for the year ended 31 December 2016 to approximately HK\$2.1 million for the year ended 31 December 2017. The decrease was due to the one off subsidy of approximately HK\$8.4 million during the year ended 31 December 2016 received from the PRC government as a support to our operation in Henan Factory.

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Other gains and losses

Our other gains increased by approximately HK\$2.6 million or 826.2% from approximately HK\$0.3 million for the year ended 31 December 2016 to approximately HK\$2.9 million for the year ended 31 December 2017, which was mainly due to the net exchange gain of approximately HK\$4.4 million as a result of the appreciation of RMB against USD in the fourth quarter in 2017, partially offset by the loss on disposal/write off of property, plant and equipment of approximately HK\$1.5 million for the year ended 31 December 2017.

Selling and distribution expenses

Our selling and distribution expenses slightly decreased by approximately HK\$0.8 million or 2.5% from approximately HK\$31.7 million for the year ended 31 December 2016 to approximately HK\$30.9 million for the year ended 31 December 2017 due to the decrease in the commission to import-export corporations as our Henan Factory had obtained the relevant licenses/permits to export certain products to our customers.

Administrative expenses

Our administrative expenses slightly decreased by approximately HK\$0.1 million or 0.3% from approximately HK\$38.6 million for the year ended 31 December 2016 to approximately HK\$38.5 million for the year ended 31 December 2017. The decrease in administrative expenses was mainly due to the decrease in staff costs by approximately HK\$1.8 million as a result of the decrease in performance bonus of our Directors by HK\$2.5 million and the increase in total salary of our administrative staff by approximately HK\$0.7 million, partially offset by the increase in depreciation expenses, travelling and transportation expenses and bank charges by approximately HK\$0.8 million, HK\$0.2 million and HK\$0.3 million, respectively for the year ended 31 December 2017.

Finance costs

Our finance costs increased by approximately HK\$1.5 million or 60.0% from approximately HK\$2.5 million for the year ended 31 December 2016 to approximately HK\$4.0 million for the year ended 31 December 2017. Our finance costs increased as we had more short term borrowings on discounted bills during the year ended 31 December 2017.

Income tax expense

Our income tax expenses increased by approximately HK\$0.8 million or 7.3% from approximately HK\$11.0 million for the year ended 31 December 2016 to approximately HK\$11.8 million for the year ended 31 December 2017. Our income tax expense increased mainly due to our higher profit for the year ended 31 December 2017.

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Profit for the year

As a result of the foregoing, profit for the year increased by approximately HK\$5.6 million or 12.2% from approximately HK\$45.8 million for the year ended 31 December 2016 to approximately HK\$51.4 million for the year ended 31 December 2017 as a result of the increase of our revenue.

Net current assets/liabilities

The table below sets out a summaries of our current assets and current liabilities as at the dates indicated:

| | As at 31 December | | | As at | As at |
|--|-------------------|-----------------|-----------------|-----------------|---------------------------------------|
| | 2016 | 2017 | 2018 | 31 May 2019 | 30 September 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> <i>(unaudited)</i> |
| Current assets | | | | | |
| Inventories | 86,607 | 90,978 | 109,094 | 124,315 | 62,760 |
| Trade and other receivables | 138,127 | 94,758 | 108,090 | 70,156 | 100,105 |
| Trade receivables at fair value through other comprehensive income | — | — | 19,749 | 299 | 65,253 |
| Prepaid lease payments | 1,049 | 1,128 | 1,059 | — | — |
| Amounts due from holding company | 1,038 | 2,008 | 1,948 | 205 | 18 |
| Amount due from ultimate shareholder | — | — | — | 16 | 3 |
| Financial assets at fair value through profit or loss | — | 120 | 6,195 | — | — |
| Tax recoverable | — | — | 1,362 | — | — |
| Bank balances and cash | <u>29,669</u> | <u>41,595</u> | <u>27,120</u> | <u>28,189</u> | <u>30,649</u> |
| | <u>256,490</u> | <u>230,587</u> | <u>274,617</u> | <u>223,180</u> | <u>258,788</u> |
| Current liabilities | | | | | |
| Trade and other payables | 105,272 | 72,919 | 122,766 | 105,067 | 88,597 |
| Amounts due to shareholders | 19,618 | 2,883 | 110,761 | 53,904 | 1,590 |
| Amount due to ultimate holding company | 11 | 4 | 13,170 | — | — |
| Amount due to a non-controlling shareholder of a subsidiary | 7,221 | 937 | 879 | 894 | 859 |
| Bank borrowings | 90,573 | 68,979 | 24,667 | 45,149 | 121,742 |
| Tax payable | 2,314 | 5,739 | 3,712 | 4,444 | 11,709 |
| Lease liabilities | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,031</u> | <u>2,077</u> |
| | <u>225,009</u> | <u>151,461</u> | <u>275,955</u> | <u>211,489</u> | <u>226,574</u> |
| Net current assets/ (liabilities) | <u>31,481</u> | <u>79,126</u> | <u>(1,338)</u> | <u>11,691</u> | <u>32,214</u> |

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Our total current assets as at 31 December 2016, 2017, 2018, 31 May 2019 and 30 September 2019 amounted to approximately HK\$256.5 million, HK\$230.6 million, HK\$274.6 million, HK\$223.2 million and HK\$258.8 million, respectively, which consisted of inventories, trade and other receivables, trade receivables at fair value through other comprehensive income (“FVTOCI”), prepaid lease payments, amounts due from shareholders, financial assets at fair value through profit or loss, tax recoverable, structured bank deposits and bank balances and cash. Our total current liabilities as at 31 December 2016, 2017, 2018, 31 May 2019 and 30 September 2019 amounted to approximately HK\$225.0 million, HK\$151.5 million, HK\$276.0 million, HK\$211.5 million and HK\$226.6 million, respectively, which consisted of trade and other payables, amounts due to shareholders, amount due to ultimate holding company, amount due to a non-controlling shareholder of a subsidiary, bank borrowings and tax payable.

Our net current assets increased from approximately HK\$31.5 million as at 31 December 2016 to approximately HK\$79.1 million as at 31 December 2017. The increase was primarily due to (i) a decrease in bank borrowings of approximately HK\$21.6 million which was mainly attributable to the repayment of bank loans and the decrease in discounted bills; (ii) the decrement in amounts due to shareholders and amount due to a non-controlling shareholder of a subsidiary of approximately HK\$16.7 million and HK\$6.3 million, respectively; and (iii) the net effect brought by the change in import-export arrangement in 2017 which resulted in a decrease in other payables of approximately HK\$41.4 million and decrease in other receivables of approximately HK\$39.1 million.

Our Group recorded net current liabilities of approximately HK\$1.3 million as at 31 December 2018, as compared to our net current assets of approximately HK\$79.1 million as at 31 December 2017. The change from a net current asset position to a net current liability position was primarily due to (i) the increase in trade and other payables of approximately HK\$49.8 million mainly due to the increase in payables to import-export corporations; and (ii) the increase in amounts due to shareholders of approximately HK\$107.9 million as a result of the acquisition of Castle Eagle and Power Summit by our Group from Mr. Tam, who was the beneficial owner of Castle Eagle and Power Summit at the time of the acquisitions, at a consideration of approximately HK\$111.1 million as part of the Reorganisation, which were in substance a deemed distribution to Mr. Tam, partially offset by the decrease in bank borrowings of approximately HK\$44.3 million.

Our Group recorded net current assets of approximately HK\$11.7 million as at 31 May 2019 as compared to net current liabilities of approximately HK\$1.3 million as at 31 December 2018. The change from a net current liability position to a net current asset position of our Group was mainly attributable to the decrease in current liabilities. The decrease in current liabilities was mainly attributable to (i) the decrease in amount due to Strategic King, the ultimate holding company of our Group and one of our Controlling Shareholders, from approximately HK\$13.2 million as at 31 December 2018 to nil as at 31 May 2019, as a result of the payment of dividend to Strategic King; and (ii) the decrease in amount due to shareholders from approximately HK\$110.8 million as at 31 December 2018 to approximately HK\$53.9 million as at 31 May 2019 due to the partial repayment to Mr. Tam. As at 31 May 2019, our Group recorded amount due from ultimate holding

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company of approximately HK\$0.02 million and amount due to a non-controlling shareholder of approximately HK\$0.9 million, both of which will be settled in full before Listing.

Our Group recorded net current assets of approximately HK\$32.2 million as at 30 September 2019. The increase in our net current assets from approximately HK\$11.7 million as at 31 May 2019 to approximately HK\$32.2 million as at 30 September 2019 was mainly due to the increase in trade receivables at fair value through other comprehensive income and the decrease in trade payables.

CASH FLOWS

The following table sets out selected cash flows data from our consolidated statements of cash flows for the year/period indicated:

| | For the year ended | | | For the |
|---|---------------------------|-----------------|-----------------|--------------------|
| | 31 December | | | five months |
| | 2016 | 2017 | 2018 | ended |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | 31 May |
| | | | | 2019 |
| | | | | <i>HK\$'000</i> |
| Cash and cash equivalents at beginning of the year | 29,145 | 29,669 | 41,595 | 23,204 |
| Operating cash flows before movements in working capital | 70,370 | 77,072 | 73,874 | 22,537 |
| Net cash (used in)/from operating activities | (242,226) | (72,128) | 6,990 | 52,378 |
| Net cash (used in)/from investing activities | (28,975) | (16,913) | (14,466) | 6,820 |
| Net cash from/(used in) financing activities | 272,048 | 100,696 | (10,618) | (58,227) |
| Net increase/(decrease) in cash and cash equivalents | 847 | 11,655 | (18,094) | 971 |
| Effect of foreign exchange rate | <u>(323)</u> | <u>271</u> | <u>(297)</u> | <u>114</u> |
| Cash and cash equivalents at end of the year | <u>29,669</u> | <u>41,595</u> | <u>23,204</u> | <u>24,289</u> |

Net cash used in operating activities

Our net cash used in operating activities primarily consisted of payments for raw material costs, subcontracting costs, labour costs, selling and distribution expenses, general and administrative expenses.

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Our Group recorded net cash used in operating activities for the two years ended 31 December 2017 and net cash from operating activities for the year ended 31 December 2018 and the five months ended 31 May 2019. The change from net cash used in operating activities for the two years ended 31 December 2017 to net cash from operating activities for the year ended 31 December 2018 was primarily due to (i) an increase in trade and other payables for the year ended 31 December 2018 and (ii) the change in the management of trade receivables from discounted bills receivables to factoring to financial institutions for cash flow management.

For the year ended 31 December 2016, we recorded net cash used in operating activities of approximately HK\$242.2 million and profit before tax of approximately HK\$56.8 million. Adjustments primarily included depreciation of property, plant and equipment in the amount of approximately HK\$9.1 million and finance costs of approximately HK\$2.5 million. Movements in working capital represented a net cash outflow of approximately HK\$302.0 million, primarily attributable to an increase in inventories of approximately HK\$41.3 million and increase in trade and other receivables of approximately HK\$251.4 million. The increase in trade and other receivables was primarily due to the settlement of approximately HK\$241.7 million through bills discounted with recourse to financial institutions. We paid Hong Kong profit tax of approximately HK\$10.2 million during the year ended 31 December 2016.

For the year ended 31 December 2017, we recorded net cash used in operating activities of approximately HK\$72.1 million and profit before tax of approximately HK\$63.2 million. Adjustments primarily included depreciation of property, plant and equipment in the amount of approximately HK\$10.2 million and finance costs of approximately HK\$4.0 million. Movements in working capital represented a net cash outflow of approximately HK\$139.9 million, primarily attributable to a decrease in trade and other payables of approximately HK\$37.2 million and an increase in trade and other receivables of approximately HK\$100.3 million. The increase in trade and other receivables was primarily due to the settlement of approximately HK\$148.4 million through bills discounted with recourse to financial institutions. We paid Hong Kong profit tax of approximately HK\$9.0 million during the year ended 31 December 2017.

For the year ended 31 December 2018, we recorded net cash from operating activities of approximately HK\$7.0 million and profit before tax of approximately HK\$55.4 million. Adjustments primarily included depreciation of property, plant and equipment of approximately HK\$10.2 million and finance costs of approximately HK\$5.8 million. Movements in working capital represented a net cash outflow of approximately HK\$48.8 million, primarily attributable to an increase in trade and other receivables of approximately HK\$86.5 million which outweighed the increase in trade and other payable of approximately HK\$57.8 million. We paid Hong Kong profit tax of approximately HK\$16.1 million during the year ended 31 December 2018.

For the five months ended 31 May 2019, we recorded net cash from operating activities of approximately HK\$52.4 million and profit before tax of approximately HK\$14.6 million. Adjustments primarily included the depreciation of property, plant and equipment of approximately HK\$6.0 million and finance costs of approximately HK\$2.8 million.

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Movements in working capital represented a net cash inflow of approximately HK\$33.0 million, primarily attributable to decrease in trade and other receivables of approximately HK\$63.2 million which outweighed the decrease in trade and other payables of approximately HK\$16.0 million.

Net cash used in investing activities

Our net cash used in investing activities mainly included purchase of property, plant and equipment as well as advance to shareholders and placement of structured bank deposits. Our cash inflow from investing activities mainly included withdrawal of structured bank deposits as well as repayment from shareholders.

For the year ended 31 December 2016, we recorded net cash used in investing activities of approximately HK\$29.0 million, which was primarily attributable to purchase of property, plant and equipment of approximately HK\$41.7 million for our office in Shanghai and factory building in Henan, advance to shareholders of approximately HK\$12.0 million and placement of financial assets of fair value through profit or loss of approximately HK\$9.4 million. The effect was partially offset by withdrawal of financial assets of fair value through profit or loss of approximately HK\$21.0 million and repayment from shareholders of approximately HK\$12.4 million.

For the year ended 31 December 2017, we recorded net cash used in investing activities of approximately HK\$16.9 million, which was primarily attributable to placement of financial assets of fair value through profit or loss of approximately HK\$16.3 million and advance to shareholders of approximately HK\$15.6 million. The effect was partially offset by withdrawal of financial assets of fair value through profit or loss of approximately HK\$16.1 million and repayment from shareholders of approximately HK\$14.6 million.

For the year ended 31 December 2018, we recorded net cash used in investing activities of approximately HK\$14.5 million, which was primarily attributable to placement of financial assets at fair value through profit or loss of approximately HK\$27.0 million, purchase of property, plant and equipment of approximately HK\$4.4 million, offset by the withdrawal of financial assets at fair value through profit or loss of approximately HK\$20.8 million.

For the five months ended 31 May 2019, we recorded net cash from investment activities of approximately HK\$6.8 million, which was primarily attributable to withdrawal of financial assets at fair value through profit or loss of approximately HK\$6.4 million, repayment from shareholders of approximately HK\$2.3 million, offset by the purchase of property, plant and equipment of approximately HK\$1.4 million.

Net cash from financing activities

Our net cash from financing activities mainly included proceeds from bank borrowings, advance from shareholders and capital injection from our shareholder.

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For the year ended 31 December 2016, we had net cash from financing activities of approximately HK\$272.0 million, which was primarily attributable to the combined effect of the new bank borrowings raised of approximately HK\$353.5 million which included proceeds from discounted bills with recourse of approximately HK\$241.7 million, and offset by repayment of bank borrowings of approximately HK\$72.7 million.

For the year ended 31 December 2017, we had net cash from financing activities of approximately HK\$100.7 million, which was primarily attributable to the combined effect of the new bank borrowings raised of approximately HK\$200.3 million which included proceeds from discounted bills with recourse of approximately HK\$148.4 million, offset by repayment of bank borrowings of approximately HK\$76.5 million, repayment to shareholders of approximately HK\$19.4 million and dividend of approximately HK\$24.1 million paid in cash to shareholders of our Group.

For the year ended 31 December 2018, we had net cash used in financing activities of approximately HK\$10.6 million, which was primarily attributable to the combined effect of the repayment of bank borrowings of approximately HK\$77.4 million, the interest paid of approximately HK\$5.8 million, offset by the new bank borrowings raised of approximately HK\$80.4 million.

For the five months ended 31 May 2019, we had net cash used in financing activities of approximately HK\$58.2 million, which was primarily attributable to the combined effect of the repayment to shareholders of approximately HK\$57.4 million, the repayment of bank borrowings of approximately HK\$47.0 million, offset by the new bank borrowings raised of approximately HK\$66.3 million.

Working capital

Our use of cash primarily relates to operating activities. Taking into account our internal financial resources, our cash generated from operations, available banking facilities, the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least next 12 months from the date of this prospectus.

Save as disclosed in the paragraph headed “Market risk and risk management — Liquidity risk” in this section, our Directors are not aware of any other factors that would have a material impact on our liquidity. See the section headed “Future plans and use of proceeds” in this prospectus for further details of the funds necessary to meet our existing operations and to fund our future plans.

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DESCRIPTION OF SELECTED ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment consisted of land and buildings, leasehold improvements, plant and machinery, furniture, fixtures and equipment, motor vehicles and construction in progress. As at 31 December 2016, 2017, 2018 and 31 May 2019, the carrying amount of our property, plant and equipment amounted to approximately HK\$138.2 million, HK\$142.2 million, HK\$152.0 million and HK\$206.6 million respectively. The increase in property, plant and equipment from 31 December 2016 to 31 December 2017 of approximately HK\$4.0 million was primarily due to the acquisition of plant and machinery in our Henan Factory. The increase in property, plant and equipment as at 31 December 2018 was due to the reclassification of our Hong Kong office from investment property to property, plant and equipment. The increase in property, plant and equipment as at 31 May 2019 was due to the recognition of rights of use and corresponding lease liabilities of all leases unless they qualify as low value or short term leases under HKFRS 16.

Investment property

Our investment property represented our property situated in Hong Kong which was held under medium-term leases. For further details of the investment property, please refer to the paragraph headed “Business — Land and property interest” in this prospectus.

Our investment property is measured initially at its cost including directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Our investment property amounted to approximately HK\$25.0 million, HK\$24.3 million, nil and nil as at 31 December 2016, 2017, 2018 and 31 May 2019. The decrease in investment property as at 31 December 2018 was due to the reclassification of Hong Kong office from investment property to property, plant and equipment.

Prepaid lease payments

Our prepaid lease payments represented the carrying amount of the title of the leasehold land of our Henan Factory. As at 31 December 2016, 2017, 2018 and as at 31 May 2019, our prepaid lease payments amounted to approximately HK\$49.6 million, HK\$52.2 million, HK\$47.9 million and nil, respectively. The fluctuations of prepaid lease payments throughout the Track Record Period were mainly due to the fluctuations of exchange rate between RMB and HKD.

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Inventories

The table below sets out the breakdown of our inventories and average inventory turnover days as at the dates indicated:

| | As at 31 December | | | As at |
|--|----------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 63,749 | 62,102 | 57,941 | 75,822 |
| Work in progress | 8,564 | 9,088 | 14,474 | 8,803 |
| Finished goods | <u>14,294</u> | <u>19,788</u> | <u>36,679</u> | <u>39,690</u> |
| Total | <u>86,607</u> | <u>90,978</u> | <u>109,094</u> | <u>124,315</u> |
| Average inventory turnover days <i>(Note)</i> | <u>69</u> | <u>82</u> | <u>83</u> | <u>113</u> |

Note: Average inventory days are calculated by dividing the average inventory by cost of sales and multiplied by 365 days/151 days for the three years ended 31 December 2018/for the five months ended 31 May 2019, respectively. Average inventory is calculated by dividing by two the sum of inventory at the beginning of the year/period and inventory at the end of the year/period.

Our inventories mainly consisted of raw materials, work in progress and finished goods. Our raw materials mainly included finished fabric, yarn and accessories. Our work in progress primarily consisted of fabric or garment products which are still under production. Our finished goods consisted of our finished fabric or garment products which had not yet been delivered to our customers.

As at 31 December 2016, 2017, 2018 and 31 May 2019, our inventories amounted to approximately HK\$86.6 million, HK\$91.0 million, HK\$109.1 million and HK\$124.3 million, respectively. Our inventories increased from approximately HK\$86.6 million as at 31 December 2016 to approximately HK\$91.0 million as at 31 December 2017 and further to approximately HK\$109.1 million as at 31 December 2018 due to the increase in finished goods which were to be delivered in early 2019 to cater to our customers' increasing demand. Our inventories further increased to approximately HK\$124.3 million as at 31 May 2019 mainly due to the increase in raw materials in preparation of our peak season from August to October.

Our average inventory turnover days were approximately 69 days, 82 days, 83 days and 113 days for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. Our inventory turnover days increased from approximately 69 days for the year ended 31 December 2016 to approximately 82 days for the year ended 31 December 2017 mainly due to the increase in our finished goods level as at 31 December 2017, which were scheduled to deliver to our customers in the first quarter of 2018. The inventory

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turnover days for the two years ended 31 December 2018 remains stable. Our inventory turnover days for the five months ended 31 May 2019 increased to 113 days. The reason for the increase was mainly due to the increase in raw materials as at 31 May 2019.

We have control on the level of inventory in our production facilities to minimise storage space and costs and to avoid wastage. We generally procure raw materials and supplies which are specific to our customers' sales orders and generally on an order-by-order basis. We use an inventory management system for the management of our inventories, which help to ensure that our inventory records are up-to-date and are properly and accurately kept for the purpose of monitoring the quantity and movement of inventories.

As at 30 September 2019, approximately HK\$113.7 million or 91.5% of our inventories as at 31 May 2019 has been subsequently utilised and/or sold.

Trade and other receivables

(i) Trade receivables

The table below sets out the breakdown of trade receivables as at the dates indicated:

| | As at 31 December | | | As at |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables | 26,655 | 32,552 | 34,397 | 13,620 |
| Less: Allowance for credit losses | <u>(2,438)</u> | <u>(2,207)</u> | <u>(2,373)</u> | <u>(2,253)</u> |
| | 24,217 | 30,345 | 32,024 | 11,367 |
| Trade receivables at FVTOCI | — | — | 19,749 | 299 |
| Bills receivables | <u>68,951</u> | <u>51,485</u> | <u>—</u> | <u>—</u> |
| Total trade receivables | <u>93,168</u> | <u>81,830</u> | <u>51,773</u> | <u>11,666</u> |

Our total trade receivables related to sleepwear products and loungewear products sold to our customers and consisted of outstanding amounts receivables by us from our customers. Our total trade receivables decreased from approximately HK\$93.2 million as at 31 December 2016 to approximately HK\$81.8 million as at 31 December 2017, primarily due to increased settlement from our major customers for deliveries in the last quarter of that financial year end. As at 31 December 2018, our total trade receivables decreased to approximately HK\$51.8 million primarily due to the change in the management of trade receivables from discounted bills receivables to factoring to financial institutions for cash flow management. As at 31 May 2019, our total trade receivables decreased to approximately HK\$11.7 million as our orders and revenue were relatively lower for the first five months of the year as compared to that as at 31 December as our peak season for orders and revenue is from August to October of each year.

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The following table sets out our average trade receivables turnover days during the Track Record Period:

| | Year ended 31 December 2016 | Year ended 31 December 2017 | Year ended 31 December 2018 | As at 31 May 2019 |
|---|--|--|--|----------------------------------|
| Average trade receivables turnover days ^(Note) | 57 | 61 | 40 | 22 |

Note: Average trade receivables days are calculated by dividing the average trade receivables (including trade receivables, bills receivables and trade receivables of FVTOCI) by revenue and multiplied by 365 days for the three years ended 31 December 2018, and multiplied by 151/365 for the five months ended 31 May 2019 respectively. Average trade receivables is calculated by dividing by two the sum of trade receivables at the beginning of the year/period and trade receivables at the end of the year/period.

We normally grant our customers credit period of 0 to 120 days. Our average trade receivables turnover days increased from 57 days for the year ended 31 December 2016 to 61 days for the year ended 31 December 2017, which increased in line with our increased revenue. Our average turnover days of trade receivables then decreased to 40 days as at 31 December 2018 mainly as a result of the change in the management of trade receivables from discounted bills receivables to factoring to financial institutions for cash flow management. Our average turnover days of trade receivables was 22 days as at 31 May 2019. The decrease in turnover days was mainly due to the decrease in trade receivables.

The table below sets out a summary of the aging analysis of our total trade receivables as at the dates indicated:

| | As at 31 December | | | As at 31 May |
|---------------|--------------------------|----------------------|----------------------|-------------------------|
| | 2016 | 2017 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 to 30 days | 37,048 | 42,865 | 44,800 | 8,927 |
| 30 to 60 days | 45,630 | 7,319 | 6,030 | 1,204 |
| 61 to 90 days | 10,331 | 10,502 | 764 | 220 |
| Over 90 days | <u>159</u> | <u>21,144</u> | <u>179</u> | <u>1,315</u> |
| Total | <u>93,168</u> | <u>81,830</u> | <u>51,773</u> | <u>11,666</u> |

The increase in trade receivables that were over 90 days as at 31 December 2017 was mainly due to the change in credit period offered to Target from 60 days to 120 days. The credit term for Target was extended from 60 days for the year ended 31 December 2016 to 120 days for the two years ended 31 December 2018. The extension in credit term was initiated by Target due to a change in its credit policy. Our Group had taken into various considerations, including the credit and payment history of Target, and decided to extend the credit term of Target. We have established 14 years of business relationship with Target.

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Throughout all these years of business relationship with Target, Target has good payment history. Revenue generated from Target has increased gradually throughout the Track Record Period. Our Directors also considered that it is commercially viable and rational to grant a longer credit term to customers with long-term business relationships. Our Directors further consider that the extension in credit period of Target would not have material operational or financial impact to our Group because we have factored our trade receivables to financial institutions for cash flow management.

The table below sets out a summary of the aging analysis of trade receivables which are past due but not impaired:

| | As at 31 December | | | As at |
|---------------|-------------------|------------|------------|------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 HK\$'000 |
| 0 to 30 days | 733 | 445 | 458 | 878 |
| 31 to 60 days | — | — | — | 177 |
| 61 to 90 days | — | — | — | 33 |
| Over 90 days | 59 | 116 | 179 | 552 |
| Total | 792 | 561 | 637 | 1,640 |

In determining the recoverability of trade receivables, our Group considers any change in credit quality of the trade receivables from the date which credit was initially granted up to the reporting date.

As at 30 September 2019, approximately HK\$11.4 million or 97.5% of our trade receivables outstanding as at 31 May 2019 has been subsequently settled.

(ii) Other receivables

The table below sets out the breakdown of other receivables as at the dates indicated:

| | As at 31 December | | | As at |
|--|-------------------|---------------|---------------|------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 HK\$'000 |
| Other receivables | | | | |
| — Prepayments | 2,751 | 5,285 | 5,925 | 4,832 |
| — Deferred issue costs | — | — | 5,265 | 8,458 |
| — Prepayments to import-export corporations | 39,157 | — | 46,014 | 29,645 |
| — Other deposits | 3,016 | 3,209 | 3,208 | 4,802 |
| — Other receivables in respect of factored trade receivables | — | — | 15,756 | 8,405 |
| — Tax recoverable | 370 | 5,431 | 673 | 1,722 |
| — Other receivables | 1,150 | 573 | 831 | 2,269 |
| Less: rental deposits (non-current portion) | (1,485) | (1,570) | (1,606) | (1,344) |
| Total other receivables | 44,959 | 12,928 | 76,066 | 58,789 |

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Prepayments

Our prepayments represented prepaid amounts to our suppliers in respect of our raw materials procurement during the Track Record Period. Prepayments increased from approximately HK\$2.8 million as at 31 December 2016 to approximately HK\$5.3 million as at 31 December 2017 was due to the prepaid amounts paid to a few suppliers for purchase of raw materials including finished fabric for our production to cater for the increased sales during our peak season. The prepayments amounted to approximately HK\$5.9 million as at 31 December 2018, which were relatively stable compared to the corresponding period in 2017. The prepayments as at 31 May 2019 was approximately HK\$4.8 million.

Prepayments to/from import-export corporations

Our Group entered into agreements with two independent import-export corporations for export services from the PRC to overseas. Under the current arrangements with our import-export corporations, JASH/Henan Kaiyu transfers the raw materials and/or finished garment products to the import-export corporations, where the import-export corporations will pay the amounts of the value of the goods to JASH/Henan Kaiyu first, and then onward transfer such raw materials and/or finished garment products to JAL for delivery to our Cambodia Factory for garment processing or for external sales (as the case may be) in consideration for receiving the payment of the same amount of the value of such goods from JAL. Transactions with import-export corporations (e.g. goods being transferred from JASH/Henan Kaiyu to import-export corporations then to JAL) were inter-company transactions and therefore would be fully eliminated in our consolidated statement of profit or loss and other comprehensive income.

For balances arisen from the transactions between our Group and the import-export corporations, the amount would be separately recorded as prepayments to/from import-export corporations.

Prepayments to import-export corporations represents the prepayments in advance made by JAL to the import-export corporations to purchase such raw materials and/or finished garment products. Prepayments from import-export corporations represents the prepayments in advance made by import-export corporations to JASH/Henan Kaiyu to purchase such raw materials and/or finished garment products. In accordance with the relevant accounting standards, the prepayments to/from import-export corporations should be presented in gross amounts instead of net amounts as the prepayments to/from the import-export corporations are from/to different Group companies and there is no specific term in the agreements entered into among JAL, JASH and the import-export corporations specifying that the transactions can be settled in net amount. Nevertheless, the net balance represents the overall financial position of our Group with the import-export corporations and mainly represents our purchase payable due to the import-export corporation.

Prepayments to import-export corporations decreased from approximately HK\$39.2 million as at 31 December 2016 to nil as at 31 December 2017 as all the amounts due from the import-export corporations were fully settled in 2017 and our Company started to handle some of the export arrangements by ourselves. Our prepayments to import-export corporations increased to approximately HK\$46.0 million as at 31 December 2018 from nil

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as at 31 December 2017 as the export arrangement originally handled by ourselves were handled by the import-export corporations as our Directors considered that it would be more efficient for the import-export corporations to handle export arrangements compared to handling them ourselves. According to the Industry Consultant, it is an industry practice for manufacturers to engage import-export corporations to handle export arrangements between the PRC and the export destinations. Our prepayments to import-export corporations decreased to approximately HK\$29.6 million as at 31 May 2019 as our Group changed from a Hong Kong based supplier to a PRC based supplier for certain raw materials and accessories for the five months ended 31 May 2019 and hence the import and export procedures have been simplified, therefore the export procedures of certain products were handled by ourselves for the five months ended 31 May 2019.

Other receivables in respect of factored trade receivables

As a result of the adoption of change in cash flow management in 2018 from discounted bills receivables to factoring trade receivables, our Group made certain amount of deposit with the bank offering factoring facilities to us as a condition of the bank offering such services to us pursuant to the factoring agreement between our Group and the bank. The amount of the deposit made represents a certain percentage of the account receivables which we have factored with the bank. Our other receivables in respect of factored trade receivables increased to approximately HK\$15.8 million as at 31 December 2018. Our other receivables in respect of factored trade receivables decreased to approximately HK\$8.4 million as at 31 May 2019 primarily due to the decrease in our trade receivables as at 31 May 2019 as our Group required comparatively less factoring services provided by the bank during the first half of 2019 as such period was considered to be our non-peak season.

Amounts due from shareholders

Our amounts due from shareholders were non-trade in nature, unsecured, interest-free and repayable on demand. The amounts due from shareholders remained relatively stable at approximately HK\$1.0 million, HK\$2.0 million, HK\$1.9 million as at 31 December 2016, 2017, 2018 respectively. The amounts due from shareholders decreased to approximately HK\$0.2 million as at 31 May 2019 due to repayment from shareholder in May 2019. All amounts will be settled before Listing.

Trade and other payables

(i) Trade payables

Our trade payables were primarily payables relating to payment to our suppliers for raw materials and subcontracting costs. As at 31 December 2016, 2017, 2018 and 31 May 2019, our trade payables were approximately HK\$34.3 million, HK\$45.4 million, HK\$35.3 million and HK\$47.1 million, respectively.

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Our trade payables increased from approximately HK\$34.3 million as at 31 December 2016 to approximately HK\$45.4 million as at 31 December 2017 mainly due to the increase in purchase of raw materials to cater for expected sales increase. The balance then decreased to approximately HK\$35.3 million as at 31 December 2018 because of the settlement of certain trade payables before the year end. Our trade payables increased to approximately HK\$47.1 million as at 31 May 2019 as our Group had purchased more raw materials in preparation of our peak season which is normally August to October of each year.

The table below sets out our average trade payables turnover days during the Track Record Period:

| | Year ended 31 December | | | As at |
|--|------------------------|------|------|-------------|
| | 2016 | 2017 | 2018 | 31 May 2019 |
| Average trade payables turnover days ^(Note) | 26 | 37 | 33 | 40 |

Note: Average trade payables days are calculated by dividing the average trade payables by costs of sales multiplied by 365 days for the three years ended 31 December 2018 and multiplied by 151/365 for the five months ended 31 May 2019, respectively. Average trade payables is calculated by dividing by two the sum of trade payables at the beginning of the year/period and trade payables at the end of the year/period.

Our suppliers and subcontractors normally grant us a credit period of 0 to 90 days based on invoice date. Our average trade payables turnover days were approximately 26 days, 37 days, 33 days and 40 days for the three years ended 31 December 2016, 2017, 2018 and the five months ended 31 May 2019.

The following table sets out the aging analysis of our trade payables as at the dates indicated:

| | As at 31 December | | | As at |
|----------------|-------------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 | 31 May 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within 30 days | 31,514 | 36,674 | 32,094 | 44,299 |
| 31 to 60 days | 2,218 | 4,333 | 2,368 | 1,487 |
| 61 to 90 days | 14 | 1,153 | 49 | 491 |
| Over 90 days | 566 | 3,225 | 773 | 806 |
| Total | 34,312 | 45,385 | 35,284 | 47,083 |

The increase in trade payables that were over 90 days as at 31 December 2017 was due to our payments was generally matched with our customers' settlement of our trade receivables, which was in line with our increase in trade receivables over 90 days.

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As at 30 September 2019, approximately HK\$46.2 million or 98.0% of our trade payables outstanding as at 31 May 2019 had been subsequently settled.

(ii) Other payables

The table below sets out the breakdown of other payables as at the dates indicated:

| | As at 31 December | | | As at |
|--|----------------------|----------------------|----------------------|----------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Other payables | | | | |
| — Prepayments from and purchase payables due to import-export corporations | 48,189 | 6,798 | 52,540 | 30,620 |
| — Accrued expenses | 9,835 | 10,416 | 23,581 | 18,657 |
| — Accrued issue costs | — | — | 1,926 | 1,171 |
| — Value-added tax payables | 3,510 | 4,520 | 4,378 | 2,031 |
| — Other tax payables | 1,948 | 1,661 | 1,463 | 2,937 |
| — Payables for acquisition of property, plant and equipment | 3,435 | 358 | 262 | 318 |
| — Other payables | <u>4,043</u> | <u>3,781</u> | <u>3,332</u> | <u>2,250</u> |
| Total other payables | <u>70,960</u> | <u>27,534</u> | <u>87,482</u> | <u>57,984</u> |

Our total other payables significantly decreased from approximately HK\$71.0 million as at 31 December 2016 to approximately HK\$27.5 million as at 31 December 2017 and increased to approximately HK\$87.5 million as at 31 December 2018, which was mainly attributable to fluctuation in prepayments from the import-export corporations, which were in line with the fluctuations in other receivables; and the increase in accrued expenses resulting from the accrued bonus to be distributed to our employees. Our other payables decreased to approximately HK\$58.0 million as at 31 May 2019 mainly due to the decrease in prepayments from and purchase payables due to import-export corporations by approximately HK\$21.9 million to approximately HK\$30.6 million as at 31 May 2019. Accrued expenses included accrued salary, and bonus, accrued Listing expenses and accrued transportation costs.

Prepayments from and purchase payables due to import-export corporations

Our Group entered into agreements with independent import-export corporations for export services from the PRC to overseas. For further details, please refer to the paragraph headed “Prepayments to/from import-export corporations” above in this section.

Prepayments from and purchase payables due to import-export corporations decreased from approximately HK\$48.2 million as at 31 December 2016 to approximately HK\$6.8 million as at 31 December 2017 and increased to approximately HK\$52.5 million as at 31 December 2018. The reason for the fluctuation was that our Company started to handle

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some of the export arrangements by ourselves for the year ended 31 December 2017 and the balance of HK\$6.8 million was mainly the outstanding balance of prepayments from import-export corporations. Our prepayments from import-export corporations increased to approximately HK\$52.5 million mainly because the export arrangements originally handled by ourselves were handled by the import-export corporations as our Directors considered that it would be efficient for the import-export corporations to handle export arrangements compared to handling them ourselves. Our prepayments from and purchase payables due to import-export corporations decreased to approximately HK\$30.6 million as at 31 May 2019 as our Group changed from a Hong Kong based supplier to a PRC based supplier for certain raw materials and accessories for the five months ended 31 May 2019 and hence the import and export procedures have been simplified, therefore the export procedures of certain products were handled by ourselves for the five months ended 31 May 2019.

INDEBTEDNESS AND CONTINGENT LIABILITIES

The following table sets out our total debts as at the dates indicated:

| | As at 31 December | | | As at 31 May | As at 30 September |
|---|-----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2017 | 2018 | 2019 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | | <i>(unaudited)</i> |
| Non-current portion | | | | | |
| Bank borrowings | 7,119 | 5,301 | 2,762 | 1,874 | 1,081 |
| Lease liabilities | — | — | — | 4,569 | 3,783 |
| | <u>7,119</u> | <u>5,301</u> | <u>2,762</u> | <u>6,443</u> | <u>4,864</u> |
| Current portion | | | | | |
| Bank borrowings | 90,573 | 68,979 | 24,667 | 45,149 | 121,741 |
| Amounts due to shareholders | 19,618 | 2,883 | 110,761 | 53,904 | 1,590 |
| Amount due to ultimate holding company | 11 | 4 | 13,170 | — | — |
| Amount due to a non-controlling shareholder of a subsidiary | 7,221 | 937 | 879 | 894 | 859 |
| Lease liabilities | — | — | — | 2,031 | 2,077 |
| | <u>117,423</u> | <u>72,803</u> | <u>149,477</u> | <u>101,978</u> | <u>126,267</u> |
| Total | <u><u>124,542</u></u> | <u><u>78,104</u></u> | <u><u>152,239</u></u> | <u><u>108,421</u></u> | <u><u>131,131</u></u> |

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Bank borrowings

The following table sets out the breakdown of our bank borrowings by type as at the dates indicated:

| | As at 31 December | | | As at | As at |
|--|-------------------|---------------|---------------|---------------|----------------|
| | 2016 | 2017 | 2018 | 31 May | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 | 2019 |
| | | | | HK\$'000 | HK\$'000 |
| | | | | | (unaudited) |
| Bills discounted with recourse, secured and guaranteed | 58,928 | 41,990 | — | — | — |
| Bank loans, secured and guaranteed | 38,764 | 32,290 | 27,429 | 47,023 | 122,822 |
| Total | 97,692 | 74,280 | 27,429 | 47,023 | 122,822 |

| | As at 31 December | | | As at | As at |
|--------------------------|-------------------|---------------|---------------|---------------|----------------|
| | 2016 | 2017 | 2018 | 31 May | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 | 2019 |
| | | | | HK\$'000 | HK\$'000 |
| | | | | | (unaudited) |
| Fixed-rate borrowings | 9,309 | 19,664 | 4,972 | 4,123 | 3,240 |
| Variable-rate borrowings | 88,383 | 54,616 | 22,457 | 42,900 | 119,582 |
| Total | 97,692 | 74,280 | 27,429 | 47,023 | 122,822 |

The following table sets out the range of effective interest rates of our bank borrowings during the year/period indicated:

| | As at 31 December | | | As at | As at |
|--------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 | 31 May | 30 September |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 | 2019 |
| | | | | HK\$'000 | HK\$'000 |
| | | | | | (unaudited) |
| Fixed-rate borrowings | 6.18% | 5.50%– 6.18% | 6.18% | 6.18% | 6.18% |
| Variable-rate borrowings | 2.00%– 3.35% | 2.52%– 2.97% | 3.14%– 5.22% | 4.02%– 4.91% | 3.37%– 5.22% |

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The following table sets out the maturity profile of our bank borrowings as at the dates indicated:

| | As at 31 December | | | As at 31 May | As at 30 September |
|--|----------------------|----------------------|----------------------|----------------------|-----------------------|
| | 2016 | 2017 | 2018 | 2019 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | | <i>(unaudited)</i> |
| Carrying amount repayable: | | | | | |
| Within one year | 2,190 | 14,363 | 13,361 | 2,249 | 5,462 |
| More than one year but not exceeding two years | 2,190 | 2,356 | 2,210 | 1,874 | 1,080 |
| More than two years but not exceeding five years | <u>4,929</u> | <u>2,945</u> | <u>552</u> | <u>—</u> | <u>—</u> |
| | 9,309 | 19,664 | 16,123 | 4,123 | 6,542 |
| Carrying amount of loans which contain a repayable on demand clause but repayable: | | | | | |
| Within one year | 75,757 | 43,310 | 11,306 | 42,900 | 116,280 |
| More than one year but not exceeding two years | 1,320 | 11,306 | — | — | — |
| More than two years but not exceeding five years | <u>11,306</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| Total | <u>97,692</u> | <u>74,280</u> | <u>27,429</u> | <u>47,023</u> | <u>122,822</u> |

Our bank borrowings amounted to approximately HK\$97.7 million, HK\$74.3 million, HK\$27.4 million and HK\$47.0 million as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively. Our bank borrowings mostly consisted of (i) bills discounted with recourse; and (ii) bank loans. Our bank borrowings decreased gradually by approximately HK\$23.4 million and HK\$46.9 million for the two years ended 31 December 2018, respectively as a result of (i) decrease in bills discounted as a result of the change in cash management in 2018 from discounted bills receivables to factoring trade receivables; and (ii) the repayment of bank loans.

Our bank borrowing increased by approximately HK\$19.6 million for the period ended 31 May 2019 mainly due to our Group requiring additional capital to purchase raw materials in preparation of our peak season from August to October.

As at 31 December 2016, 2017, 2018 and 31 May 2019, bank borrowings of approximately HK\$90.6 million, HK\$69.0 million, HK\$24.7 million and HK\$45.1 million were classified as current liabilities due to the fact that the loan agreements contain a clause

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that gives the right to the lenders at their sole discretion to demand immediate repayment at any time irrespective of whether our Group has complied with the terms and conditions of the loan agreement and met the scheduled repayment obligations. Our Directors confirmed that our Group has not received any demand for our immediate repayment from our lenders.

As at 31 December 2016, 2017 and 2018, bank borrowings of approximately HK\$97.7 million, HK\$74.3 million and HK\$27.4 million, respectively, were secured by (i) certain assets of our Group and (ii) certain assets of Mr. Tam and Mrs. Tam; and were guaranteed by (i) personal guarantees given by Mr. Tam and Mrs. Tam and (ii) the corporate guarantee given by JAIC.

As at 31 May 2019, bank borrowings of approximately HK\$47.0 million were secured by (i) certain assets of our Group and (ii) certain assets of Mr. Tam; and were guaranteed by (i) personal guarantee given by Mr. Tam and (ii) the corporate guarantee given by JAIC.

As at 30 September 2019, bank borrowings of approximately HK\$122.8 million were secured by (i) certain assets of our Group and (ii) certain assets of Mr. Tam; and were guaranteed by (i) personal guarantee given by Mr. Tam and (ii) the corporate guarantee given by JAIC and JAL.

All personal guarantees from Mr. Tam and Mrs. Tam and assets used as security for our Group's borrowings will be released and replaced by corporate guarantees to be provided by our Group upon Listing. Our Directors do not expect any material change in terms of the borrowings upon release of the aforesaid guarantees.

Certain of our banking facilities are subject to compliance with financial covenants. If we fail to comply with these covenants and are unable to rectify such non-compliance, the drawn down facilities may become repayable on demand at the request of the lenders. One of our banking facilities contains a financial covenant requiring our Group to maintain a tangible net worth of HK\$100 million. Our Directors confirm that our Group has complied with all material financial covenants contained in our bank borrowings, during the Track Record Period and up to the Latest Practicable Date.

As at 30 September 2019, our unutilised banking facilities were approximately HK\$43.2 million, which were mainly for sole purpose of trade finance facility and the maximum amounts for non-trade purposes amounted to approximately HK\$11.8 million. Our Directors confirmed that (i) there had not been any material change in our indebtedness and contingent liabilities since 31 May 2019 and up to the Latest Practicable Date; (ii) the bank borrowings were subject to standard banking conditions and covenants; (iii) our Group had not received any indication from any bank that it might withdraw or downsize the bank borrowings; and (iv) our Group did not have any material external debt financing plans as at the Latest Practicable Date.

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Amounts due to shareholders/ultimate holding company/a non-controlling shareholder of a subsidiary

Our amounts due to shareholders amounted to approximately HK\$19.6 million, HK\$2.9 million, HK\$110.8 million and HK\$53.9 million as at 31 December 2016, 2017, 2018 and as at 31 May 2019, respectively; while our amount due to ultimate holding company amounted to approximately HK\$11,000, HK\$4,000, HK\$13.2 million and nil as at 31 December 2016, 2017, 2018 and as at 31 May 2019, respectively. The significant increment of amounts due to shareholders as at 31 December 2018 was due to the acquisition of Power Summit and Castle Eagle by our Group from one of the Controlling Shareholders, Mr. Tam, pursuant to the Reorganisation. The significant decrease in the amount due to shareholders as at 31 May 2019 was due to the partial repayment of the amount due to Mr. Tam for the acquisition of Power Summit and Castle Eagle pursuant to the reorganisation. The significant increase in the amount due to the ultimate holding company of our Group as at 31 December 2018 was resulted from declaration of the dividend of HK\$13.2 million due to Strategic King, our Controlling Shareholder, which was yet to be paid as at 31 December 2018. As at 31 May 2019, such dividend had been fully paid to Strategic King.

As at 31 May 2019, our Group had an amount of approximately HK\$53.5 million due to Mr. Tam, one of our Controlling Shareholders as a result of the Reorganisation, of which approximately HK\$50.0 million had been repaid by way of a bank loan obtained by us as at the Latest Practicable Date. Our Group intends to utilise internal financial resources for the repayment of the outstanding balance in full on or before the Listing. Taking into account the financial resources available to us including cash flow from operating activities, our Directors are of the view that we have sufficient working capital to repay the outstanding amount owed to Mr. Tam, and such event would not have material impact on our Group's financial position and financial performance.

The amounts due to shareholders, ultimate holding company and a non-controlling shareholder of a subsidiary were unsecured, unguaranteed, interest-free and repayable on demand. All the amounts will be settled before Listing. For further details, please refer to note 20 to the Accountants' Report in Appendix I respectively to this prospectus.

Lease liabilities

Upon application of HKFRS 16 since 1 January 2019, our Group recognised right-of-use assets and corresponding lease liabilities in respect of all leases unless they qualify for low value or short-term leases. The lease liabilities represent payment for right of using underlying assets. Our lease liabilities amounted to approximately nil, nil, nil and HK\$6.6 million as at 31 December 2016, 2017, 2018 and 31 May 2019. As at 30 September 2019, the lease liabilities of approximately HK\$5.9 million was secured by rental deposits and unguaranteed.

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Other outstanding indebtedness

Save as disclosed above, and apart from intra group liabilities, as at 30 September 2019, we did not have any other borrowings, mortgages, charges, debentures, or debt securities, issued or outstanding, or authorised or otherwise created but unissued, or other similar indebtedness, recognised lease liabilities, liabilities under acceptance, acceptance credits, hire purchase commitments, contingent liabilities or guarantees.

CAPITAL EXPENDITURE AND COMMITMENTS

Our Group's capital expenditure mainly consisted of acquisition of property, plant and equipment for our Group's future expansion purposes. During the Track Record Period, our Group incurred capital expenditures of approximately HK\$40.4 million, HK\$6.5 million, HK\$4.5 million and HK\$3.7 million respectively for the three years ended 31 December 2018 and the five months ended 31 May 2019. Since 31 May 2019 and up to the Latest Practicable Date, our Group did not incur any material capital expenditure.

For the year ending 31 December 2019, we estimate that the capital expenditures will amount to approximately HK\$24.9 million. The estimated capital expenditure for our Vietnam Factory and the expansion of our Henan Factory are estimated to be approximately HK\$20.0 million and approximately HK\$65.3 million, respectively. Such amount of capital expenditure is expected to be funded by cash generated from our operations and/or bank borrowings and/or the net proceeds from the Global Offering.

We expect to meet our future capital expenditure requirements through our cash and cash equivalents, cash generated from our operations as well as the net proceeds from the Global Offering. In the event that the actual net proceeds from the Global Offering received is less than currently anticipated, we intend to fund the deficient amount by cash generated from our operations and/or bank borrowings, and/or adjust our expansion plan accordingly.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operations and our bank borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

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We had the following capital commitments, which were contracted for but not yet provided as at the dates indicated:

| | As at 31 December | | | As at | As at |
|--|-------------------|-----------------|-----------------|-----------------|--------------------|
| | 2016 | 2017 | 2018 | 31 May | 30 September |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>2019</i> | <i>2019</i> |
| | | | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | | <i>(unaudited)</i> |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided | <u>11,300</u> | <u>4,401</u> | <u>1,852</u> | <u>1,885</u> | <u>1,810</u> |

Our capital commitment as at 31 December 2016, 2017, 2018 and 31 May 2019 mainly related to acquisition of property, plant and equipment in Henan Factory.

Save for those already disclosed in the prospectus, our Group did not have any capital commitments as at 31 December 2016, 2017, 2018 and 31 May 2019.

Operating lease commitments

As at 31 December 2016, 2017, 2018, 31 May 2019 and 30 September 2019, our Group had commitments for future minimum lease payments in respect of offices and land under non-cancellable lease arrangements, which fall due as follows:

| | As at 31 December | | | As at | As at |
|--|---------------------|---------------------|---------------------|-------------------|--------------------|
| | 2016 | 2017 | 2018 | 31 May | 30 September |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>2019</i> | <i>2019</i> |
| | | | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | | | <i>(unaudited)</i> |
| Within one year | 1,769 | 1,783 | 2,595 | 252 | 97 |
| In the second to fifth years inclusive | <u>1,824</u> | <u>378</u> | <u>4,296</u> | <u>—</u> | <u>—</u> |
| Total | <u><u>3,593</u></u> | <u><u>2,161</u></u> | <u><u>6,891</u></u> | <u><u>252</u></u> | <u><u>97</u></u> |

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set forth in note 35 to the Accountants' Report contained in Appendix I to this prospectus, our Directors confirmed that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interest of our Shareholders as a whole.

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KEY FINANCIAL RATIOS

| | For the year ended/as at 31 December | | For the five months ended/as at 31 May | |
|---|--|------|---|------|
| | 2016 | 2017 | 2018 | 2019 |
| Liquidity ratios | | | | |
| Current ratio ⁽¹⁾ | 1.1 | 1.5 | 1.0 | 1.1 |
| Quick ratio ⁽²⁾ | 0.8 | 0.9 | 0.6 | 0.5 |
| Capital adequacy ratios | | | | |
| Gearing ratio ⁽³⁾ (%) | 41.0 | 25.2 | 13.7 | 21.7 |
| Debt to equity ratio ⁽⁴⁾ (%) | 27.3 | 11.1 | 2.1 | 10.5 |
| Interest coverage ⁽⁵⁾ | 23.7 | 16.7 | 10.5 | 6.2 |
| Profitability ratios | | | | |
| Return on total assets ⁽⁶⁾ (%) | 9.7 | 11.4 | 8.8 | 5.8 |
| Return on equity ⁽⁷⁾ (%) | 19.2 | 17.5 | 21.2 | 11.6 |
| Net profit margin ⁽⁸⁾ (%) | 9.8 | 9.8 | 6.9 | 4.8 |

Notes:

- Current ratio is calculated based on the total current assets divided by the total current liabilities as at the end of each reporting period during the Track Record Period.
- Quick ratio is calculated based on total current assets less inventories divided by total current liabilities as at the end of each reporting period during the Track Record Period.
- Gearing ratio is calculated based on the total bank borrowings divided by the total equity as at the end of each reporting period and multiplied by 100%.
- Debt to equity ratio is calculated based on the net debt (all bank borrowings net of cash and cash equivalents) divided by the total equity as at the end of each reporting period and multiplied by 100%.
- Interest coverage is calculated based on the profit before finance cost and tax divided by the finance cost of each reporting period during the Track Record Period.
- For the three years ended 31 December 2018, return on total assets is calculated based on the profit for the year for each year divided by the total assets as at the end of the respective years and multiplied by 100%. For the five months ended 31 May 2019, return on total assets is calculated based on the profit for the period divided by the total assets, multiplying 365/151 and then multiplied by 100%.
- For the three years ended 31 December 2018, return on equity is calculated based on the profit for the year for each year divided by the total equity as at the end of the respective years and multiplied by 100%. For the five months ended 31 May 2019, return on total assets is calculated based on the profit for the period divided by the total equity, multiplying 365/151 and then multiplied by 100%.
- Net profit margin is calculated based on the profit for the year/period for each reporting period divided by the revenue for each reporting period and multiplied by 100%.

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Current ratio

As at 31 December 2016, 2017, 2018 and 31 May 2019, our current ratio was approximately 1.1, 1.5, 1.0 and 1.1, respectively.

The increase in our current ratio from approximately 1.1 as at 31 December 2016 to 1.5 as at 31 December 2017 was primarily due to the repayment of amounts due to shareholders and bank borrowings during the year. The current ratio decreased to approximately 1.0 as at 31 December 2018 due to increase in amounts due to shareholders. The current ratio remained stable as at 31 May 2019.

Quick ratio

As at 31 December 2016, 2017, 2018 and 31 May 2019, our quick ratio was approximately 0.8, 0.9, 0.6 and 0.5 respectively.

The increase in our quick ratio from approximately 0.8 as at 31 December 2016 to 0.9 as at 31 December 2017, and decreased to 0.6 as at 31 December 2018 and further decreased to 0.5 as at 31 May 2019. The quick ratio remained stable as at 31 May 2019 and is generally in line with the trend of the current ratio as explained above.

Gearing ratio

As at 31 December 2016, 2017, 2018 and 31 May 2019, our gearing ratio was approximately 41.0%, 25.2%, 13.7%, and 21.7% respectively.

Our gearing ratio decreased from approximately 41.0% as at 31 December 2016 to 25.2% as at 31 December 2017 mainly due to the following reasons: (i) decrease in bank borrowings from approximately HK\$97.7 million to approximately HK\$74.3 million and (ii) increase of total equity from approximately HK\$238.4 million to approximately HK\$294.5 million. Our gearing ratio further decreased from approximately 25.2% as at 31 December 2017 to 13.7% as at 31 December 2018 mainly due to: (i) decrease in our bank borrowings from approximately HK\$74.3 million to approximately HK\$27.4 million and (ii) decrease in our total equity from approximately HK\$294.5 million to approximately HK\$199.5 million. Our gearing ratio increased from approximately 13.7% as at 31 December 2018 to 21.7% as at 31 May 2019 was mainly due to (i) the increase in our bank borrowing from approximately HK\$27.4 million as at 31 December 2018 to approximately HK\$47.0 million as at 31 May 2019; and (ii) the increase in our total equity from approximately HK\$199.5 million as at 31 December 2018 to approximately HK\$216.6 million as at 31 May 2019.

Debt to equity ratio

As at 31 December 2016, 2017, 2018 and 31 May 2019, our debt to equity ratio was approximately 27.3%, 11.1%, 2.1% and 10.5% respectively.

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The decrease in debt to equity ratio was generally in line with the decrease in bank borrowings as explained in the paragraph headed under this section “Bank borrowings” and was further decreased as the cash and cash equivalents decreased from approximately HK\$41.6 million as at 31 December 2017 to approximately HK\$23.2 million as at 31 December 2018. The increase in debt to equity ratio from 2.1% as at 31 December 2018 to 10.5% as at 31 May 2019 was mainly due to the increase in bank borrowing from approximately HK\$27.4 million as at 31 December 2018 to approximately HK\$47.0 million as at 31 May 2019.

Interest coverage

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our interest coverage was approximately 23.7, 16.7, 10.5 and 6.2 respectively.

Our interest coverage decreased to approximately 16.7 for the year ended 31 December 2017 was primarily due to the increase in our finance costs from approximately HK\$2.5 million for the year ended 31 December 2016 to approximately HK\$4.0 million for the year ended 31 December 2017 outweighing the increase in profit before finance cost and tax during the periods. Our interest coverage further decreased from approximately 16.7 for the year ended 31 December 2017 to approximately 10.5 for the year ended 31 December 2018 as a result of decrease in our profit before finance cost and tax due to the Listing expenses incurred for the year ended 31 December 2018. Our interest coverage decreased from 10.5 for the year ended 31 December 2018 to 6.2 for the five months ended 31 May 2019 due to the increase in bank borrowing as at 31 May 2019 and the decrease in our profit before finance cost and tax due to the Listing expenses incurred.

Return on total assets

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our return on total assets was approximately 9.7%, 11.4%, 8.8% and 5.8% respectively.

The increase in return on total assets from approximately 9.7% for the year ended 31 December 2016 to approximately 11.4% for the year ended 31 December 2017 was mainly due to the combined effect of the increase in the net profit for the year from approximately HK\$45.8 million for the year ended 31 December 2016 to approximately HK\$51.4 million for the year ended 31 December 2017 and the slight decrease in the total assets of our Group from approximately HK\$471.6 million to approximately HK\$451.3 million during the same periods. The decrease in return on total assets to approximately 8.8% for the year ended 31 December 2018 was mainly due to the combined effect of the decrease in the net profit and the increase in total assets as at 31 December 2018. Our return on total assets further decreased to approximately 5.8% for the five months ended 31 May 2019 primarily due to the decrease in our annualised net profit as a result of the increase in listing expenses for the five months ended 31 May 2019.

Return on equity

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our return on equity was approximately 19.2%, 17.5%, 21.2% and 11.6% respectively.

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The return on equity decreased from approximately 19.2% for the year ended 31 December 2016 to 17.5% for the year ended 31 December 2017 and increased to approximately 21.2% for the year ended 31 December 2018. The decrease for the year ended 31 December 2017 was mainly due to the increase in our equity outweighed the increase in our net profit in the year ended 31 December 2017 compared to the corresponding year in 2016. The return on equity increased for the year ended 31 December 2018 due to the decrease in total equity compared to that in the corresponding year in 2017. Our return on equity further decreased to approximately 11.6% for the five months ended 31 May 2019 primarily due to the decrease in our annualised net profit as a result of the increase in listing expenses for the five months ended 31 May 2019.

Net profit margin

For the three years ended 31 December 2018 and the five months ended 31 May 2019, our net profit margin was approximately 9.8%, 9.8%, 6.9% and 4.8% respectively. Our net profit margin remained relatively stable for the two years ended 31 December 2017. The decrease in net profit margin for the year end 31 December 2018 and for the five months ended 31 May 2019 was primarily due to the Listing expenses incurred.

MARKET RISK AND RISK MANAGEMENT

We are exposed to various types of market risks in our ordinary course of business, primarily including currency risk, interest rate risk, credit risk and liquidity risk. We had not used any derivatives or other instruments for hedging purposes during the Track Record Period.

Currency risk

Our Group undertakes certain transactions denominated in foreign currencies which are different from USD and RMB, the functional currency of the respective group entities. Our Group currently does not have a foreign exchange hedging policy. However, the management of our Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

Interest rate risk

Our Group is exposed to fair value interest rate risk in relation to our bank borrowings.

Our Group is also exposed to cash flow interest rate risk in relation to variable-rate financial assets at FVTPL, structured bank deposits and bank balances and variable-rate bank borrowings. Our Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and Hong Kong Interbank Offered Rate and London Offered Rate arising from its borrowings. It is our Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

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We currently do not have interest rate hedging policy. However, our management closely monitors our 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 our variable-rate bank borrowings at the end of each reporting period. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period were outstanding for the whole year/period. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possibly change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, our Group's post tax profit for the three years ended 31 December 2018 and the five months ended 31 May 2019 would decrease/increase by approximately HK\$369,000, HK\$228,000, HK\$94,000 and HK\$74,000 respectively.

Credit risk

Our Group's maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in our consolidated statements of financial position.

Our Group's credit risk is primarily attributable to its trade receivables. In order to minimise the credit risk, the management of our 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, our Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group's credit risk is significantly reduced.

Liquidity risk

In management of the liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

DIVIDEND

Our Company had not declared any dividends during the Track Record Period. On 30 August 2019, our Company declared a dividend of approximately HK\$15 million. JA Overseas had declared and paid approximately HK\$8.5 million, approximately HK\$24.7 million, approximately HK\$14.7 million and nil as dividend for the three years ended 31 December 2018 and the five months ended 31 May 2019 respectively to its then

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shareholders. After completion of the Listing, our Directors, may at its discretion, declare dividends to our Shareholders in the future after taking into account our results of operations, earnings, financial condition, cash requirements and availability, contractual arrangements and other factors as it may deem relevant at such time. We do not have any specific dividend policy nor any pre-determined dividend pay out ratio.

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

Peak Vision, an independent qualified professional valuer, valued our property interests as at 31 August 2019 at approximately HK\$260.4 million. Details of the valuation are summarised in Appendix III to this prospectus.

The following table sets out the reconciliation between the net book value of the relevant properties as at 31 August 2019 as extracted from the Accountants' Report in Appendix I to this prospectus and the property valuation report as set forth in Appendix III to this prospectus:

| | <i>HK\$'000</i> |
|--|-----------------------|
| Net book value of our Group's property interests as at 31 May 2019 | 172,094 |
| Less: depreciation in relation to our property, plant and equipment during the period from 1 June 2019 to 31 August 2019 | <u>(1,840)</u> |
| Net book value of our Group's property interests as at 31 August 2019 | 170,254 |
| Net valuation surplus as at 31 August 2019 | <u>90,136</u> |
| Valuation of the relevant properties as at 31 August 2019 as set out in the property valuation report in Appendix III to this prospectus | <u><u>260,390</u></u> |

OFF BALANCE SHEET ARRANGEMENTS

During the Track Record Period and as at the Latest Practicable Date, we did not have any material off-balance sheet arrangements.

LISTING EXPENSES

The total Listing expenses amounted to approximately HK\$52.6 million, of which approximately nil, HK\$0.5 million, HK\$16.9 million and HK\$10.1 million was recognised in our consolidated statements of profit or loss for the three years ended 31 December 2018 and the five months ended 31 May 2019, respectively. We expect to further recognise approximately HK\$10.5 million in our consolidated statements of profit or loss, and approximately HK\$14.6 million as a deduction in equity.

FINANCIAL INFORMATION

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, except as otherwise disclosed in this prospectus, as at the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 31 May 2013 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Please refer to Appendix II to this prospectus for the unaudited pro forma adjusted net tangible assets.

RECENT DEVELOPMENT

In the fourth quarter of 2018, our Group successfully solicited a new Apparel Retail Brand Customer, namely Customer F, which started to place orders to us for sleepwear products. Customer F is a retailer based in the U.S. and is listed on the New York Stock Exchange. It has over 3,500 stores in the U.S. and 6,300 stores in non-U.S. locations. Since the fourth quarter of 2018 and up to the Latest Practicable Date, our Group received over 30 purchase orders from Customer F for over 600,000 units of sleepwear products, of which we had delivered 134,000 units during the five months ended 31 May 2019 and our Group recognised approximately HK\$3.0 million in respect of the sales and delivery of these units as revenue for the five months ended 31 May 2019. We expect to deliver the rest of the orders to Customer F throughout 2019 according to the delivery schedule agreed with Customer F. Our Group had continued to conduct business with our Apparel Retail Brand Customers, namely Target, Customer A, Marks and Spencer plc, Customer C and Customer F after 31 May 2019 and up to the Latest Practicable Date.

On 30 August 2019, our Company declared a dividend of approximately HK\$15 million. For details of our Company's dividend payment policy, please refer to the paragraph headed "Financial Information — Dividend" in this prospectus.

IMPACT OF TRADE RESTRICTIONS AND BREXIT ON OUR GROUP

Impact of U.S. Trade Restrictions on our Group

In light of the recent tensions involving the Sino-U.S. trade war, there is a risk that our business may be adversely affected by trade restrictions that may be implemented as a result of the negotiations between these countries. The PRC and the U.S. began to impose additional tariff on each other's goods. The latest tariff was implemented on 1 September 2019 when the U.S. government imposed 15% tariffs on products on the list (the "**Product**

FINANCIAL INFORMATION

List”) to be imported from the PRC to the U.S. (the “15% Tariffs”). Depending on the latest development of the trade negotiations between the U.S. and the PRC, the level and number of products subject to tariffs may change over time.

During the Track Record Period and up to the Latest Practicable Date, our products were produced in the PRC, Cambodia and Vietnam and currently the majority of our Group’s products for export to the U.S. are produced in either Vietnam or in the PRC. Based on our historic financial data, the revenue generated from our garment products that were produced in the PRC and exported to the U.S. for the three years ended 31 December 2018 and the five months ended 31 May 2019 accounted for approximately 45.5%, 35.3%, 32.6% and 33.2% of our total revenue, respectively and approximately 65.2%, 48.2%, 47.5% and 51.2% of our revenue generated from the U.S., respectively.

As advised by our U.S. Legal Advisers, since 1 September 2019 and up to the Latest Practicable Date, all of our sleepwear and loungewear products produced in the PRC and exported to the U.S. are on the Product List, and hence are subject to the 15% Tariffs. Despite the imposition of the 15% Tariffs on our products and the recent tensions involving the Sino-U.S. trade war, our Directors confirm that (i) Target had not cancelled any orders placed with us since the imposition of the 15% Tariffs on 1 September 2019 and up to the Latest Practicable Date; and (ii) our Directors believe that our Group would not experience any decline in orders from Target for the first quarter of 2020, compared with the orders we received for the first quarter of 2019.

We are also advised by our U.S. Legal Advisers that we will not be the party responsible for the payment of any tariffs as we ship our products to our U.S. customer on a FOB basis and our U.S. customer is the importer of record and is responsible for payment of any tariffs. Therefore, our U.S. customer may pass the increase in their costs partially or entirely on to us, which will likely have an adverse impact on our business operations and financial condition. During the Track Record Period, all of our products exported to the U.S. from the PRC were sold to Target. Assuming that (i) the 15% Tariffs will remain at the same tariff rate; (ii) Target is to fully pass on the effect of the 15% Tariffs on our products imported from the PRC on a FOB basis to our Group; and (iii) all of our products manufactured in the PRC and shipped to Target in the U.S. are on the Product List, for illustrative purpose only, the potential financial impact of the 15% Tariffs on us would be approximately HK\$5.0 million for the period from 1 October to 31 December 2019, based on our Group’s confirmed orders from Target involving products imported from the PRC on a FOB basis for the same period. Assuming that the 15% Tariffs was effective on 1 January 2019, for illustrative purpose only, the financial impact of the 15% Tariffs on us would be approximately HK\$27.1 million for the year ending 31 December 2019, based on our Group’s actual sales with Target for the five months ended 31 May 2019 and our Group’s confirmed orders from Target for the seven months ending 31 December 2019, involving products imported from the PRC on a FOB basis. Our Directors believe that such impact on us would be reduced for the year ending 31 December 2020 due to the implementation of the contingency plan.

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In order to minimise the financial and operational impact on our Group, our Group has prepared a contingency plan whereby our Group will gradually switch the country of production of products that are produced in the PRC and exported to the U.S. from the PRC to other countries such as Vietnam and Cambodia which are not subject to the 15% Tariffs or other tariffs imposed by the U.S. which may be relevant to our business. Our Group anticipates that we will move such production to subcontractors located in Vietnam in the short run. Our Directors have contacted our existing garment subcontractors as well as some new garment subcontractors in Vietnam which have confirmed that they will make available the capacity required by our Group. Based on our Directors' knowledge and experience, we estimate that it will take around three months of production lead time to switch to our subcontractors located in Vietnam.

As our Vietnam Factory is currently expected be completed by the first quarter of 2021, our Directors believe that our Group would have an additional production facility as part of our contingency plan so as to minimise any negative impact of any imposition of tariffs which may have on us if the trade tension persists in the long run. Our Directors consider that this contingency plan will be able to mitigate any effect that any tariffs (if imposed) may have on us in the long run as our U.S. Legal Advisers has confirmed that even if the raw materials of a product are sourced from the PRC, as long as the country of production of that product is not the PRC, then such product will not be subject to the 15% Tariffs. As our Directors believe that our Group's contingency plan above will be able to mitigate any effect against our Group in the long run even if our products will be subject to any tariffs in the future, our Directors consider, and the Sole Sponsor concurs, that even though the majority of our products are delivered to the U.S., our Group's business operations will not be materially affected in the long run.

Impact of Brexit on our Group

Further, our Group's business may also be affected by Brexit as the revenue that we generated from our customers based in the U.K. amounted to approximately HK\$94.7 million, HK\$69.5 million and HK\$83.5 million, representing approximately 20.2%, 13.2% and 13.7% of our total revenue for the three years ended 31 December 2018, respectively. Our Industry Consultant has predicted that the CAGR of consumer spending on clothing and footwear in the U.K. during the period between 2018 and 2023 could decrease to approximately -1.4% if the U.K. exits the EU without a trade agreement (compared with the expected CAGR of approximately 2.7% for the same period if the U.K. agrees to exit the EU with a trade agreement prior to them exiting the EU). However, our Directors believe that Brexit will not have a material adverse impact on our Group's business or our sustainability as (i) the impact of Brexit on the clothing and footwear business is low as shown by the relatively low decrease in the projected CAGR following Brexit; and (ii) our products are essential products for which the consumers' demand will remain relatively stable. Additionally, our Directors confirm that there was not any decrease in our Group's the aggregate sales to Customer A for the period from 1 June 2019 to 30 September 2019, as compared with the aggregate sales to the same customer for the same period in 2018. Our Directors further confirm that Customer A had not cancelled any orders placed with us since June 2019 and up to the Latest Practicable Date.

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NO MATERIAL ADVERSE CHANGE

As at 31 May 2019, our Group had an amount of approximately HK\$53.5 million due to Mr. Tam, one of our Controlling Shareholders, of which approximately HK\$50.0 million had been repaid by way of a bank loan obtained by us as at the Latest Practicable Date. Our Group intends to utilise its internal financial resources for the repayment of the outstanding balance in full on or before the Listing. Taking into account the financial resources available to us including cash flow from operating activities, our Directors are of the view that we have sufficient working capital to repay the outstanding amount owed to Mr. Tam, and would not have material impact on our Group's financial position and financial performance.

Having considered all relevant factors, including but not limited to the impact of the Sino-U.S. trade war and Brexit on our Group, our Directors confirm that there had been no material adverse change in our financial condition or trading position or prospects since 31 May 2019 and up to the date of this prospectus, and there was no event since 31 May 2019 which would materially affect the information shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

A detailed description of our future plans is set out in the paragraph headed “Business — Our business strategies” in this prospectus.

USE OF PROCEEDS

The net proceeds from the Global Offering will strengthen our capital base and will provide funding for achieving our business strategies and carrying out our future plans as set out in the paragraph headed “Business — Our business strategies” in this prospectus.

The following table sets out the net proceeds of the Global Offering (assuming that the Over-allotment Option is not exercised) which we will receive:

| | |
|--|---------------------------------|
| If the offer price is fixed at HK\$0.4 per Share (being the low end of the Offer Price range stated in this prospectus) | Approximately HK\$72.4 million |
| If the offer price is fixed at HK\$0.45 per Share (being the mid point of the Offer Price range stated in this prospectus) | Approximately HK\$88.0 million |
| If the offer price is fixed at HK\$0.50 per Share (being the high end of the Offer Price range stated in this prospectus) | Approximately HK\$103.7 million |

Assuming an Offer Price of HK\$0.45 per share (being the mid point of the Offer Price Range) and that the Over-allotment Option is not exercised, we estimate that the net proceeds receivable by us from the Global Offering (after deducting underwriting fees and estimated expenses payable by us in connection with the Global Offering) will be approximately HK\$88.0 million. We intend to apply such net proceeds in the following manner:

- (i) approximately HK\$65.3 million or 74.2% will be used to enhance our fabric production facilities by establishing a spinning mill in our Henan Factory as our vertical expansion plan. Spinning is a key process of fabric production as it produces yarn which is used to produce fabric. For further details of such expansion please refer to the paragraph headed “Business — Our business strategies — Vertical expansion of our fabric production”. By establishing the spinning mill and expanding our vertical integration, our Group can cope with our business expansion and optimise supply chain efficiency and save costs. Vertical integration can lower the unit cost of production by consolidating the overhead costs and have better control over the quality and delivery of raw materials. The net proceeds of (a) approximately HK\$18.0 million will be used to fund the construction and fitting out work of the spinning mill; and (b) approximately HK\$38.8 million will be used for the purchase of 76 sets of basic spinning machines which are required for the commencement of production of the

FUTURE PLANS AND USE OF PROCEEDS

spinning mill in the first phase; and (c) approximately HK\$8.5 million will be used for the purchase of 16 sets of more advanced spinning machines which allow our Group to produce a larger variety of yarn in the second phase;

- (ii) approximately HK\$20.0 million or 22.7% will be used for setting up a new garment production factory in Vietnam which will have a size and scale similar to our Cambodia Factory in order to sustain profitable growth, enhance our customer base and reduce our reliance on subcontractors for garment manufacturing. The net proceeds of (a) approximately HK\$12.4 million will be used for the acquisition of the land use rights and financing its construction costs; and (b) approximately HK\$7.6 million will be used for the purchase of machineries and equipment required for garment production; and
- (iii) approximately HK\$2.7 million or 3.1%, will be used to fund our working capital and for general corporate purposes.

If our Offer Price is set at HK\$0.5 per Offer Share (being the high-end of the indicative Offer Price) or HK\$0.4 per Offer Share (being the low-end of the indicative Offer Price) or any price in between, we intend to apply the net proceeds to the above purposes on a pro-rata basis. If the Over-allotment Option is exercised in full or in part, we intend to apply the additional net proceeds from the exercise of the Over-allotment Option to the above purposes on a pro-rata basis.

FUTURE PLANS AND USE OF PROCEEDS

Should our Directors decide to re-allocate the intended use of proceeds to other business plans and/or new projects of our Group to a material extent and/or there is to be any material modification to the use of proceeds as described above, we will make appropriate announcement(s) in due course.

To the extent that such net proceeds from the Global Offering are not immediately applied to the above purposes, it is our present intention that such net proceeds will be deposited into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

REASONS FOR THE LISTING

We believe that having a listing status in Hong Kong is beneficial to our Group as set out in the paragraph headed “Business — Our business strategies” in this prospectus. Our Directors believe that there will be sufficient and rising market demand for our Group’s products, especially in the U.S. and Europe. During the Track Record Period, our Group’s revenue derived from the Apparel Retail Brand Customers had been experiencing a rising trend. In support of the rising market demand for our Group’s products, it is our intention

FUTURE PLANS AND USE OF PROCEEDS

to expand our business vertically and horizontally. Our Directors believe that the Listing could bring necessary financial resources to our Group to support and fuel our long-term business strategies and expansion and provide the following benefits:

- (i) to cope with our expansion plans, we plan to horizontally expand our garment production capability by setting up a new garment production factory in Vietnam and vertically expand by establishing a spinning mill in our Henan Factory. The Vietnam Factory will assist our Group in expanding our production capacity for garment products. These expansions require significant capital expenditure and the net proceeds from the Global Offering will provide us with the financial resources for the execution of our expansion plans. Our Directors considered that without net proceeds from the Global Offering, our current bank balances and cash may not be sufficient to support our proposed expansion plan described in this prospectus. Our Directors have taken into account the following factors and considered that it is in the interest of our Group and our Shareholders as a whole to proceed with equity financing instead of debt financing:
 - (a) as at 31 August 2019, our Group had unutilised banking facilities of HK\$100.8 million, which were mainly trade financing facilities for the purpose of, including but not limited to, purchasing of raw materials and exporting arrangements. The amount of unutilised bank facilities for non-trade purposes amounted to approximately HK\$4.4 million only. Even taking into account our available cash and cash equivalents of approximately HK\$24.3 million as at 31 May 2019, our Group's financial resources are not sufficient to finance our expansion plans as (i) our Group requires an estimated minimum monthly working capital of approximately HK\$15.3 million to meet our regular financial obligations such as salaries to our staff, overhead costs and general expenses; and (ii) as at 31 May 2019, our Group had an amount of approximately HK\$53.9 million due to Mr. Tam, one of our Controlling Shareholders, of which approximately HK\$50.0 million had been repaid by way of a bank loan obtained by us as at the Latest Practicable Date. Our Group intends to utilise its internal financial resources for the repayment of the outstanding balance in full on or before the Listing.
 - (b) debt financing may subject us to various covenants which may restrict our ability to pay dividends or obtain additional financing. Besides, our existing banking facilities which mainly consist of bank overdraft and trade financing are generally short-term in nature for our working capital purposes and cannot satisfy our long-term capital needs to increase our product types and production capacities for our business expansion. Further, uncertain interest rate movement in the future may also expose our Group to increasing borrowing costs which may adversely affect our financial performance and liquidity. As at 31 May 2019, the effective interest rate per annum for our bank borrowings were in the range of 2.47% to 6.18%;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) the Listing will help us broaden our shareholder base and fund raising channels which may enhance our ability in sourcing sufficient capital at competitive costs to facilitate our continuous business development. Our net proceeds from the Global Offering will also help us to maintain sufficient working capital for our business operations;
- (iv) the Listing will enhance our market reputation and brand awareness and enhance our image with our customers and may attract more customers and sales. It also attracts suppliers and subcontractors who are more willing to establish business relationships with listed companies. Our Directors believe that the listing status will strengthen our market position and maintain our competitiveness against competitors;
- (v) the Listing status will help our Group raise staff morale and confidence in our Group and improve our ability to attract, retain and motivate experienced and qualified staff because our Group will be able to offer an equity based incentive programme (i.e. the Share Option Scheme) to our staff. The Listing will also potentially motivate our existing staff to further develop their career with us in view of the perceived status associated with working in a listed company in Hong Kong and will allow us to attract and retain staff more successfully; and
- (vi) our Directors believe that through the Listing, the internal control and corporate governance practices of our Group will be further enhanced. Following the Listing, we are required to meet high standards with respect to internal control and corporate governance to strengthen the overall control and supervision of our Group.

THE CORNERSTONE PLACING

As part of the International Offering, we have entered into cornerstone investment agreements with six cornerstone investors, namely Mr. Shi Jianrong (史建榮先生) (“**Mr. Shi**”), Mr. Xie Boqing (謝伯清先生) (“**Mr. Xie**”), Mr. Zhou Futu (周福土先生) (“**Mr. Zhou**”), Mr. Lu Guoqing (蘆國慶先生) (“**Mr. Lu**”) and Mr. Xie Bin (謝斌先生), (together the “**Cornerstone Investors**”, each a “**Cornerstone Investor**”). Pursuant to their respective cornerstone investment agreements, the Cornerstone Investors have agreed to subscribe for or purchase, at the Offer Price, such number of Offer Shares (rounded down to the nearest whole board lot of 5,000 Shares) that may be purchased for an aggregate amount of approximately HK\$50 million, excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which each of the Cornerstone Investors will pay separately in respect of the number of Shares to be subscribed by him (the “**Cornerstone Placing**”).

Assuming an Offer Price of HK\$0.40 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for or purchased by the Cornerstone Investors would be 125,000,000, representing (a) approximately 40.00% of the total number of the Offer Shares assuming the Over-allotment Option is not exercised; (b) approximately 34.78% of the total number of the Offer Shares assuming the Over-allotment Option is fully exercised; and (c) approximately 10.00% of the Shares in issue and outstanding upon the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

Assuming an Offer Price of HK\$0.45 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for or purchased by the Cornerstone Investors would be 111,100,000 (rounded down to the nearest whole board lot of 5,000 shares), representing (a) approximately 35.55% of the total number of the Offer Shares assuming the Over-allotment Option is not exercised; (b) approximately 30.91% of the total number of the Offer Shares assuming the Over-allotment Option is fully exercised; and (c) representing approximately 8.89% of the Shares in issue and outstanding upon the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

Assuming an Offer Price of HK\$0.50 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of Offer Shares to be subscribed for or purchased by the Cornerstone Investors would be 100,000,000, representing (a) approximately 32.00% of the total number of the Offer Shares assuming the Over-allotment Option is not exercised; (b) approximately 27.83% of the total number of the Offer Shares assuming the Over-allotment Option is fully exercised; and (c) approximately 8.00% of the Shares in issue and outstanding upon the completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares to be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

CORNERSTONE INVESTMENT

To the best knowledge of our Directors, each of the Cornerstone Investors is an Independent Third Party and independent from our connected persons and their respective associates (as defined in the Listing Rules). Save for that Mr. Xie is the father of Mr. Xie Bin, to the best knowledge of our Directors, each of the Cornerstone Investors are independent of each other. The Cornerstone Investors will subscribe for the Offer Shares pursuant to, and as part of, the International Offering. The Cornerstone Investors will not subscribe for any Offer Shares under the Global Offering, other than pursuant to their respective cornerstone investment agreement.

Each of the Cornerstone Investors has confirmed that: (i) the respective investments made by the Cornerstone Investors in respect of the Cornerstone Placing are financed by their own personal fund and are not, whether directly or indirectly, financed by our Company, our Controlling Shareholders, our Directors, the Sole Sponsor, the Underwriters or any of their affiliates; (ii) he has not entered into any side agreements or arrangements with our Directors, our Controlling Shareholders, our senior management or any of their respective associates; and (iii) he is not accustomed to take instructions from our Company or any of its core connected person (as defined in the Listing Rules) in relation to the acquisition, disposal, voting or other disposition of the Shares registered in his name or otherwise held by him.

The Offer Shares to be acquired by the Cornerstone Investors will rank *pari passu* with the fully paid Shares then in issue and to be listed on the Stock Exchange and will be counted towards the public float of our Company. Immediately following the completion of the Capitalisation Issue and the Global Offering, the Cornerstone Investors will not have any representation on our Board or become our substantial shareholder. No special rights have been granted to the Cornerstone Investors as part of the Cornerstone Placing.

The Offer Shares to be acquired by the Cornerstone Investors will not be (i) subject to re-allocation of Shares between the International Offering and the Hong Kong Public Offering in the event of over-subscription under the Hong Kong Public Offering; or (ii) affected by any exercise of the Over-allotment Option to be granted to the Sole Global Coordinator (for itself and on behalf of the International Underwriters).

Pursuant to the terms of the cornerstone investment arrangement entered into with each of the Cornerstone Investors, there is no arrangement for the delay or deferral in delivery or the settlement of payment of the Offer Shares to be subscribed by each of the Cornerstone Investors. Further, the Cornerstone Investors have confirmed that they will make full payment of the investment amount, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee by same day value credit before 8:00 a.m. (Hong Kong time) on the Listing Date.

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 our Company on or around Wednesday, 27 November 2019.

CORNERSTONE INVESTMENT

OUR CORNERSTONE INVESTORS

We have entered into a cornerstone investment agreement with each of the following Cornerstone Investors in respect of the Cornerstone Placing. The details of the investment of our Cornerstone Investors are set forth below:

| Based on the Offer Price of HK\$0.4 (being the low-end of the indicative Offer Price range) | | | | | | |
|---|-----------------------|---|---|---|---|---|
| Name of Cornerstone Investor | Investment amount | Number of Offer Shares (rounded down to nearest whole board lot of 5,000 Shares if necessary) | 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. Shi | HK\$3,000,000 | 7,500,000 | 2.40% | 2.08% | 0.60% | 0.58% |
| Mr. Xie | HK\$24,900,000 | 62,250,000 | 19.92% | 17.32% | 4.98% | 4.80% |
| Mr. Zhou | HK\$8,000,000 | 20,000,000 | 6.40% | 5.57% | 1.60% | 1.54% |
| Mr. Lu | HK\$4,100,000 | 10,250,000 | 3.28% | 2.85% | 0.82% | 0.79% |
| Mr. Xie Bin | HK\$10,000,000 | 25,000,000 | 8.00% | 6.96% | 2.00% | 1.93% |
| Total | HK\$50,000,000 | 125,000,000 | 40.00% | 34.78% | 10.00% | 9.64% |

| Based on the Offer Price of HK\$0.45 (being the mid-point of the indicative Offer Price range) | | | | | | |
|--|-----------------------|---|---|---|---|---|
| Name of Cornerstone Investor | Investment amount | Number of Offer Shares (rounded down to nearest whole board lot of 5,000 Shares if necessary) | 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. Shi | HK\$3,000,000 | 6,665,000 | 2.13% | 1.85% | 0.53% | 0.52% |
| Mr. Xie | HK\$24,900,000 | 55,330,000 | 17.71% | 15.40% | 4.43% | 4.27% |
| Mr. Zhou | HK\$8,000,000 | 17,775,000 | 5.68% | 4.95% | 1.42% | 1.37% |
| Mr. Lu | HK\$4,100,000 | 9,110,000 | 2.92% | 2.53% | 0.73% | 0.70% |
| Mr. Xie Bin | HK\$10,000,000 | 22,220,000 | 7.11% | 6.18% | 1.78% | 1.71% |
| Total | HK\$50,000,000 | 111,100,000 | 35.55% | 30.91% | 8.89% | 8.57% |

CORNERSTONE INVESTMENT

Based on the Offer Price of HK\$0.50 (being the high-end of
the indicative Offer Price range)

| Name of Cornerstone Investor | Investment amount | Number of Offer Shares (rounded down to nearest whole board lot of 5,000 Shares if necessary) | Approximately % 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. Shi | HK\$3,000,000 | 6,000,000 | 1.92% | 1.67% | 0.48% | 0.46% |
| Mr. Xie | HK\$24,900,000 | 49,800,000 | 15.94% | 13.86% | 3.98% | 3.84% |
| Mr. Zhou | HK\$8,000,000 | 16,000,000 | 5.12% | 4.45% | 1.28% | 1.23% |
| Mr. Lu | HK\$4,100,000 | 8,200,000 | 2.62% | 2.28% | 0.66% | 0.64% |
| Mr. Xie Bin | <u>HK\$10,000,000</u> | <u>20,000,000</u> | <u>6.40%</u> | <u>5.57%</u> | <u>1.60%</u> | <u>1.54%</u> |
| Total | <u>HK\$50,000,000</u> | <u>100,000,000</u> | <u>32.00%</u> | <u>27.83%</u> | <u>8.00%</u> | <u>7.71%</u> |

The information about our Cornerstone Investors set forth below has been provided by the Cornerstone Investors in connection with the Cornerstone Placing:

Mr. Shi is a an individual Cornerstone Investor. Mr. Shi is the director, legal representative, general manager and a controlling shareholder of Wujiang Yaodong Textile Company Limited* (吳江市耀東紡織品有限公司) (“**Wujiang Textile**”). Wujiang Textile is a company engaged in the business of textiles trading in the PRC. Wujiang Textile is a supplier of our Group which supplies fabric to our Group and has conducted business with our Group since 2017. Mr. Shi is also a supervisor of Supplier I, one of the top five suppliers of our Group during the Track Record Period. Mr. Shi was acquainted to our Group through Wujiang Textile.

Mr. Xie is an individual Cornerstone Investor. Mr. Xie is the legal representative, chairman, general manager and the ultimate beneficial owner of Supplier B. Supplier B is a company engaged in the business of fabric and garment production and also provides import and export services. Supplier B supplies fabric and also provides import and export services to our Group. Supplier B has conducted business with our Group since 2006 and was one of the top five suppliers of our Group during the Track Record Period. Mr. Xie is the father of Mr. Xie Bin, another Cornerstone Investor. Mr. Xie was acquainted to our Group through Supplier B.

Mr. Zhou is an individual Cornerstone Investor. Mr. Zhou is a legal representative and the ultimate controlling shareholder of Supplier E. Supplier E is a company engaged in the business of textiles trading. Supplier E supplies fabric to our Group and has conducted business with our Group since 2010 and was one of the top five suppliers of our Group during the Track Record Period. Mr. Zhou was acquainted to our Group through Supplier E.

CORNERSTONE INVESTMENT

Mr. Lu is an individual Cornerstone Investor. Mr. Lu is the legal representative, director and a controlling shareholder of Hangzhou Xiaoshan Chengye Lace Clothing Company Limited* (杭州蕭山成業花邊服飾有限公司) (“**Hangzhou Xiaoshan**”). Hangzhou Xiaoshan is a company engaged in the business of textiles trading. Hangzhou Xiaoshan is a supplier of our Group which supplies fabric to our Group and has conducted business with our Group since 2010. Mr. Lu was acquainted to our Group through Hangzhou Xiaoshan.

Mr. Xie Bin is an individual Cornerstone Investor. Mr. Xie Bin is the general manager of Supplier B. Supplier B is a company engaged in the business of fabric and garment production and also provides import export services. Supplier B supplies fabric and also provides import and export services to our Group. Supplier B has conducted business with our Group since 2006 and was one of the top five suppliers of our Group during the Track Record Period. Mr. Xie Bin was acquainted to our Group through Supplier B.

All of the Cornerstone Investors are confident in our Group’s business growth and development and has decided to invest in our Group personally as an individual Cornerstone Investor.

Our Directors consider that our Group’s transactions with Supplier B, Supplier E, Supplier I, Wujiang Textile and Hangzhou Xiaoshan have been and will be negotiated on an arm’s length basis and conducted in the ordinary course of business and on normal commercial terms during the Track Record Period and subsequent to the Track Record Period.

CONDITIONS PRECEDENT

The obligations of our Company to issue and deliver the Offer Shares and the obligations of each of the Cornerstone Investors to subscribe for the Offer Shares under the respective cornerstone investment agreements are subject to the following conditions precedent:

- (a) the Underwriting Agreements being entered into and having become effective and unconditional (in accordance with their respective original terms or as subsequently waived in part or in whole or varied by agreement of the parties thereto) by no later than the time and date as specified in the respective Underwriting Agreements;
- (b) neither of the Underwriting Agreements having been terminated;
- (c) the Listing Committee having granted the listing of, and permission to deal in, the Shares and such approval or permission not having been revoked;

CORNERSTONE INVESTMENT

- (d) no laws shall have been enacted or promulgated by any governmental authority which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offer, the International Offering or under the relevant cornerstone investment agreement and there shall be no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions;
- (e) the representations, warranties, undertakings and confirmations of such Cornerstone Investors under the relevant cornerstone investment agreements are and will be accurate and true in all material respects and not misleading and that there is no material breach of the relevant cornerstone investment agreements on the part of such Cornerstone Investors; and
- (f) the Offer Price having been agreed by, among others, the Sole Global Coordinator (for themselves and on behalf of the Underwriters) and the Company in connection with the Global Offering.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of our Company and the Sole Global Coordinator, it will not, and will cause its affiliates not to, whether directly or indirectly, at any time during the period of six months following the Listing Date, (i) dispose of any Shares subscribed for by him under the relevant cornerstone investment agreement (the “**Relevant Shares**”) or any interest in any company or entity (directly or indirectly) holding any of the Relevant Shares or any voting right or any other right attaching thereto; (ii) enter into any transactions directly or indirectly with the same economic effect as any aforesaid transactions; (iii) publicly announce any intention to enter into any aforesaid transactions; and (iv) agree or contract to do any aforesaid transactions.

CONNECTED TRANSACTIONS

OVERVIEW

During the Track Record Period, we have rented a property for use as our office premises in Shanghai from Mrs. Tam, our executive Director and our Controlling Shareholder, who will become our connected person upon Listing (as defined under Chapter 14A of the Listing Rules). Following the Listing, we will continue to lease such property from Mrs. Tam and such transaction will constitute a continuing connected transaction under the Listing Rules.

Lease agreement

Background

During the Track Record Period, JASH entered into a lease with Mrs. Tam pursuant to which Mrs. Tam agreed to lease to JASH, an office premises being Flat A, 19th Floor, Tower 2, 515 Yishan Road, Shanghai, the PRC, with a total area of approximately 106.47 m². The amounts of rent paid by JASH for the three years ended 31 December 2018 amounted to approximately RMB96,000, RMB96,000 and RMB96,000, respectively. The lease was further extended for three years starting from 1 January 2019 and will expire on 31 December 2021.

Estimated annual rental and basis

Having considered other comparable offices, our Directors consider that it is reasonable and in the interests of our Company and Shareholders as a whole to continue leasing the property for our business.

It is expected that the annual rent payable by JASH under the lease agreement for the year ending 31 December 2019 will not exceed amount to approximately RMB102,000, which is calculated based on the fixed monthly rental payable of RMB8,500 under the lease agreement.

Peak Vision, our independent property valuer, has reviewed the lease agreement, collected and analysed relevant rented comparables in the vicinity, and confirmed that the rental payable for the premises is consistent with the current market rental level.

Our Directors, including our independent non-executive Directors, are of the view that (i) the lease agreement was entered into on an arm's length basis and with reference to the prevailing market rates of similar properties; and (ii) the transaction contemplated under the lease agreement is on normal commercial terms and is fair and reasonable and in the interest of our Company and Shareholders as a whole.

CONNECTED TRANSACTIONS

Implications under the Listing Rules

Since Mrs. Tam is our Controlling Shareholder and one of our executive Directors, she will become a connected person of our Company after Listing. The transaction contemplated under the lease agreement between Mrs. Tam and our Company will constitute a continuing connected transaction for our Company pursuant to the Listing Rules.

As the highest applicable percentage ratio (as defined under Rule 14.07 of the Listing Rules) calculated with reference to the maximum aggregate annual rental payable by JASH to Mrs. Tam under the lease agreement for each of the three years ending 31 December 2021 exceeds 0.1% but less than 5%, and the aggregate annual rental payable by our Group under the lease agreement will not exceed HK\$3,000,000, the transaction under the lease agreement will constitute a *de minimis* connected transaction upon Listing, which will be fully exempt from the annual reporting, announcement, annual review and independent shareholders' approval requirements under Rule 14A.76(1) of the Listing Rules.

Should there be any change in the annual rental payable under the lease agreement so as to make the aggregate annual rental payable under the lease agreement no longer fully exempt under Chapter 14A of the Listing Rules, we will take necessary steps to comply with the applicable requirements under the Listing Rules.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account any shares which may be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option), Strategic King will be directly interested in approximately 67.1% of the total number of issued Shares. Since Strategic King, which is owned by 90% by Mr. Tam and 10% by Mrs. Tam, will continue to control more than 30% of the voting power at general meetings of our Company, Each of Strategic King, Mr. Tam and Mrs. Tam will be our Controlling Shareholder after the Global Offering.

DEED OF NON-COMPETITION

None of our Controlling Shareholders, Directors and their respective close associates has any interests in any business which directly or indirectly competes or is likely to compete with our principal business, which would require disclosure under Rule 8.10 of the Listing Rules.

To ensure that competition will not exist in the future, our Company (for itself and as trustee for each of its subsidiaries) entered into the Deed of Non-competition with each of our Controlling Shareholders on 17 October 2019, under which our Controlling Shareholders agreed not to, and to procure its subsidiaries and his/its respective close associate(s) (as appropriate) (other than our Group) not to compete, either directly or indirectly, with our principal business and granted to our Group the option for new business opportunities, option for acquisitions and pre-emptive rights.

Each of our Controlling Shareholders (each a “**Covenantor**”, collectively the “**Covenantors**”) has jointly and severally irrevocably undertaken in the Deed of Non-competition that, during the term of the Deed of Non-competition, he/she/it (as appropriate) will not, and will also procure its subsidiaries and his/her/its respective close associate(s) (as appropriate) (other than our Group) not to, alone or with any other entity, in any form, directly or indirectly:

- (i) carry on, engage in, participate in, assist or support a third party to engage in or participate in any business that competes, or is likely to compete, directly or indirectly with the existing business of our Group and any other business conducted by our Group from time to time (the “**Restricted Business**”), save for the holding of not more than 10% shareholding interests (individual or any of the Covenantors with their associates collectively) in any company conducting the Restricted Business and listed on any recognised stock exchange;
- (ii) employ, canvass, solicit, interfere with or endeavor to entice away from members of our Group any person, firm, company or organisation which to his or her or its knowledge has from time to time or has at any time within the immediate past one (1) year before the date of such solicitation, interference or enticement been a customer, a supplier or a business partner or employee of any member of our Group for the purpose of conducting the Restricted Business;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (iii) procure orders from or solicit business from any person, firm, company or organization which to his or her or its knowledge has dealt with any member of our Group or is in the process of negotiating with any member of our Group in relation to the Restricted Business;
- (iv) do or say anything which may be harmful to the reputation of any member of our Group or which may lead any person to reduce their level of business with any member of our Group or seek to improve their terms of trade with any member of our Group;
- (v) solicit or entice or endeavor to solicit or entice for employment by him or her or it or entities controlled by him or her or it (other than members of our Group) or at any time employ or procure the employment of any person who has, at any time within the immediate past one (1) year before the date of such solicitation or employment been or is a director, manager, employee or consultant to any member of our Group who is or may be likely to be in possession of any confidential information relating to the Restricted Business; and
- (vi) make use of any information pertaining to the business of our Group which may have come to his or her or its knowledge in his or her or its capacity as a shareholder of our Group or direct of any member of our Group for any purpose of engaging, investing or participating in any Restricted Business.

In addition, each of the Covenantors has jointly and severally undertaken and covenanted with our Company (for itself and as trustee for each of its subsidiaries) that any new business opportunity relating to the Restricted Business (the “**New Business Opportunity**”) is made available to any of the Covenantors or their close associate or any company or entity controlled by him or her or it, directly or indirectly, he or she or it will direct or procure the relevant close associate or controlled company or entity to direct the New Business Opportunity to our Group with such relevant information to enable our Group to evaluate the merits of the relevant New Business Opportunity. The relevant Covenantor will provide our Group with all such reasonable assistance to secure such New Business Opportunity.

None of the Covenantors and their relevant close associate and controlled companies or entities (other than members of our Group) shall pursue the New Business Opportunity unless our Group decides not to pursue the New Business Opportunity. A Covenantor and his/her/its close associate and controlled company or entity may only engage in the New Business Opportunity on terms substantially the same as or not more favourable than those disclosed to our Company if (i) a notice is received by the Covenantor from our Company confirming that the New Business Opportunity is not accepted (the “**Non Acceptance Notice**”); or (ii) the Non-Acceptance Notice is not received by the Covenantor within 30 days after the proposal of the New Business Opportunities is received by our Company. Any decision of our Group as to whether or not to pursue the New Business Opportunity will have to be approved by our independent non-executive Directors. Our Group will not be required to pay any fees to any of the Covenantors and/or their relevant controlled companies in relation to the New Business Opportunity.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The Deed of Non-Competition and the rights and obligations thereunder are conditional and will take effect immediately upon the Listing.

The obligations of the Covenantors under the Deed of Non-Competition shall cease if:

- (i) the date on which our Company becomes wholly-owned by any of the Controlling Shareholders and/or his/her/its close associates;
- (ii) the date on which the aggregate shareholding interests (whether direct or indirect) of the Controlling Shareholders and/or his/her/its close associates in our Company fall below 30% of the number of Shares in issue and the relevant Controlling Shareholder shall cease to be an executive Director; or
- (iii) the date on which our Shares cease to be listed on the Stock Exchange (except for temporary suspension of trading of the Shares).

Each of the Covenantors jointly and severally undertakes to our Company (for itself and as trustee for each of its subsidiaries) that he/she/it would, during the term of the relevant Deed of Non-competition indemnify and keep indemnified our Group against any damage, loss or liability suffered by our Company or any other member of our Group arising out of or in connection with any breach of his/her/its undertakings and/or obligations under the Deed of Non-competition; including any costs and expenses incurred as a result of such breach provided that the indemnity contained in the Deed of Non-competition shall be without prejudice to any other rights and remedies our Company is entitled to in relation to any such breach, including specific performance, and all such other things and remedies are hereby expressly reserved by our Company.

CORPORATE GOVERNANCE MEASURES

The following corporate governance measures are expected to be adopted by our Company.

- (a) our Directors will comply with the Articles of Association which require the interested Director not to 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;
- (b) our independent non-executive Directors will, on an annual basis, review the compliance and enforcement of the Deed of Non-competition by our Controlling Shareholders. Our Controlling Shareholders have undertaken that they will and will procure their subsidiaries and their close associates to provide all information reasonably required by our independent non-executive Directors to assist them in the assessment. Our Company will disclose the review in our annual report or by way of announcement to the public. Our Controlling Shareholders have also undertaken that they will make an annual declaration on the compliance with the Deed of Non-competition and other connected transaction agreements in our annual report;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) our independent non-executive Directors will also review, on an annual basis, all decisions made in relation to any new business opportunities offered during the year. Our Company will disclose such decisions and basis for them in our annual report or by way of announcement to the public;
- (d) our Company will appoint a compliance adviser who shall provide it with professional advice and guidance, in respect of compliance with the Listing Rules and applicable laws; and
- (e) any transaction (if any) between (or proposed to be made between) our Company and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting, annual review and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules.

INDEPENDENCE OF MANAGEMENT, FINANCIAL AND OPERATION

Having considered the following factors, our Directors are satisfied that our Company will be able to be operationally and financially independent from our Controlling Shareholders and their respective close associates (other than our Company):

Management independence

Our management and operational decisions are made by our Board and senior management in a collective manner. Our Board comprises three executive Directors and three independent non-executive Directors. Mr. Tam and Mrs. Tam, both being executive Directors, are also our Controlling Shareholders. Save for Mr. Tam and Mrs. Tam, none of our Directors and members of our senior management is or work in companies controlled by a Controlling Shareholder (other than the Group).

We believe that our Directors and members of the senior management are able to perform their roles in our Company independently and that our Group is capable of managing our business independently from the Controlling Shareholders for the following reasons:

- (a) each Director is aware of his fiduciary duties as a Director which requires, among other things, that he acts for the benefit and in the best interests of our Company and that he does not allow any conflict between his duties as a Director and his personal interest;
- (b) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Company and our Directors or their respective close associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- (c) our Board comprises six Directors and three of them are independent non-executive Directors who represent not less than one-third of the members of the Board. This provides a balance between the number of interested and independent non-executive Directors with a view to promoting the interests of our Company and our Shareholders as a whole. This is also in line with the requirement as set out in the Listing Rules;
- (d) our independent non-executive Directors will bring independent judgment to the decision-making process of our Board; and
- (e) our senior management team possesses in-depth experience and understanding of the industry in which our Group is engaged.

Based on the above, our Directors believe that our Company is capable of maintaining management independence from the Controlling Shareholders.

Financial independence

Our financial accounting system is independent from our Controlling Shareholders and we employ our own team of financial accounting personnel. We have our own accounting and finance team, accounting systems, treasury function for cash receipts and payment and access to third-party financing. We make financial decisions according to our business needs.

During the Track Record Period, our Group had certain amounts due to shareholders which are non-trade in nature. Please refer to paragraph headed “Financial information — consolidated statements of financial position — Indebtedness” and note 20 of the Accountants’ Report set out in Appendix I to this prospectus for further details. The remaining outstanding amount owed to Mr. Tam as at the Latest Practicable Date, which was non-trade in nature, is expected to be fully settled prior to the Listing.

As at 31 May 2019, our Group’s outstanding bank borrowings was approximately HK\$47.0 million. Our Group’s bank borrowings were secured by (i) certain assets of our Group and (ii) certain assets of Mr. Tam; and were guaranteed by (i) personal guarantee given by Mr. Tam and (ii) the corporate guarantee given by JAIC. As at 30 September 2019, bank borrowings of approximately HK\$122.8 million were secured by (i) certain assets of our Group and (ii) certain assets of Mr. Tam; and were guaranteed by (i) personal guarantee given by Mr. Tam and (ii) the corporate guarantee given by JAIC and JAL. As at the Latest Practicable Date, our Group had obtained written consents in principle from the relevant creditor banks that such assets of our Controlling Shareholder and personal guarantees used as security for our Group’s bank borrowings will be released upon the Listing.

Based on the above, our Directors believe that our Company is capable of maintaining financial independence from our Controlling Shareholders.

Operational independence

We have full rights to make operational decisions and to implement such decisions independently. Our Group has an independent work force to carry out our operation and has not shared its operation team, operational facilities, sales channels with our Controlling Shareholders' business outside our Company. Although, there had been certain transactions between us and the related parties during the Track Record Period, details of which are set out in note 35 to the Accountants' Report in Appendix I to this prospectus, our Directors have confirmed that these related party transactions, were conducted on fair and reasonable commercial terms.

Save as disclosed in the section headed "Connected transactions" in this prospectus, none of the historical related party transactions with the connected persons are expected to continue after the Listing. In addition, none of our Controlling Shareholders and Directors or their respective close associates has been our major supplier or customer which provides any critical services or materials for our operation. Thus, the existence of the continuing connected transaction as disclosed in the section headed "Connected transactions" in this prospectus will not affect our operational independence from our Controlling Shareholders and their respective close associates after Listing.

Having considered that (i) we have established our own organisational structure comprising individual teams and business and administrative units, each with specific areas of responsibilities and (ii) our Group does not share our operational resources, such as customers, procurement and general administration resources with our Controlling Shareholders and/or their close associates, our Directors consider that our Group can operate independently from our Controlling Shareholders from the operational perspective.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware as at the Latest Practicable Date, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), the following persons will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the number 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:

| Name | Capacity/ nature of interest | As at date of submission of the application proof of this prospectus | | Immediately following completion of the Capitalisation Issue and the Global Offering | |
|-------------------------------|--|--|----------------------------|---|----------------------------|
| | | Number of Shares ⁽¹⁾ | Percentage shareholding | Number of Shares ⁽¹⁾ | Percentage shareholding |
| Strategic King ⁽²⁾ | Beneficial owner | 10,680 (L) | 89.4% | 838,076,505 (L) | 67.1% |
| Mr. Tam | Interest of controlled corporation ⁽²⁾ | 10,680 (L) | 89.4% | 838,076,505 (L) | 67.1% |
| Mrs. Tam | Family interest & spouse ⁽³⁾ | 10,680 (L) | 89.4% | 838,076,505 (L) | 67.1% |

Notes:

1. The letter “L” denotes a long position in the Shares.
2. Strategic King is owned as to 90% by Mr. Tam and 10% by Mrs. Tam. Mr. Tam controls more than one-third of the voting right of Strategic King and is deemed interested in the Shares held by Strategic King by virtue of the SFO .
3. Mrs. Tam is the spouse of Mr. Tam and is deemed interested in the Shares held by Strategic King by virtue of the SFO.

Save as disclosed above, our Directors are not aware of any person who will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE CAPITAL

AUTHORISED AND ISSUED SHARE CAPITAL

Assuming the Over-allotment Option is not exercised, the authorised and issued share capital of our Company immediately following the completion of the Capitalisation Issue and the Global Offering is set out as follows:

HK\$

Authorised share capital

50,000,000,000 Shares of HK\$0.01 each 500,000,000

Shares of HK\$0.01 each in issue and to be issued, fully paid or credited as fully paid

11,947 Shares in issue at the date of this prospectus 119.47

937,488,053 Shares to be issued pursuant to the Capitalisation Issue 9,374,880.53

312,500,000 Shares to be issued pursuant to the Global Offering (excluding any Shares which may be issued under the Over-allotment Option and any Shares which may be issued pursuant to exercise of the options which may be granted under the Share Option Scheme) 3,125,000.00

Total

1,250,000,000 Shares 12,500,000.00

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Global Offering is made.

The above table does not take into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any options which have been or may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate given to our Directors to allot and issue or repurchase Shares pursuant to the Repurchase Mandate as described below.

SHARE CAPITAL

RANKING

The Offer Shares and the Shares that may be issued pursuant to exercise of the Over-allotment Option will be ordinary shares and will rank *pari passu* in all respects with all other existing Shares in issue as mentioned in this prospectus, and in particular, will be entitled to all dividends and other distributions thereafter declared, paid or made on the Shares after the date of this prospectus save for entitlements under the Capitalisation Issue.

PUBLIC FLOAT REQUIREMENTS

Rule 8.08(1)(a) and (b) of the Listing Rules requires there to be an open market in the securities for which listing is sought and for a sufficient public float of an issuer's listed securities to be maintained. This normally means that (i) at least 25% of the issuer's total number of issued shares must at all times be held by the public; and (ii) where an issuer has one class of securities or more apart from the class of securities for which listing is sought, the total securities of the issuer held by the public (on all regulated market(s) including the Stock Exchange) at the time of listing must be at least 25% of the issuer's total number of issued shares. However, the class of securities for which listing is sought must not be less than 15% of the issuer's total number of issued shares and must have an expected market capitalisation at the time of listing of not less than HK\$125 million.

Based on the information in the table above, our Company will meet the public float requirement under the Listing Rules after the completion of the Capitalisation Issue and the Global Offering (whether or not the Over-allotment Option is exercised in full). We will make appropriate disclosure of our public float and confirm the sufficiency of our public float in successive annual reports after Listing.

GENERAL MANDATE TO 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 with an aggregate number of such Shares not exceeding the aggregate of (a) 20% of the number of issued Shares as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the Over-allotment Option); and (b) the number of such Shares which may be repurchased by our Company under the Repurchase Mandate (the “**Issuing Mandate**”).

Our Directors may, in addition to the Shares which they are authorised to issue under the Issuing Mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements. The aggregate number of Shares which our Directors are authorised to allot and issue under the Issuing Mandate will not be reduced by the allotment and issue of such Shares.

SHARE CAPITAL

The Issuing Mandate will expire:

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

whichever occurs first.

For further details of this general mandate, please refer to the paragraph headed "A. Further information about our Group— 3. Resolutions in writing of all Shareholders passed on 17 October 2019" in Appendix V to this prospectus.

REPURCHASE MANDATE

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all of the powers of our Company to repurchase Shares not exceeding 10% of the aggregate number of issued Shares, as enlarged by the Capitalisation Issue and the Global Offering (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) (the "**Repurchase Mandate**").

The Repurchase Mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which our Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the Listing Rules. Further information required by the Stock Exchange to be included in this prospectus regarding the repurchase of Shares is set out in the paragraph headed "A. Further information about our Group — 6. Repurchase by our Company of our own securities" in Appendix V to this prospectus.

The Repurchase Mandate will expire:

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

whichever occurs first.

SHARE CAPITAL

For further details of the Repurchase Mandate, please refer to the paragraph headed “A. Further information about our Group — 3. Resolutions in writing of all Shareholders passed on 17 October 2019” in Appendix V to this prospectus.

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of shares, namely ordinary shares, each of which carries the same rights as the other shares. As a matter of the Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meeting or class meeting is prescribed for under the articles of association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles of Association, a summary of which is set out in the section headed “Summary of the Constitution of our Company and the Cayman Companies Law” in Appendix IV to this prospectus.

UNDERWRITING

UNDERWRITERS

Hong Kong Underwriters

Guotai Junan Securities (Hong Kong) Limited
First Shanghai Securities Limited
Fortune (HK) Securities Limited
Business Securities Limited
Ever-Long Securities Company Limited
Grand China Securities Limited
HTF Securities Limited
Joincap Securities Limited
Tongfang Securities Limited
Yuanyin Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Hong Kong Offer Shares which are not taken up under the Hong Kong Public Offering.

Grounds for termination

The Sole Global Coordinator, at its sole and absolute discretion, may, for itself and on behalf of the Hong Kong Underwriters, upon the giving of notice in writing to us and/or the other warrantors (including the Controlling Shareholders and all our executive Directors), terminate the Hong Kong Underwriting Agreement with immediate effect if any of the following events occurs at or prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator or it has reasonable cause to believe that:
 - (i) any statement, estimate, forecast or expression of opinion, intention or expectation contained in this prospectus and/or the Application Forms or any other documents which have been approved by our Company issued or used by or on behalf of our Company in connection with the Global Offering (together with this prospectus and the Application Forms, the “**Offer**”

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Documents”) (including any supplement or amendment thereto) considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering, was, when it was issued, or has become, untrue, incomplete, incorrect or misleading in any respect or that any forecast, expression of opinion, intention or expectation expressed in any Offer Documents is not, in the sole and absolute opinion of the Sole Global Coordinator, in all material respects, fair and honest and based on reasonable assumptions, when taken as a whole; or

- (ii) any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (iii) any of the representations, warranties, indemnities, agreements and undertakings given by our Company or the other warrantors 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 and considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the context of the Global Offering; or
- (iv) any breach of any of the obligations or undertakings imposed upon any party (other than the Sole Global Coordinator or any of the Underwriters) to any of the Hong Kong Underwriting Agreement, the International Underwriting Agreement or the agreement between ourselves and the Sole Global Coordinator (for itself and on behalf of the Underwriters) to record our agreement of the Offer Price; or
- (v) any material adverse change or prospective material adverse change in the condition, business, assets and liabilities, properties, results of operations, in the financial or trading position or prospects of any member of our Group; or
- (vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (vii) our Company withdraws any of the Offer Documents (and/or any other documents used in connection with the contemplated subscription of the Offer Shares) or the Global Offering; or

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- (viii) any matter, event, act or omission which gives or is likely to give rise to any material liability of any of our Company or the other warrantors pursuant to the indemnities given by us or the other warrantors in the Hong Kong Underwriting Agreement; or
 - (ix) any person (other than the Hong Kong Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or
- (b) there shall develop, occur, exist or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in or representing any change or development in local, national, regional or international financial, political, military, industrial, legal, economic, currency market, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange 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 Renminbi against any foreign currencies) in or affecting Hong Kong, Cambodia, Vietnam, the PRC, the Cayman Islands, the BVI, the United States, the United Kingdom, the European Union (or any member thereof), Japan or any other jurisdiction relevant to our Group (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 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, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, riot, public disorder, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, outbreak of infectious disease (including without limitation Severe Acute Respiratory Syndrome, avian influenza A (H5N1) and swine influenza (H1N1)), in or affecting any of the Relevant Jurisdictions; 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 of the Relevant Jurisdictions; or
 - (v) (A) any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Shanghai Stock Exchange, the Shenzhen Stock Exchange and the Tokyo Stock Exchange, or (B) a general moratorium of commercial banking activities in any of the Relevant

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Jurisdictions declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any of the Relevant Jurisdictions; or

- (vi) any adverse change or development or event involving a prospective adverse change in taxation or exchange controls (or the implementation of any exchange control), currency exchange rates or foreign investment regulations in any of the Relevant Jurisdictions; or
- (vii) any imposition of economic sanctions, in whatever form, directly or indirectly, in or affecting any of the Relevant Jurisdictions; or
- (viii) any adverse change or development or event involving a prospective adverse 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 or regulatory body or organisation of any public action against our Company or a director of the Company or an announcement by any judicial or regulatory body or organisation that it intends to take any such action; or
- (x) other than with the approval of the Sole Global Coordinator, the issue by our Company of a supplementary prospectus or offering document pursuant to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the opinion of the Sole Global Coordinator materially adverse to the marketing for or implementation of the Global Offering; or
- (xi) a petition is presented to a competent court for the winding up or liquidation of any member of our Group or any member of our Group makes any compromise or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurs in respect of any member of our Group; or
- (xii) any litigation or claim being threatened or instigated against any member of our Group or the Controlling Shareholders,

and, which, in any of the above cases and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters): (1) is or may or will be or is likely to be materially adverse to, or materially and prejudicially affect, the business or financial or trading position or prospects of our Company or its subsidiaries as a whole; or (2) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable or inadvisable for any part of the Hong Kong Underwriting Agreement or the Global Offering to be performed or

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implemented as envisaged; or (3) makes or may make or will or is likely to make it inadvisable or inexpedient to proceed with 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.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Under Rule 10.08 of the Listing Rules, our Company has undertaken to the Stock Exchange that our Company will not issue any further Shares or securities convertible into equity securities of our Company (whether or not of a class already listed) or enter into any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or securities of our Company will be completed within six months from the Listing Date), except under the Capitalisation Issue or the Global Offering (including the exercise of the Over-allotment Option) or in certain circumstances provided under Rules 10.08(1) to 10.08(4) of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of our Controlling Shareholders has undertaken to the Sole Sponsor, our Company and the Stock Exchange that it shall not, and shall procure that any other registered holder (if any) controlled by us shall not, without the prior written consent of the Stock Exchange or unless otherwise in compliance with the applicable requirements of the Listing Rules:

- (i) during the period commencing from the date of this prospectus up to and including the date which is six months from the Listing Date (the “**First Six-month Period**”), 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 Shares in respect of which it is shown by this prospectus to be the beneficial owner (as defined in Rule 10.07(2) of the Listing Rules) (the “**Relevant Shares**”); or
- (ii) during the period of six months immediately following the expiry of the First Six-month Period (the “**Second Six-month Period**”), 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 Relevant Shares if, immediately following such disposal, or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be a controlling shareholder (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has further undertaken to each of the Stock Exchange and our Company that within the period commencing from the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

- (i) when it pledges or charges any Shares beneficially owned by it in favour of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules,

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immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and

- (ii) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Undertakings by our Company

Pursuant to the Hong Kong Underwriting Agreement, our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that except pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option and options which may be granted under any share option scheme of any member of our Group or with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules (in particular Rules 10.08(1) to 10.08(4) of the Listing Rules), our Company will not, and will procure that its Subsidiaries not, at any time within the First Six-month Period, (a) allot or issue, or agree to allot or issue any shares or securities convertible into equity securities of our Company (whether or not of a class already listed) (including warrants or other convertible or exchangeable securities); or (b) grant or agree to grant any options, warrants or other rights to subscribe for or otherwise acquire any securities or convertible or exchangeable into Shares or other securities of our Company; or (c) repurchase Shares or other securities of our Company (except in compliance with the Listing Rules and The Codes on Takeovers and Mergers and Share Buy-backs); or (d) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of any Shares; or (e) offer to or agree to do any of the transaction described in (a) to (d) above or announce any intention to do so. In the event of our Company doing any of the foregoing by virtue of the aforesaid consent or exceptions or during the Second Six-month Period, our Company will take all steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of our Company.

Undertakings by our Controlling Shareholders

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters and each of them that without the prior written consent of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) that:

- (i) during the First Six-month Period, it shall not directly or indirectly (except in connection with the Stock Borrowing Agreement or the exercise of the Over-allotment Option), and shall procure that the relevant registered holder(s) shall not, (a) transfer or dispose of, nor enter into any agreements to transfer or dispose

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of or otherwise create any options, rights, interests or encumbrances (including the creation or entering into of any agreement to create any pledge or charge) in respect of any of those securities in respect of which they are shown by this prospectus to be the beneficial owner(s) or any interest in such securities (which includes any interest in a company which holds any such securities) or securities that constitute or confer the right to receive such securities or securities convertible into or exercisable or exchangeable for or repayable with such securities; or (b) enter into a swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of such securities, whether any such swap agreement or other agreement or transaction is to be settled by delivery of such securities or other securities, in cash or otherwise; or (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in (a) and (b) above; or (d) announce any intention to enter into or effect any of the transactions referred to in (a) to (c) above.

- (ii) during the Second Six-month Period, it shall not and shall procure that the relevant registered holders shall not take any action as referred to in (i)(a) to (d) above, save as provided under note (2) to Rule 10.07(2) of the Listing Rules, if, immediately following such disposal, any of them, either individually or taken together with the others, would cease to be a controlling shareholder (within the meaning of the Listing Rules) of our company or cease to hold a controlling interest (that is to say, an interest of over 30% or such lower amount as may from time to time be specified in The Hong Kong Code on Takeovers and Mergers issued by the SFC as being the level for triggering a mandatory general offer); and
- (iii) in the event of any disposal of Shares or any such interests referred to in paragraph (i) above after expiry of the six-month period referred to in paragraph (i) above, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares.

Pursuant to the Hong Kong Underwriting Agreement, each of our Controlling Shareholders has further undertaken to each of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, from the date of the Hong Kong Underwriting Agreement up to and including the expiry of the Second Six-month Period, it will:

- (i) when it pledges or charges any Shares or other securities or interests in the securities of our Company in respect of which it is the beneficial owner, immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator and the Joint Bookrunners in writing of such pledge or charge together with the number of securities Shares or other and nature of interest so pledged or charged; and

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- (ii) when it receives any indications, whether verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or securities or interests in the securities of our Company will be sold, transferred or disposed of, immediately inform our Company, the Sole Sponsor and the Sole Global Coordinator in writing of such indications.

Our Company shall inform the Stock Exchange in writing as soon as it has been informed of any of the matters referred to above (if any) by any of our Controlling Shareholders and disclose such matters by way of a press announcement to be published in accordance with Rule 2.07C of the Listing Rules as soon as possible.

Hong Kong Underwriters' interests in our Company

Save as disclosed in the paragraph headed “Underwriting Arrangements and Expenses — Hong Kong Public Offering” this section and save for their interests and obligations under the Hong Kong Underwriting Agreement, none of the Hong Kong Underwriters is interested beneficially or otherwise in any shares in any member of our Group or has any right (whether legally enforceable or not) or option to subscribe for, or to nominate persons to subscribe for, any shares in any member of our Group.

The International Offering

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, agree to subscribe for or purchase the International Offer Shares being offered pursuant to the International Offering or procure subscribers to subscribe for or purchasers to purchase such International Offer Shares.

Our Company is expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the Listing Date until the date which is 30 days from the last date of lodging application under the Hong Kong Public Offering, to require our Company to allot and issue up to and not more than 46,875,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover, among others, over-allocations (if any) in the International Placing.

Commission

The Hong Kong Underwriters will receive a commission of 3% of the aggregate Offer Price of the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. In addition, the Sole Sponsor will receive a sponsorship, financial advisory and documentation fee in relation to the Global Offering. The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$0.45 per Offer

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Share (being the mid-point of the indicative Offer Price range of HK\$0.40 and HK\$0.50), are estimated to amount to approximately HK\$48.2 million in total (assuming that the Over-allotment Option is not being exercised).

Indemnity

Our Company and our Controlling Shareholders have agreed to indemnify the Hong Kong Underwriters against certain losses which they may suffer, including but not limited to losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Activities by Syndicate Members

The Hong Kong Underwriters and the International Underwriters (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.

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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. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 31,250,000 Hong Kong Offer Shares (subject to reallocation as mentioned below) in Hong Kong as described in the paragraph headed “Hong Kong Public Offering” in this section below; and
- (ii) the International Offering of an aggregate of 281,250,000 International Offer Shares (subject to reallocation and the Over-allotment Option as mentioned below) to institutional, professional, corporate and other investors in Hong Kong and elsewhere in the world outside the United States.

Investors may apply for Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for International Offer Shares under the International Offering, but may not do both.

The Offer Shares will represent approximately 25% of the enlarged issued share capital of our Company immediately after completion of the Global Offering and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.71% of the enlarged issued share capital immediately after completion of the Global Offering, the Capitalisation Issue and the exercise of the Over-allotment Option in full as set out in the paragraph headed “Over-allotment Option” below.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Monday, 25 November 2019.

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus. The Offer Price will not be more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective institutional, professional, corporate and other investors during a book-building process, and with the consent of our Company, 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

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such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on Friday, 22 November 2019, cause there to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.justinallengroup.com notices of reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon with our Company, will be fixed within such revised Offer Price range. Before submitting applications for the Hong Kong Offer Shares, applicants should have regarded to the possibility that any announcement of a reduction in the number of Offer Shares and/or the Offer Price range may not be made until the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global 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. In the absence of any notice being published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.justinallengroup.com of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon by the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus. If the number of Offer Shares and/or the Offer Price range is reduced, applicants under the Hong Kong Public Offering will be entitled to withdraw their applications, unless positive confirmations from the applicants to proceed are received.

If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the agreement to fix the Offer Price by the Price Determination Date, the Global Offering will not become unconditional and will not proceed and will lapse.

Announcement of the Offer Price, together with indication of the level of interests in the International Offering and the results of application under the Hong Kong Public Offering and basis of allocation of the Hong Kong Offer Shares is expected to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.justinallengroup.com.

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$0.50 per Offer Share and is expected to be not less than HK\$0.40 per Offer Share. Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$0.50 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy. That means a total of HK\$2,525.20 is payable for one board lot of 5,000 Shares. The Application Forms have tables showing the exact amount payable for certain numbers of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is

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lower than the maximum price of HK\$0.50 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to applicants, without interest. Further details are set out in the section headed “How to apply for Hong Kong Offer Shares” in this prospectus.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offering is conditional upon the following:

- the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Stock Exchange and such approval not subsequently having been revoked prior to the commencement of dealings in the Shares;
- the obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof;
- the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date; and
- the Offer Price having been determined and the execution of the agreement for such determination on or around the Price Determination Date,

In each case on or before the dates and times specified in such Underwriting Agreements (unless and to the extent such conditions are waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your money” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving bank or other bank(s) in Hong Kong, licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

THE GLOBAL OFFERING

The Global Offering comprises the International Offering and the Hong Kong Public Offering. A total of initially 312,500,000 Offer Shares will be made available under the Global Offering, of which 281,250,000 International Offer Shares (subject to reallocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected institutional, professional, corporate and other investors under the International Offering. The remaining 31,250,000 Hong Kong Offer Share (subject to reallocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offering.

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The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters are expected to severally underwrite the International Offer Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

INTERNATIONAL OFFERING

Our Company is expected to offer initially 281,250,000 International Offer Shares (subject to reallocation and the Over-allotment Option) at the Offer Price under the International Offering. The number of International Offer Shares expected to be initially available for application under the International Offering represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Offering is expected to be fully underwritten by the International Underwriters subject to the Offer Price being agreed on or before the Price Determination Date.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Offer Shares at the Offer Price with selected institutional, professional, corporate and other investors. Professional and institutional 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. Private investors applying through banks or other institutions who sought the International Offer Shares in the International Offering may also be allocated the International Offer Shares.

Allocation of the International Offer Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and its shareholders as a whole. Investors to whom International Offer Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offering. Our Company, our Directors, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offering from investors who receive Shares under the International Offering, and to identify and reject indications of interest in the International Offering from investors who receive Shares under the Hong Kong Public Offering.

The International Offering is expected to be subject to the conditions as stated in the paragraph headed “Conditions of the Global Offering” in this section.

STRUCTURE OF THE GLOBAL OFFERING

HONG KONG PUBLIC OFFERING

Our Company is initially offering 31,250,000 Hong Kong Offer Shares for subscription (subject to reallocation) by members of the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares being initially offered under the Global Offering. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters subject to the Offer Price being agreed on or before Price Determination Date. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$0.50 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.0027% SFC transaction levy.

The Hong Kong Public Offering is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offering will be required to give an undertaking and confirmation in the application submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Offering nor otherwise participated in the International Offering. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue, such applicant's application under the Hong Kong Public Offering is liable to be rejected.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Offer Shares in pool A will consist of 15,625,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of HK\$5 million or less (excluding brokerage, Stock Exchange trading fee and SFC transaction levy thereon). The Hong Kong Offer Shares available in pool B will consist of 15,625,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Offer Shares in the value of more than HK\$5 million (excluding brokerage, Stock Exchange trading fee and SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 50% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong 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. When there is over-subscription under the Hong Kong Public Offering, allocation of the Hong Kong Offer Shares may involve balloting, which would mean that some applicants may be allotted more Hong Kong Offer Shares than others who have applied for the same number of the Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

STRUCTURE OF THE GLOBAL OFFERING

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Offering and the Hong Kong Public Offering is subject to reallocation at the discretion of the Sole Global Coordinator on the following basis, subject to Practice Note 18 of the Listing Rules and pursuant to the Guidance Letter HKEx-GL91-18:

- (a) 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 Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the total number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 93,750,000 Shares, representing 30% of the Offer Shares initially available for subscription under the Global Offering;
- (b) 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 Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 125,000,000 Shares, representing 40% of the Offer Shares initially available for subscription under the Global Offering; and
- (c) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then the number of Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering, so that the number of Offer Shares available for subscription under the Hong Kong Public Offering will be increased to 156,250,000 Shares, representing 50% of the Offer Shares initially available for subscription under the Global Offering.

In all cases, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced.

The Offer 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 Sole Global Coordinator. The Sole Global Coordinator may in its discretion 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 addition, if the Hong Kong Public Offering is not fully subscribed, the Sole Global Coordinator may also in its discretion reallocate to the International Offering all or any Hong Kong Offer Shares which are not subscribed.

STRUCTURE OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) the Over-allotment Option which will expire on a date which is the 30th day after the last date of lodging application under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) to allot and issue up to and not more than 46,875,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Offering. The Sole Global Coordinator (for itself and on behalf of the International Underwriters) may also cover such over-allocations by purchasing Shares in the secondary market or through stock borrowing arrangements with Strategic King or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 46,875,000 new Shares will represent approximately 3.61% of our Company's enlarged issued share capital immediately after completion of the Capitalisation Issue, the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised or expired, a press announcement will be made.

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 newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. In Hong Kong, the stabilisation price is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate Shares or effect transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 46,875,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Offer Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Strategic King or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to conduct any such stabilisation action. Such stabilisation action, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period. Such transactions may be effected in compliance with all applicable laws and regulatory requirements.

STRUCTURE OF THE GLOBAL OFFERING

Subject to and under the Securities and Futures (Price Stabilizing) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions (“**primary stabilising action**”) with respect to any Shares during the stabilisation period, which should end on Sunday, 22 December 2019, being the 30th day after the last date for lodging application under the Hong Kong Public Offering:

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
 - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares:
 - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
 - (ii) sell or agree to sell Shares so as to establish a short position in them;
 - (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
 - (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilizing action in order to liquidate any position that has been established by such action; and/or
 - (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the 30th day after the last date for the lodging of applications under the Hong

STRUCTURE OF THE GLOBAL OFFERING

Kong Public Offering on Sunday, 22 December 2019, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;

- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- that 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 the investor has paid for the Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilising period.

STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 46,875,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option 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 purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 46,875,000 Shares from Strategic King, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the stock borrowing agreement to be entered into with Strategic King.

Such stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the following requirements as set out in Rule 10.07(3) of the Listing Rules are complied with:

- the stock borrowing arrangement is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Shares to be borrowed from Strategic King will be limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Strategic King or its nominees (as the case may be) within three business days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full; the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and

STRUCTURE OF THE GLOBAL OFFERING

- no payments will be made to Strategic King in relation to such stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. (Hong Kong time) on Thursday, 28 November 2019, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 28 November 2019. The Shares will be traded in board lots of 5,000 Shares. The stock code of the Shares will be 1425.

HOW TO APPLY FOR 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:

- (a) use a **WHITE** or **YELLOW** Application Form;
- (b) apply online via the **White Form eIPO** Service Provider at www.eipo.com.hk; or
- (c) 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 Sole Global Coordinator, the **White Form eIPO** 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 U.S. person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** Service Provider, 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 names of the individual members. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person duly authorised under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions if it thinks fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** Service Provider 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 of its subsidiaries;
- are a Director or chief executive officer of our Company and/or any of its subsidiaries;
- are an associate of any of the above;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for 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 www.eipo.com.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 Tuesday, 19 November 2019 to 12:00 noon on Friday, 22 November 2019 from:

- (a) any of the following offices of the Hong Kong Underwriters:

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

First Shanghai Securities Limited

19/F, Wing On House
71 Des Voeux Road Central
Hong Kong

Fortune (HK) Securities Limited

43/F Cosco Tower
183 Queen's Road Central
Hong Kong

Business Securities Limited

18, 20–21/F,
83 Queen's Road East, Wan Chai
Hong Kong

Ever-Long Securities Company Limited

Room 1101–2, 1111–12, Wing On Centre
111 Connaught Road Central
Hong Kong

Grand China Securities Limited

Room 503, 5/F, Loke Yew Building
50–52 Queen's Road Central
Central, Hong Kong

HTF Securities Limited

Room 1807, 18/F Office Tower Convention Plaza
1 Harbour Road, Wan Chai
Hong Kong

Joicap Securities Limited

Suite 606 Level 6
One Pacific Place, 88 Queensway, Central
Hong Kong

Tongfang Securities Limited

Unit 2102–3, 21/F, Golden Centre
188 Des Voeux Road Central
Hong Kong

Yuanyin Securities Limited

Rm 2201, 22/F, 238 Des Voeux Road Central, Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) any of the branches of the following receiving bank:

Standard Chartered Bank (Hong Kong) Limited:

| District | Branch Name | Address |
|------------------|---------------------------|---|
| Hong Kong Island | 188 Des Voeux Road Branch | Shop No. 7 on G/F, whole of 1/F-3/F Golden Centre, 188 Des Voeux Road Central, Hong Kong |
| | Aberdeen Branch | Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6-12 Nam Ning Street, Aberdeen |
| Kowloon | Kwun Tong Branch | G/F & 1/F One Pacific Centre, 414 Kwun Tong Road, Kwun Tong |
| | Mongkok Branch | Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok |
| New Territories | Tseung Kwan O Branch | Shop No. E037-E040, G/F, East Wing of TKO Gateway, Hau Tak Estate, Tseung Kwan O |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 19 November 2019 until 12:00 noon on Friday, 22 November 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 "**HORSFORD NOMINEES LIMITED — Justin Allen Holdings 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:

| | | |
|------------------------------------|---|--------------------------------|
| Tuesday, 19 November 2019 | — | 9:00 a.m. to 5:00 p.m. |
| Wednesday, 20 November 2019 | — | 9:00 a.m. to 5:00 p.m. |
| Thursday, 21 November 2019 | — | 9:00 a.m. to 5:00 p.m. |
| Friday, 22 November 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 Friday, 22 November 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 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 the **White Form eIPO** Service Provider, among other things, you:

- (a) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its 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;
- (b) agree to comply with the Cayman Companies Law, the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) and the Articles of Association;
- (c) 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;
- (d) 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;
- (e) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (f) agree that none of our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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);
- (g) 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;
- (h) agree to disclose to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents 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 HONG KONG OFFER SHARES

- (i) 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 Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers 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;
- (j) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (k) agree that your application will be governed by the Laws of Hong Kong;
- (l) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) 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;
- (m) warrant that the information you have provided is true and accurate;
- (n) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (o) 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 send any share certificate(s) and/or any e-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 are eligible to collect the share certificate(s) and/or refund cheque(s) in person;
- (p) understand that, if (i) the Offer Shares under the International Offering are fully subscribed or oversubscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents 100% or more, but less than 15 times, of the number of Offer Shares initially available under Hong Kong Public Offering; or (ii) the Offer Shares under the International Offering are not fully subscribed, and if the number of Offer Shares validly applied for in the Hong Kong Public Offering represents 100% or more of the number of Offer Shares initially available under the Hong Kong Public Offering, the Sole Global Coordinator may, at its discretion, reallocate the Offer Shares initially allocated from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering, provided that the total number of Offer Shares available under the Hong Kong Public Offering shall not be increased to more than 62,500,000 Shares, representing double the number of Offer Shares initially available under the Hong Kong Public Offering and 20% of

HOW TO APPLY FOR HONG KONG OFFER SHARES

the total number of Offer Shares initially available under the Global Offering, and the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.40 per Offer Share) stated in this prospectus;

- (q) 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;
- (r) understand that our Company and the Sole Global Coordinator 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;
- (s) (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 **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (t) (if you are making the application as an agent for the benefit of another person) warrant that 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 (ii) 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 BY USING WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in the paragraph headed “Who can apply” in this section, may apply through the **White Form eIPO** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the **White Form eIPO** service are on the designated website at www.eipo.com.hk. 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 **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Time for submitting applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 19 November 2019 until 11:30 a.m. on Friday, 22 November 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 22 November 2019 or such later time under 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 **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** 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 **White Form eIPO** more than once and obtaining different application 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 the **White Form eIPO** service or by any other means, all of your applications are liable to be rejected.

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 (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)).

Commitment to sustainability

The obvious advantage of **White Form eIPO** service is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated **White Form eIPO** Service Provider, will contribute HK\$2 for each “JUSTIN ALLEN HOLDINGS LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support sustainability.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Sole Global Coordinator and our Hong Kong Share Registrar.

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:

- (a) 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) 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;
- **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, our Directors and the Sole Global Coordinator 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;
- **agree** that none of our Company, the Sole Global Coordinator, the Underwriters, their respective directors, officers, employees, partners, agents, advisers 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);

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- **agree** to disclose your personal data to our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, 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 our Company 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 (Cap. 32) 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;
- **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 Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) 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.

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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 5,000 Hong Kong Offer Shares. Instructions for more than 5,000 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⁽¹⁾

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

| | | |
|------------------------------------|---|-------------------------------|
| Tuesday, 19 November 2019 | — | 9:00 a.m. to 8:30 p.m. |
| Wednesday, 20 November 2019 | — | 8:00 a.m. to 8:30 p.m. |
| Thursday, 21 November 2019 | — | 8:00 a.m. to 8:30 p.m. |
| Friday, 22 November 2019 | — | 8:00 a.m. to 1:00 p.m. |

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Tuesday, 19 November 2019 until 12:00 noon on Friday, 22 November 2019 (24 hours daily, except on 22 November 2019, the last application day).

HOW TO APPLY FOR HONG KONG OFFER SHARES

The latest time for inputting your electronic application instructions will be 12:00 noon on Friday, 22 November 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.

Note:

- (1) The times in this sub-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.

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 (Cap. 32)

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 (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)).

Personal Data

The section of the Application Form headed “Personal data” applies to any personal data held by our Company, our Hong Kong Share Registrar, the receiving bank, the Sole Global Coordinator, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

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 **White Form eIPO** service is also only a facility provided by the **White Form eIPO** 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, our Directors, the Hong Kong Underwriters, the Sole Sponsor, the Sole

HOW TO APPLY FOR HONG KONG OFFER SHARES

Global Coordinator and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** 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 with 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 Friday, 22 November 2019.

8. HOW MANY APPLICATIONS MAY 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 **White Form eIPO** 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.

"**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).

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 the **White Form eIPO** service in respect of a minimum of 5,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 5,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the participants of the Stock Exchange, 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 of the Offer Price, see the section headed “Structure of the Global Offering — Determination of the Offer Price” 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; and/or
- Extreme Conditions.

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 22 November 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 or Extreme Conditions in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 22 November 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal and/or Extreme Conditions 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 indication 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

November 2019 on our Company's website at www.justinallengroup.com, and the website of the Stock Exchange 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.justinallengroup.com, and the Stock Exchange's website at www.hkexnews.hk by no later than 8:00 a.m. on Wednesday, 27 November 2019;
- from the designated results of allocations website at www.iporeresults.com.hk (alternatively: English <https://www.eipo.com.hk/en/Allotment>; Chinese <https://www.eipo.com.hk/zh-hk/Allotment>) with a "search by ID function" on a 24 hour basis from 8:00 a.m. on Wednesday, 27 November 2019 to 12:00 midnight on Tuesday, 3 December 2019;
- from the allocation results telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Wednesday, 27 November 2019 to Saturday, 30 November 2019; and
- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 27 November 2019 to Friday, 29 November 2019 at all the receiving bank's 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".

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.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** Service Provider, you agree that your application or the application made by HKSCC Nominees on your

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 (Cap. 32) (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32)) 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.

(b) If our Company, the Sole Global Coordinator or our or their respective agents exercise their discretion to reject your application:

Our Company, the Sole Global Coordinator, the **White Form eIPO** 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.

(c) 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 the Offer 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 of the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

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(d) 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 the **White Form eIPO** 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 Sole Global Coordinator 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\$0.50 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 paragraph 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 November 2019.

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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).

No temporary document of title will be issued in respect of the 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, the 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 November 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’s order(s).

Share certificates will only become valid at 8:00 a.m. on Thursday, 28 November 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.

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Personal collection

(a) 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, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 27 November 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.

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 November 2019, by ordinary post and at your own risk.

(b) 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 above for collecting 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 November 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 November 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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(c) 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.

(d) If you are applying 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 "Publication of results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 November 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.

(e) If you apply through the White Form eIPO 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 Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 27 November 2019, or such other date as notified by our Company in the newspapers as the date of despatch/collection of share certificates/e-Refund payment instructions/refund cheques.

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 November 2019 by ordinary post at your own risk.

If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. 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) by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(f) 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 November 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 Offer in the manner specified in the paragraph headed "Publication of results" above on Wednesday, 27 November 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 27 November 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.
- 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 November 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.

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- 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 November 2019.

15. ADMISSION OF THE OFFER SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Offer Shares and we comply with the stock admission requirements of HKSCC, the Offer 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 the Offer 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 the Offer Shares to be admitted into CCASS.

The following is the text of a report set out on pages I-1 to I-80 of this prospectus, received from our 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 JUSTIN ALLEN HOLDINGS LIMITED AND GUOTAI
JUNAN CAPITAL LIMITED****Introduction**

We report on the historical financial information of Justin Allen Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages I-4 to I-80, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 31 May 2019, the statements of financial position of the Company as at 31 December 2016, 2017 and 2018 and 31 May 2019, and 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 December 2018 and the five months ended 31 May 2019 (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-80 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 19 November 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 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 (the "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 give 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 Company's and the Group's financial position as at 31 December 2016, 2017 and 2018 and 31 May 2019 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 and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the five months ended 31 May 2018 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 purpose 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 13 to the Historical Financial Information which contains information about the dividends declared by the group entity comprising the Group and states that no dividend was declared or paid by the Company in respect of the Track Record Period.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

19 November 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 Historical Financial Information in this report was prepared based on the consolidated financial statements of the Group for the Track Record Period. The consolidated financial statements of the Group 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 Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

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 AND OTHER
COMPREHENSIVE INCOME

| | NOTES | Year ended 31 December | | | Five months ended 31 May | |
|--|-------|------------------------|------------------|------------------|---------------------------------|------------------|
| | | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 |
| Revenue | 5 | 467,863 | 524,852 | 608,386 | 185,208 | 214,601 |
| Cost of sales | | <u>(348,968)</u> | <u>(392,842)</u> | <u>(439,652)</u> | <u>(134,585)</u> | <u>(156,070)</u> |
| Gross profit | | 118,895 | 132,010 | 168,734 | 50,623 | 58,531 |
| Other income | 6 | 10,425 | 2,128 | 2,088 | 883 | 855 |
| Other gains and losses | 7 | 313 | 2,899 | (1,020) | 1,624 | 2,270 |
| Selling and distribution expenses | | (31,691) | (30,859) | (43,662) | (12,508) | (13,252) |
| Administrative expenses | | (38,610) | (38,473) | (48,104) | (17,082) | (20,834) |
| Finance costs | 8 | (2,502) | (4,016) | (5,802) | (1,936) | (2,833) |
| Listing expenses | | <u>—</u> | <u>(500)</u> | <u>(16,878)</u> | <u>(3,751)</u> | <u>(10,104)</u> |
| Profit before tax | | 56,830 | 63,189 | 55,356 | 17,853 | 14,633 |
| Income tax expense | 9 | <u>(11,031)</u> | <u>(11,778)</u> | <u>(13,131)</u> | <u>(4,774)</u> | <u>(4,233)</u> |
| Profit for the year/period | 10 | <u>45,799</u> | <u>51,411</u> | <u>42,225</u> | <u>13,079</u> | <u>10,400</u> |
| Other comprehensive (expense) income | | | | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | | | | |
| Exchange difference arising on translation of foreign operations | | <u>(6,765)</u> | <u>6,944</u> | <u>(11,186)</u> | <u>4,785</u> | <u>6,649</u> |
| Total comprehensive income for the year/period | | <u>39,034</u> | <u>58,355</u> | <u>31,039</u> | <u>17,864</u> | <u>17,049</u> |
| Profit for the year/period attributable to: | | | | | | |
| Owners of the Company | | 41,159 | 46,565 | 37,165 | 10,806 | 9,631 |
| Non-controlling interests | | <u>4,640</u> | <u>4,846</u> | <u>5,060</u> | <u>2,273</u> | <u>769</u> |
| | | <u>45,799</u> | <u>51,411</u> | <u>42,225</u> | <u>13,079</u> | <u>10,400</u> |
| Total comprehensive income for the year/period attributable to: | | | | | | |
| Owners of the Company | | 36,335 | 51,576 | 27,725 | 14,470 | 15,832 |
| Non-controlling interests | | <u>2,699</u> | <u>6,779</u> | <u>3,314</u> | <u>3,394</u> | <u>1,217</u> |
| | | <u>39,034</u> | <u>58,355</u> | <u>31,039</u> | <u>17,864</u> | <u>17,049</u> |
| Earnings per share, basic (<i>HK cents</i>) | 12 | <u>4.91</u> | <u>5.56</u> | <u>4.43</u> | <u>1.29</u> | <u>1.07</u> |

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | NOTES | As at 31 December | | | As at |
|---|-------|-------------------|----------------|----------------|----------------|
| | | 2016 | 2017 | 2018 | 31 May |
| | | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | | HK\$'000 |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 14 | 138,176 | 142,150 | 152,041 | 206,564 |
| Investment property | 15 | 25,008 | 24,302 | — | — |
| Prepaid lease payments | 16 | 48,535 | 51,071 | 46,847 | — |
| Deposits paid for acquisition of property, plant and equipment | | 1,090 | 919 | 803 | 138 |
| Rental deposits | 18 | 1,485 | 1,570 | 1,606 | 1,344 |
| Deferred tax assets | 26 | 768 | 678 | 2,321 | 3,273 |
| | | <u>215,062</u> | <u>220,690</u> | <u>203,618</u> | <u>211,319</u> |
| CURRENT ASSETS | | | | | |
| Inventories | 17 | 86,607 | 90,978 | 109,094 | 124,315 |
| Trade and other receivables | 18 | 138,127 | 94,758 | 108,090 | 70,156 |
| Trade receivables at fair value through other comprehensive income | 19 | — | — | 19,749 | 299 |
| Prepaid lease payments | 16 | 1,049 | 1,128 | 1,059 | — |
| Amounts due from shareholders | 20 | 1,038 | 2,008 | 1,948 | 205 |
| Amount due from ultimate holding company | 20 | — | — | — | 16 |
| Financial assets at fair value through profit or loss | 21 | — | 120 | 6,195 | — |
| Tax recoverable | | — | — | 1,362 | — |
| Bank balances and cash | 22 | 29,669 | 41,595 | 27,120 | 28,189 |
| | | <u>256,490</u> | <u>230,587</u> | <u>274,617</u> | <u>223,180</u> |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 23 | 105,272 | 72,919 | 122,766 | 105,067 |
| Lease liabilities | 24 | — | — | — | 2,031 |
| Amounts due to shareholders | 20 | 19,618 | 2,883 | 110,761 | 53,904 |
| Amount due to ultimate holding company | 20 | 11 | 4 | 13,170 | — |
| Amount due to a non-controlling shareholder of a subsidiary | 20 | 7,221 | 937 | 879 | 894 |
| Bank borrowings | 25 | 90,573 | 68,979 | 24,667 | 45,149 |
| Tax payable | | 2,314 | 5,739 | 3,712 | 4,444 |
| | | <u>225,009</u> | <u>151,461</u> | <u>275,955</u> | <u>211,489</u> |
| NET CURRENT ASSETS (LIABILITIES) | | <u>31,481</u> | <u>79,126</u> | <u>(1,338)</u> | <u>11,691</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>246,543</u> | <u>299,816</u> | <u>202,280</u> | <u>223,010</u> |
| NON-CURRENT LIABILITIES | | | | | |
| Bank borrowings | 25 | 7,119 | 5,301 | 2,762 | 1,874 |
| Lease liabilities | 24 | — | — | — | 4,569 |
| Deferred tax liability | 26 | 980 | — | — | — |
| | | <u>8,099</u> | <u>5,301</u> | <u>2,762</u> | <u>6,443</u> |
| NET ASSETS | | <u>238,444</u> | <u>294,515</u> | <u>199,518</u> | <u>216,567</u> |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 27 | 7,883 | 7,883 | 83 | —* |
| Reserves | | 188,665 | 240,581 | 156,335 | 192,785 |
| Equity attributable to owners of the Company | | 196,548 | 248,464 | 156,418 | 192,785 |
| Non-controlling interests | | 41,896 | 46,051 | 43,100 | 23,782 |
| TOTAL EQUITY | | <u>238,444</u> | <u>294,515</u> | <u>199,518</u> | <u>216,567</u> |

* (Less than HK\$1,000)

STATEMENTS OF FINANCIAL POSITION OF THE COMPANY

| | NOTES | As at 31 December | | | As at |
|--|-------|-------------------|----------|----------|----------|
| | | 2016 | 2017 | 2018 | 31 May |
| | | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | | HK\$'000 |
| NON-CURRENT ASSET | | | | | |
| Investment in a subsidiary | | — | — | — | 20,609 |
| CURRENT ASSET | | | | | |
| Other receivables | 18 | — | 334 | 5,425 | 8,886 |
| Amount due from a subsidiary | 20 | — | — | — | 43,000 |
| | | — | 334 | 5,425 | 51,886 |
| CURRENT LIABILITY | | | | | |
| Accrued listing expenses and issue costs | | — | 250 | 7,880 | 5,213 |
| Amount due to a subsidiary | 20 | 209 | 826 | 15,168 | 31,420 |
| | | 209 | 1,076 | 23,048 | 36,633 |
| NET CURRENT (LIABILITIES) ASSETS | | | | | |
| | | (209) | (742) | (17,623) | 15,253 |
| NET (LIABILITIES) ASSETS | | | | | |
| | | (209) | (742) | (17,623) | 35,862 |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 27 | —* | —* | —* | —* |
| Reserves | | (209) | (742) | (17,623) | 35,862 |
| TOTAL EQUITY | | | | | |
| | | (209) | (742) | (17,623) | 35,862 |

* Less than HK\$1,000.

RESERVES OF THE COMPANY

| | Share premium | (Accumulated losses)/ Retained profits | Total |
|--|---------------|---|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2016 | — | (179) | (179) |
| Loss and total comprehensive expense for the year | — | (30) | (30) |
| At 31 December 2016 | — | (209) | (209) |
| Loss and total comprehensive expense for the year | — | (533) | (533) |
| At 31 December 2017 | — | (742) | (742) |
| Loss and total comprehensive expense for the year | — | (16,881) | (16,881) |
| At 31 December 2018 | — | (17,623) | (17,623) |
| Profit and total comprehensive income for the period | — | 32,876 | 32,876 |
| Issue of shares | 20,609 | — | 20,609 |
| At 31 May 2019 | 20,609 | 15,253 | 35,862 |

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | Total | Non-controlling interests | Total |
|---|---------------------------------------|----------------------|-----------------------|------------------------|------------------|------------------|-----------|---------------------------|-----------|
| | Share capital | Share premium | Statutory reserve | Other reserve | Exchange reserve | Retained profits | | | |
| | HK\$'000 | (Note i) HK\$'000 | (Note ii) HK\$'000 | (Note iii) HK\$'000 | HK\$'000 | HK\$'000 | | | |
| At 1 January 2016 | 7,883 | 30,405 | 635 | 88,241 | (2,853) | 43,503 | 167,814 | 40,098 | 207,912 |
| Profit for the year | — | — | — | — | — | 41,159 | 41,159 | 4,640 | 45,799 |
| Exchange differences arising on translation of foreign operations | — | — | — | — | (4,824) | — | (4,824) | (1,941) | (6,765) |
| Total comprehensive (expense) income for the year | — | — | — | — | (4,824) | 41,159 | 36,335 | 2,699 | 39,034 |
| Dividends recognised as distributions (Note 13) | — | — | — | — | — | (7,601) | (7,601) | (901) | (8,502) |
| Transfer | — | — | 62 | — | — | (62) | — | — | — |
| At 31 December 2016 | 7,883 | 30,405 | 697 | 88,241 | (7,677) | 76,999 | 196,548 | 41,896 | 238,444 |
| Profit for the year | — | — | — | — | — | 46,565 | 46,565 | 4,846 | 51,411 |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 5,011 | — | 5,011 | 1,933 | 6,944 |
| Total comprehensive income for the year | — | — | — | — | 5,011 | 46,565 | 51,576 | 6,779 | 58,355 |
| Capital injection to Henan Kaiyu | — | — | — | 22,464 | — | — | 22,464 | — | 22,464 |
| Dividends recognised as distributions (Note 13) | — | — | — | — | — | (22,124) | (22,124) | (2,624) | (24,748) |
| Transfer | — | — | 70 | — | — | (70) | — | — | — |
| At 31 December 2017 | 7,883 | 30,405 | 767 | 110,705 | (2,666) | 101,370 | 248,464 | 46,051 | 294,515 |
| Adoption of HKFRS 9 (Note iv) | — | — | — | — | — | (237) | (237) | — | (237) |
| At 1 January 2018 (restated) | 7,883 | 30,405 | 767 | 110,705 | (2,666) | 101,133 | 248,227 | 46,051 | 294,278 |
| Profit for the year | — | — | — | — | — | 37,165 | 37,165 | 5,060 | 42,225 |
| Exchange differences arising on translation of foreign operations | — | — | — | — | (9,440) | — | (9,440) | (1,746) | (11,186) |
| Total comprehensive (expense) income for the year | — | — | — | — | (9,440) | 37,165 | 27,725 | 3,314 | 31,039 |
| Dividend recognised as distributions (Note 13) | — | — | — | — | — | (13,179) | (13,179) | (1,563) | (14,742) |
| Effect of Reorganisation (as defined in note 1) | (7,800) | — | — | (103,257) | 701 | 4,001 | (106,355) | (4,702) | (111,057) |
| At 31 December 2018 | 83 | 30,405 | 767 | 7,448 | (11,405) | 129,120 | 156,418 | 43,100 | 199,518 |
| Profit for the period | — | — | — | — | — | 9,631 | 9,631 | 769 | 10,400 |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 6,201 | — | 6,201 | 448 | 6,649 |
| Total comprehensive income for the period | — | — | — | — | 6,201 | 9,631 | 15,832 | 1,217 | 17,049 |
| Effect of Reorganisation (as defined in note 1) | (83) | (9,796) | — | 13,494 | (766) | 17,686 | 20,535 | (20,535) | — |
| At 31 May 2019 | —* | 20,609 | 767 | 20,942 | (5,970) | 156,437 | 192,785 | 23,782 | 216,567 |
| For the five months ended 31 May 2018 (unaudited) | | | | | | | | | |
| At 1 January 2018 (restated) | 7,883 | 30,405 | 767 | 110,705 | (2,666) | 101,133 | 248,227 | 46,051 | 294,278 |
| Profit for the period | — | — | — | — | — | 10,806 | 10,806 | 2,273 | 13,079 |
| Exchange differences arising on translation of foreign operations | — | — | — | — | 3,664 | — | 3,664 | 1,121 | 4,785 |
| Total comprehensive income for the period | — | — | — | — | 3,664 | 10,806 | 14,470 | 3,394 | 17,864 |
| At 31 May 2018 (unaudited) | 7,883 | 30,405 | 767 | 110,705 | 998 | 111,939 | 262,697 | 49,445 | 312,142 |

* Less than HK\$1,000

Note i: As at 1 January 2016, 31 December 2016, 2017 and 2018, the share premium represents the difference between the par value of shares of Justin Allen Overseas Limited (“JA Overseas”), a subsidiary of the Group, issued to the shareholders and the considerations received from the shareholders. On 27 February 2019, pursuant to the sale and purchase agreements entered into between Strategic King, the Company, and the non-controlling shareholders of JA Overseas, the Company allotted 10,679 shares and 1,267 shares to Strategic King and the non-controlling shareholders of JA Overseas, respectively, to acquire the entire shareholdings of JA Overseas. Accordingly, share premium of HK\$30,405,000 is reclassified as other reserve. JA Overseas becomes a wholly-owned subsidiary of the Company upon the completion of the transaction. As at 31 May 2019, the share premium of HK\$20,609,000 represents the difference between the net asset value of JA Overseas and the par value of 11,946 shares issued by the Company.

Note ii: Pursuant to the relevant laws in the People’s Republic of China (the “PRC”), each of the subsidiaries established in the PRC is required to transfer 10% of its profit after tax per statutory financial statements (as determined by the management of the subsidiary) to the statutory reserve. The statutory reserve is discretionary when the reserve balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years’ losses or, expend the existing operations or can be converted into additional capital of the subsidiary.

Note iii: As at 31 December 2017, other reserve represents deemed contributions of HK\$110,705,000 from Mr. Edmond Tam (as defined in note 1) for capital injections in Henan Kaiyu Spinning, Weaving & Apparel Ltd. (“Henan Kaiyu”), a subsidiary of the Group. On 11 December 2018, pursuant to a sale and purchase agreement entered into between JA Overseas and Mr. Edmond Tam, JA Overseas agrees to purchase and Mr. Edmond Tam agrees to sell the entire issued shares of Power Summit Investments Limited (“Power Summit”), the then holding company of Henan Kaiyu, at cash consideration of RMB90,000,000 (equivalent to HK\$103,257,000) (note (b) of note 1).

On 27 February 2019, pursuant to sale and purchase agreements entered into between Strategic King, the Company and the non-controlling shareholders of JA Overseas, the Company agrees to purchase the entire shareholdings of JA Overseas from Strategic King and the non-controlling shareholders in consideration for an allotment of 11,946 shares (note (d) and (e) of note 1). The share capital of HK\$93,000 and share premium of HK\$34,010,000 of JA Overseas are reclassified as other reserve.

Note iv: Upon adoption of Hong Kong Financial Reporting Standard 9 “Financial Instruments” on 1 January 2018, an additional impairment loss on financial assets recognised under expected credit loss model net of related deferred tax assets amounting to HK\$237,000 was recorded as an adjustment to retained profits at 1 January 2018.

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | | | Five months ended 31 May | |
|--|------------------------|------------------|------------------|---------------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 |
| OPERATING ACTIVITIES | | | | | |
| Profit before tax | 56,830 | 63,189 | 55,356 | 17,853 | 14,633 |
| Adjustments for: | | | | | |
| Finance costs | 2,502 | 4,016 | 5,802 | 1,936 | 2,833 |
| Interest income | (88) | (64) | (87) | (35) | (85) |
| Depreciation of property, plant and equipment | 9,076 | 10,174 | 10,214 | 4,532 | 5,997 |
| Depreciation of investment property | 706 | 706 | 706 | 294 | — |
| Amortisation of prepaid lease payments | 1,092 | 1,084 | 1,078 | 386 | — |
| Impairment loss recognised (reversed) on trade receivables, net | 929 | (16) | (121) | (190) | (120) |
| (Gain) loss on disposals/write off of property, plant and equipment | (77) | 1,476 | (60) | — | 15 |
| Exchange realignment | (600) | (3,493) | 986 | 576 | (736) |
| Operating cash flows before movements in working capital | 70,370 | 77,072 | 73,874 | 25,352 | 22,537 |
| (Increase) decrease in inventories | (41,330) | (2,460) | (20,116) | 6,451 | (14,234) |
| (Increase) decrease in trade and other receivables | (251,400) | (100,253) | (77,971) | (26,327) | 43,742 |
| (Increase) decrease in trade receivables at fair value through other comprehensive income | — | — | (8,554) | (8,072) | 19,450 |
| (Decrease) increase in trade and other payables | (9,271) | (37,225) | 57,800 | 22,949 | (15,976) |
| Cash (used in) from operations | (231,631) | (62,866) | 25,033 | 20,353 | 55,519 |
| Hong Kong Profits Tax paid | (10,224) | (9,030) | (16,107) | — | — |
| PRC Enterprise Income Tax paid | (138) | (232) | (329) | (296) | (2,125) |
| Tax paid for other jurisdictions | (233) | — | (1,607) | — | (1,016) |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES | (242,226) | (72,128) | 6,990 | 20,057 | 52,378 |
| INVESTING ACTIVITIES | | | | | |
| Purchase of property, plant and equipment | (41,685) | (15,950) | (4,444) | (1,338) | (1,374) |
| Placement of financial assets at fair value through profit or loss | (9,353) | (16,261) | (26,961) | (20,766) | — |
| Withdrawal of financial assets at fair value through profit or loss | 21,044 | 16,146 | 20,766 | 20,766 | 6,382 |
| Repayment from shareholders | 12,421 | 14,596 | 1,755 | 891 | 2,266 |
| Advance to shareholders | (11,948) | (15,556) | (1,903) | (604) | (523) |
| Advance to ultimate holding company | — | — | (9) | — | (16) |
| Interest received | 88 | 64 | 87 | 35 | 85 |
| Proceeds from disposal of property, plant and equipment | 458 | 48 | 159 | — | — |
| Placement of fixed deposit | — | — | (3,916) | — | — |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | (28,975) | (16,913) | (14,466) | (1,016) | 6,820 |

APPENDIX I
**ACCOUNTANTS' REPORT ON
HISTORICAL FINANCIAL INFORMATION**

| | Year ended 31 December | | | Five months ended 31 May | |
|--|------------------------|------------------|------------------|---------------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 |
| FINANCING ACTIVITIES | | | | | |
| Repayment of bank borrowings | (72,667) | (76,462) | (77,444) | (37,265) | (46,964) |
| Interest paid | (2,502) | (4,016) | (5,802) | (1,936) | (2,833) |
| Dividends paid | (670) | (24,075) | (1,563) | — | — |
| New bank borrowings raised | 353,471 | 200,348 | 80,417 | 30,059 | 66,300 |
| Capital injection to Henan Kaiyu | — | 22,464 | — | — | — |
| Payment of issue costs | — | — | (3,339) | (1,391) | (3,948) |
| Payment of lease liabilities | — | — | — | — | (738) |
| Advance from shareholders | 2,765 | 1,798 | 32 | — | 485 |
| Repayment to shareholders | (8,334) | (19,354) | (2,915) | (1,178) | (57,359) |
| Repayment to ultimate holding company | (9) | (7) | (4) | — | (13,170) |
| Repayment to a related party | (6) | — | — | — | — |
| NET CASH FROM (USED IN) FINANCING ACTIVITIES | <u>272,048</u> | <u>100,696</u> | <u>(10,618)</u> | <u>(11,711)</u> | <u>(58,227)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 847 | 11,655 | (18,094) | 7,330 | 971 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD | 29,145 | 29,669 | 41,595 | 41,595 | 23,204 |
| EFFECT OF FOREIGN EXCHANGE | <u>(323)</u> | <u>271</u> | <u>(297)</u> | <u>200</u> | <u>114</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD | <u>29,669</u> | <u>41,595</u> | <u>23,204</u> | <u>49,125</u> | <u>24,289</u> |

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. GENERAL AND 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 31 May 2013. The addresses of the Company's registered office and the principal place of business are disclosed in the section "Corporate Information" in the Prospectus. Its immediate and ultimate holding company is Strategic King Holdings Limited ("Strategic King"), a company incorporated in the British Virgin Islands (the "BVI") with limited liability, and 90% and 10% interests of which are owned by Mr. Tam Kwok Pui, Edmond ("Mr. Edmond Tam") and Ms. Yeung Suk Foon, Paulina ("Ms. Paulina Yeung"), spouse of Mr. Edmond Tam, (the "Controlling Shareholders"), respectively.

The Company is an investment holding company. The Group is principally engages in the manufacturing and sales of sleepwear products, loungewear products and greige fabric.

The functional currency of the Company is United States dollars ("USD"). The Historical Financial Information is presented in Hong Kong dollars ("HK\$").

The Historical Financial Information has been prepared based on the accounting policies set out in note 3 which confirm with HKFRSs issued by the HKICPA and the principle of merger accounting under Accounting Guideline 5 "Merger Accounting for Common Control Combinations".

Historically, all the entities comprising the Group were controlled by the Controlling Shareholders. In preparation for the listing of the Company's shares on the Stock Exchange, the entities now comprising the Group underwent a group reorganisation (the "Reorganisation") which involves the steps as follows:

- (a) On 7 November 2018, pursuant to the agreement on the termination of nominee arrangement and transfer of shares entered into between Mr. Edmond Tam, Mr. Tam Kwok Hee, a brother of Mr. Edmond Tam, ("Mr. Raymond Tam") and Ms. Tam Sau Ching, a sister of Mr. Edmond Tam, ("Ms. Helen Tam"), Mr. Raymond Tam and Ms. Helen Tam agreed to terminate the nominee agreement in relation to the shares of Jie Wei (Cambodia) Garment Factory Limited ("Jie Wei (Cambodia)") and transfer the entire issued shares of Jie Wei (Cambodia) to Castle Eagle Investments Limited ("Castle Eagle"), a company wholly-owned by Mr. Edmond Tam.
- (b) Pursuant to a sale and purchase agreement on 11 December 2018 entered into between JA Overseas and Mr. Edmond Tam, JA Overseas agrees to purchase and Mr. Edmond Tam agrees to sell the entire issued shares of Power Summit at cash consideration of RMB90,000,000 (equivalent to HK\$103,257,000). The transaction represented a deemed distribution to Mr. Edmond Tam. The transfer of shares was completed on 11 December 2018. RMB860,000 (equivalent to HK\$1,000,000) and RMB 43,212,000 (equivalent to HK\$49,530,000) of the consideration were settled on 24 December 2018 and 28 May 2019, respectively and the remaining consideration will be settled on a date mutually agreeable to both parties based on a supplemental agreement entered into between JA Overseas and Mr. Edmond Tam on 31 May 2019.
- (c) Pursuant to a sale and purchase agreement on 11 December 2018 entered into between JA Overseas and Mr. Edmond Tam, JA Overseas agrees to purchase and Mr. Edmond Tam agrees to sell the entire issued shares of Castle Eagle at a cash consideration of USD1,000,000 (equivalent to HK\$7,800,000). The transaction represented a deemed distribution to Mr. Edmond Tam. The transfer of shares was completed on 11 December 2018. USD25,640 (equivalent to HK\$200,000) and USD974,360 (equivalent to HK\$7,600,000) of the consideration were settled on 24 December 2018 and 29 March 2019, respectively.

- (d) On 27 February 2019, pursuant to a sale and purchase agreement entered into between Strategic King and the Company, the Company agrees to purchase from Strategic King 10,680 issued shares of JA Overseas in consideration for an allotment of 10,679 shares of the Company.
- (e) JA Overseas is held as to 89.4% by Strategic King, 0.81% by True Glory Limited ("True Glory"), 2.72% by Mr. Kwok Wai Ming ("Mr. Kwok"), 2.72% by Mr. Raymond Tam, 3.54% by Asia Dragon Holdings Limited ("Asia Dragon") and 0.81% by Ms. Leung Lai Yi ("Ms. Natalie Leung"). The interest in JA Overseas held by True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon and Ms. Natalie Leung are considered as the non-controlling interest in JA Overseas till 26 February 2019. On 27 February 2019, pursuant to sale and purchase agreements between True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon, Ms. Natalie Leung and the Company, the Company agrees to purchase from True Glory, Mr. Kwok, Mr. Raymond Tam, Asia Dragon and Ms. Natalie Leung 97, 325, 325, 423 and 97 shares of JA Overseas, respectively, in consideration for an allotment of 97, 325, 325, 423 and 97 shares of the Company, respectively.

Pursuant to the Reorganisation described above, the Company became the holding company of the companies now comprising the Group on 27 February 2019. The Historical Financial Information has been prepared using the principle of merger accounting in accordance with Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA on the basis as if the Company has always been the holding company of the Group. The net assets of the companies comprising the Group are combined using the then existing book values from the perspective of the Controlling Shareholders. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows which include the results, changes in equity and cash flows of the companies comprising the Group for the Track Record Period, have been prepared as if the Company had always been the holding company of the Group and the group structure upon the completion of the Reorganisation had been in existence throughout the Track Record Period, taking into account the interest held by non-controlling shareholders in JA Overseas and Henan Kaiyu. The consolidated statements of financial position as at 31 December 2016, 2017 and 2018 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 interest held by non-controlling shareholders in JA Overseas and Henan Kaiyu.

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 all new amendments to HKFRSs, Hong Kong Accounting Standards ("HKASs"), amendments and interpretations ("HK(IFRIC)-Int") issued by the HKICPA, which are effective for the accounting period beginning on 1 January 2019 throughout the Track Record Period except that (1) the Group adopted HKFRS 9 "Financial Instruments" on 1 January 2018 and HKAS 39 "Financial Instruments: Recognition and Measurement" during the two years ended 31 December 2017 and (2) the Group adopted HKFRS 16 "Leases" on 1 January 2019 and HKAS 17 "Leases" during the three years ended 31 December 2018. The accounting policies under HKFRS 9, HKAS 39, HKFRS 16 and HKAS 17 are set out in note 3 below.

On 1 January 2018, the Group has applied HKFRS 9 "Financial Instruments" 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 under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirement to instruments that have already been derecognised as at 1

January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained profits without restating the financial information for the year ended 31 December 2017.

Accordingly, certain information for the two years ended 31 December 2017 may not be comparable as such information was prepared under HKAS 39.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | Financial assets previously classified as loans and receivables | Trade receivables at fair value through other comprehensive income ("FVTOCI") | Financial assets at amortised cost | Financial assets designated at fair value through profit and loss ("FVTPL") | Financial assets at FVTPL required by HKFRS 9 | Deferred tax assets | Retained profits |
|---|--|---|---|---|---|------------------------|---------------------|
| Notes | HK'000 | HK'000 | HK'000 | HK'000 | HK'000 | HK'000 | HK'000 |
| Closing balance at 31 December 2017 (under HKAS 39) | 126,006 | — | — | 120 | — | — | 101,370 |
| Effects arising from initial application of HKFRS 9: | | | | | | | |
| Reclassification | | | | | | | |
| From loans and receivables (a) | (126,006) | 11,195 | 114,811 | — | — | — | — |
| From designated at FVTPL (b) | — | — | — | (120) | 120 | — | — |
| Remeasurement | | | | | | | |
| Impairment under ECL model (c) | — | — | (287) | — | — | 50 | (237) |
| Opening balance at 1 January 2018 (under HKFRS 9) | — | 11,195 | 114,524 | — | 120 | 50 | 101,133 |

(a) **Loans and receivables**

From loans and receivables to trade receivables at FVTOCI

As part of the Group's cash flow management, the Group has the practice of factoring some of the trade receivables to financial institutions without recourse before the receivables are due for repayment and derecognises factored trade receivables on the basis that the Group has transferred substantially all risks and rewards to the relevant counterparties. Accordingly, the Group's trade receivables of HK\$11,195,000 were considered as within the hold to collect contractual cash flows and to sell business model, and reclassified to trade receivables at FVTOCI.

From loans and receivables to financial assets at amortised cost

Except for trade receivables at FVTOCI, all remaining loans and receivables were reclassified as financial assets at amortised cost since the Group's business model is to hold these financial assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount outstanding.

(b) Financial assets at FVTPL and/or designated at FVTPL

At the date of initial application, the Group no longer applied designation as measured at FVTPL for the structured deposits, as these financial assets are required to be measured at FVTPL under HKFRS 9. As a result, the fair value of the structured deposits of approximately HK\$120,000 were reclassified from financial assets designated at FVTPL to financial assets at FVTPL.

(c) Impairment under ECL model

As at 1 January 2018, additional credit loss allowance net of related deferred tax assets amounting to HK\$237,000 has been recognised against retained profits. The additional loss allowance of HK\$287,000 is charged against trade receivables.

Transition and summary of effect arising from initial application of HKFRS 16**Definition of a lease**

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and certain information for the three years ended 31 December 2018 and five months ended 31 May 2018 has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;
- ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of land and buildings in the PRC and buildings in Cambodia was determined on a portfolio basis; and

- v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

At 1 January 2019, the Group recognised lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 8.39%.

| | As at 1 January 2019 <i>HK\$'000</i> |
|---|--|
| Operating lease commitments disclosed as at 31 December 2018 | 6,891 |
| Lease liabilities discounted at relevant incremental borrowing rates | 6,192 |
| Less: Recognition exemption — short-term leases | <u>(393)</u> |
| Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019 | <u>5,799</u> |
| Analysed as | |
| Current | 1,759 |
| Non-current | <u>4,040</u> |
| | <u>5,799</u> |

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

| | Right-of-use assets <i>HK\$'000</i> |
|--|---|
| | <i>Notes</i> |
| Right-of-use assets relating to operating leases recognised upon application of HKFRS 16 | 5,799 |
| Reclassified from prepaid lease payments | <i>(a)</i> 47,906 |
| Adjustments on rental deposits at 1 January 2019 | <i>(b)</i> <u>322</u> |
| | <u>54,027</u> |
| | <i>HK\$'000</i> |
| By class: | |
| Leasehold land | 47,906 |
| Land and buildings | <u>6,121</u> |
| | <u>54,027</u> |

- (a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$1,059,000 and HK\$46,847,000 respectively were reclassified to right-of-use assets.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and were adjusted to reflect the discounting effect at transition. Accordingly, HK\$322,000 was adjusted to refundable rental deposits paid and right-of-use assets.

At the date of this report, the HKICPA has issued the following new, amendments and interpretations to HKFRSs that are not yet effective. The Group has not early adopted these new standards, amendments and interpretations to HKFRSs.

| | |
|---------------------------------------|---|
| HKFRS 17 | Insurance Contracts ² |
| Amendments to HKFRS 3 | Definition of a Business ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹ |
| Amendments to HKAS 1 and HKAS 8 | Definition of Materials ⁴ |

¹ Effective for annual periods beginning on or after a date to be determined

² Effective for annual periods beginning on or after 1 January 2021

³ 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

⁴ Effective for annual periods beginning on or after 1 January 2020

Amendments to HKFRS 3 Definition of a Business

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the financial statements of the Group in future.

Except as described above, the directors of the Company anticipate that the application of the other new and amendments to HKFRSs will have no material impact on the financial information of the Group in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The Historical Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the Historical Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

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 set out below.

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 the 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”.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For investment property which is transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that at initial recognition the results of the valuation technique equals the transaction price.

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 are set out below.

Basis of consolidation

The Historical Financial Information incorporate the financial statements of the entities comprising the Group. 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 Track Record Period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

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 businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

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 date when the combining entities or businesses first came under the common control, where this is a shorter period.

Revenue from contracts with customers

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. 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; and
- Step 5: Recognise revenue when (or as) the Group 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 the customer.

A performance obligation represents a good or 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 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 Group’s performance as the Group performs;
- the Group’s performance creates or 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.

The Group is principally engaged in the manufacturing and sales of sleepwear products, loungewear products and greige fabric. The Group recognises the revenue at a point in time when the control of products is transferred to the customer, i.e., when the goods have been delivered to customers.

For processing services, such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls when the Group provides processing services. Revenue is recognised for these processing services based on the stage of completion of the contract using input method.

The progress towards complete satisfaction of a performance obligation for processing services is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Leasing

Definition of a lease (Upon application of HKFRS 16 on 1 January 2019 in accordance with transition in Note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessee (Upon application of HKFRS 16 on 1 January 2019 in accordance with transitions in Note 2)

Short-term leases

The Group applies the short-term lease recognition exemption to leases of buildings that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets in “property, plant and equipment”, the same line items as that within which the corresponding underlying assets would be presented if they were owed.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

Definition of a lease (Before application of HKFRS 16 on 1 January 2019)

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 lessor (Before application of HKFRS 16 on 1 January 2019)

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset.

The Group as lessee (Before application of HKFRS 16 on 1 January 2019)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building (Before application of HKFRS 16 on 1 January 2019)

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 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.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. 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 the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that 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 operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Scheme are recognised 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, annual leave and sick leave) after deducting any amount already paid.

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. Taxable profit differs from “profit before tax” as reported in the consolidated statements of profit or loss and other comprehensive income 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 the 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 and interests 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 rates (and tax laws) that have been enacted or substantively enacted by the end of the 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 the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment, including buildings and leasehold land (classified as finance leases before application of HKFRS 16 on 1 January 2019) held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on 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.

Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

When an investment property becomes an owner-occupied property because its use has changed as evidenced by commencement of owner-occupation, the transfer is made at the carrying amount.

Impairment losses on tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its assets 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.

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where 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 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. 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

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets at FVTPL are recognised immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and 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 financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 on 1 January 2018 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and trade receivables subsequently measured at FVTOCI. 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 (see below). 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 from the next reporting period. If 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 from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Trade receivables classified as at FVTOCI

Subsequent changes in the carrying amounts for trade receivables classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these receivables are recognised in OCI and accumulated under the heading of FVTOCI reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these receivables. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these receivables had been measured at amortised cost. When these receivables are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss exclude any interest earned on the financial asset and is included in the "other gains and losses" line item.

Impairment of financial assets (upon application of HKFRS 9 on 1 January 2018 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, trade receivables at FVTOCI, amounts due from shareholders, amount due from ultimate holding company and bank balances). The amount of ECL is updated at each reporting date 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 ("12m 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 recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been 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.

(i) 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 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 the 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.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when 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).

Irrespective of the above, the Group considers that default has occurred when a financial asset 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.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) 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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) 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, for example, 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 three 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 where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loans to related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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.

Except for trade receivables without recourse that are measured at FVTOCI, 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 corresponding adjustment is recognised through a loss allowance account. For trade receivables without recourse that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these receivables.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified as financial assets at FVTPL and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets designated as at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

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 and other receivables, amounts due from shareholders and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

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 financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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 receivables.

For financial assets carried at amortised cost, 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.

For financial assets measured at amortised cost, 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 was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

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.

On derecognition of a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity instruments

Financial liabilities 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 an 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.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables, amounts due to shareholders, amount due to ultimate holding company, amount due to a non-controlling shareholder of a subsidiary and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company 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.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are 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 are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months.

Depreciation and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and the depreciation method in determining the related depreciation charges for its property, plant and equipment. This estimate is based on the management's experience of the actual useful lives of property, plant and equipment of similar nature and functions. In addition, management assesses impairment whenever events or changes in circumstances indicate that the carrying amount of an item of property, plant and equipment may not be recoverable. Management will increase the depreciation charge where useful lives are estimated to be shorter than previously estimated, or will write off or write down obsolete assets that have been abandoned or impaired. As at 31 December 2016, 2017, 2018 and 31 May 2019, the carrying amount of property, plant and equipment are HK\$138,176,000, HK\$142,150,000, HK\$152,041,000 and HK\$206,564,000 (included right-of-use assets with the carrying amounts of HK\$55,204,000 which are depreciated over the lease terms), respectively. Any change in these estimates may have a material impact on the results of the Group.

5. REVENUE AND SEGMENT INFORMATION

Revenue represents revenue arising from manufacture and sales of sleepwear products, loungewear products, greige fabric and processing services for the Track Record Period.

The Group has one operating segment based on information reported to the chief operating decision maker of the Group (the executive directors of the Company who are also directors of the operating subsidiaries) (the "CODM") for the purpose of resource allocation and performance assessment, which is the consolidated results of the Group. As a result, there is only one reporting segment of the Group. No analysis of segment assets or segment liabilities is presented as such information is not regularly provided to the CODM.

Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | Year ended 31 December | | | Five months ended 31 May | |
|--------------------------------------|------------------------|------------------|------------------|-----------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 |
| | | | | (unaudited) | |
| Sleepwear products | 376,787 | 411,547 | 435,834 | 138,912 | 141,978 |
| Loungewear products | 78,882 | 93,568 | 154,379 | 40,487 | 68,090 |
| Greige fabric | 4,558 | 8,465 | 9,619 | 4,215 | 4,380 |
| Processing services | <u>7,636</u> | <u>11,272</u> | <u>8,554</u> | <u>1,594</u> | <u>153</u> |
| | <u>467,863</u> | <u>524,852</u> | <u>608,386</u> | <u>185,208</u> | <u>214,601</u> |
| Timing of revenue recognition | | | | | |
| At a point in time | 460,227 | 513,580 | 599,832 | 183,614 | 214,448 |
| Over time | <u>7,636</u> | <u>11,272</u> | <u>8,554</u> | <u>1,594</u> | <u>153</u> |
| | <u>467,863</u> | <u>524,852</u> | <u>608,386</u> | <u>185,208</u> | <u>214,601</u> |

The Group's revenue are under fixed price arrangement with customers.

For manufacturing and sales of sleepwear products, loungewear products and greige fabric, revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). The normal credit period is 0 to 120 days upon delivery.

For processing services, such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as when the Group provides processing services. Revenue is recognised for these processing services based on the stage of completion of the contract using input method. No credit period is granted to the customers.

6. OTHER INCOME

| | Year ended 31 December | | | Five months ended | |
|----------------------------------|------------------------|--------------|--------------|-------------------|------------|
| | 2016 | 2017 | 2018 | 31 May | |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2018 | 2019 |
| | | | | (unaudited) | |
| Interest income from: | | | | | |
| Bank deposits | 30 | 35 | 59 | 7 | 80 |
| Financial assets at FVTPL | 58 | 29 | 28 | 28 | 5 |
| Rental income | 1,296 | 1,249 | 1,181 | 520 | — |
| Government grant (<i>Note</i>) | 8,640 | 115 | — | — | 586 |
| Others | 401 | 700 | 820 | 328 | 184 |
| | <u>10,425</u> | <u>2,128</u> | <u>2,088</u> | <u>883</u> | <u>855</u> |

Note: Government subsidies of approximately HK\$8,441,000 have been received during the year ended 31 December 2016 to support the operation of small to medium size companies in Henan. Henan Kaiyu has complied with the conditions attached to the grants and, therefore, the Group recognised the grants in profit or loss upon receipt.

7. OTHER GAINS AND LOSSES

| | Year ended 31 December | | | Five months ended | |
|--|------------------------|--------------|----------------|-------------------|--------------|
| | 2016 | 2017 | 2018 | 31 May | |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2018 | 2019 |
| | | | | (unaudited) | |
| Gain (loss) on disposals/write off of property, plant and equipment | 77 | (1,476) | 60 | — | (15) |
| Net exchange gain (loss) | 1,165 | 4,359 | (1,201) | 1,434 | 2,165 |
| Impairment losses (recognised) reversed on trade receivables, net | (929) | 16 | 121 | 190 | 120 |
| | <u>313</u> | <u>2,899</u> | <u>(1,020)</u> | <u>1,624</u> | <u>2,270</u> |

8. FINANCE COSTS

| | Year ended 31 December | | | Five months ended | |
|--|------------------------|--------------|--------------|-------------------|--------------|
| | 2016 | 2017 | 2018 | 31 May | |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2018 | 2019 |
| | | | | (unaudited) | |
| Interest on bank borrowings | 2,018 | 4,016 | 5,802 | 1,936 | 2,617 |
| Interest on amount due to a shareholder | 484 | — | — | — | — |
| Interest on lease liabilities | — | — | — | — | 216 |
| | <u>2,502</u> | <u>4,016</u> | <u>5,802</u> | <u>1,936</u> | <u>2,833</u> |

9. INCOME TAX EXPENSE

| | Year ended 31 December | | | Five months ended 31 May | |
|---|------------------------|------------------|------------------|-----------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 |
| | | | | (unaudited) | |
| The income tax expense comprises: | | | | | |
| Current tax: | | | | | |
| Hong Kong Profits Tax | 8,486 | 12,000 | 11,251 | 4,654 | 4,703 |
| PRC Enterprise Income Tax | 235 | 278 | 3,213 | 340 | 76 |
| Overseas taxation | <u>1,801</u> | <u>390</u> | <u>260</u> | <u>92</u> | <u>406</u> |
| | 10,522 | 12,668 | 14,724 | 5,086 | 5,185 |
| Deferred tax charge (credit) (<i>Note 26</i>) | <u>509</u> | <u>(890)</u> | <u>(1,593)</u> | <u>(312)</u> | <u>(952)</u> |
| | <u>11,031</u> | <u>11,778</u> | <u>13,131</u> | <u>4,774</u> | <u>4,233</u> |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the Track Record Periods. In addition, the subsidiary of the Group operating in Hong Kong enjoyed tax concessions for years of assessment 2016/2017 and 2017/2018 under which the Hong Kong Profits Tax were reduced by 75%, subject to a ceiling of HK\$20,000 and HK\$20,000, respectively.

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 the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the Historical Financial Information. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for the year ended 31 December 2018 and for the five months ended 31 May 2019.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% during the Track Record Period.

Pursuant to the relevant laws and regulations in Cambodia, the tax rate of the Cambodian subsidiary is 20% during the Track Record Period.

Pursuant to the EIT Law of PRC and the Detailed Implementation Rules, distribution of the profits earned by the PRC subsidiaries since 1 January 2008 to holding companies incorporated in Hong Kong is subject to the PRC withholding tax at tax rate of 5%.

The income tax expense for the year can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|--|------------------------|------------------|------------------|---------------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 (unaudited) | 2019 HK\$'000 |
| Profit before tax | <u>56,830</u> | <u>63,189</u> | <u>55,356</u> | <u>17,853</u> | <u>14,633</u> |
| Tax at the average income tax rate (Note) | 9,912 | 9,442 | 8,554 | 2,828 | 2,297 |
| Tax effect of expenses not deductible for tax purpose | 676 | 722 | 3,633 | 2,022 | 2,624 |
| Tax effect of income not taxable for tax purpose | (72) | (577) | (587) | (160) | (769) |
| Tax effect of deductible temporary differences not recognised | — | — | 250 | — | — |
| Tax effect of tax losses not recognised | 565 | 2,268 | 1,341 | 84 | 81 |
| Effect of tax exemptions granted to Hong Kong subsidiary | (20) | (30) | — | — | — |
| Others | <u>(30)</u> | <u>(47)</u> | <u>(60)</u> | <u>—</u> | <u>—</u> |
| Income tax expense for the year | <u>11,031</u> | <u>11,778</u> | <u>13,131</u> | <u>4,774</u> | <u>4,233</u> |

Note: The average income tax rate for the Track Record Period represents the weighted average tax rate of the operations in different jurisdictions on the basis of the relative amounts of profit (loss) before taxation and the tax rate of the relevant entities of the corresponding year.

10. PROFIT FOR THE YEAR

| | Year ended 31 December | | | Five months ended 31 May | |
|--|------------------------|------------------|------------------|-----------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 |
| Profit for the year has been arrived at after charging (crediting): | | | | | |
| Directors' remuneration: <i>(Note 11)</i> | 4,800 | 2,298 | 2,298 | 958 | 958 |
| Other staff costs: | | | | | |
| Salaries and other benefits | 83,806 | 89,215 | 97,527 | 31,916 | 36,739 |
| Retirement benefit scheme contributions | 2,732 | 3,587 | 7,876 | 3,002 | 3,458 |
| | 86,538 | 92,802 | 105,403 | 34,918 | 40,197 |
| Less: amount capitalised as cost of inventories manufactured | (61,946) | (65,305) | (64,984) | (23,950) | (24,353) |
| | 24,592 | 27,497 | 40,419 | 10,968 | 15,844 |
| Auditor's remuneration | 133 | 133 | 507 | 208 | 207 |
| Depreciation of property, plant and equipment | 9,076 | 10,174 | 10,214 | 4,532 | 5,997 |
| Less: amount capitalised as cost of inventories manufactured | (5,348) | (6,045) | (5,962) | (2,667) | (3,523) |
| | 3,728 | 4,129 | 4,252 | 1,865 | 2,474 |
| Depreciation of investment property | 706 | 706 | 706 | 294 | — |
| Release of prepaid lease payments | 1,092 | 1,084 | 1,078 | 386 | — |
| Cost of inventories recognised as an expense | 341,918 | 382,319 | 431,850 | 133,117 | 155,927 |
| Operating lease rental in respect of minimum lease payments of rental premises | 1,274 | 2,513 | 2,790 | 1,002 | — |
| Expenses related to short-term leases | — | — | — | — | 544 |
| Gross rental income from investment property | (1,296) | (1,249) | (1,181) | (520) | — |
| Less: outgoings | 435 | 441 | 453 | 196 | — |
| | (861) | (808) | (728) | (324) | — |

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Mr. Edmond Tam, Ms. Paulina Yeung, and Mr. So Lie Mo, Raymond ("Mr. Raymond So") were appointed as executive directors of the Company on 31 May 2013, 19 November 2013 and 19 November 2013, respectively, and Mr. Edmond Tam, is also the chief executive of the Company.

(a) Directors' and chief executive's emoluments

During the Track Record Period, the emoluments paid or payable to the directors of the Company disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2016

| | Fees <i>HK\$'000</i> | Salaries, allowances and other benefits <i>HK\$'000</i> | Performance based bonuses (Note) <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|-------------------------|---|--|---|--------------------------|
| Executive directors | | | | | |
| Mr. Edmond Tam | — | 1,200 | 1,500 | 2 | 2,702 |
| Ms. Paulina Yeung | — | 1,080 | 1,000 | 18 | 2,098 |
| Mr. Raymond So | — | — | — | — | — |
| | <u>—</u> | <u>2,280</u> | <u>2,500</u> | <u>20</u> | <u>4,800</u> |

For the year ended 31 December 2017

| | Fees <i>HK\$'000</i> | Salaries, allowances and other benefits <i>HK\$'000</i> | Performance based bonuses (Note) <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|-------------------------|---|--|---|--------------------------|
| Executive directors | | | | | |
| Mr. Edmond Tam | — | 1,200 | — | — | 1,200 |
| Ms. Paulina Yeung | — | 1,080 | — | 18 | 1,098 |
| Mr. Raymond So | — | — | — | — | — |
| | <u>—</u> | <u>2,280</u> | <u>—</u> | <u>18</u> | <u>2,298</u> |

For the year ended 31 December 2018

| | Fees <i>HK\$'000</i> | Salaries, allowances and other benefits <i>HK\$'000</i> | Performance based bonuses (Note) <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|-------------------------|---|--|---|--------------------------|
| Executive directors | | | | | |
| Mr. Edmond Tam | — | 1,200 | — | — | 1,200 |
| Ms. Paulina Yeung | — | 1,080 | — | 18 | 1,098 |
| Mr. Raymond So | — | — | — | — | — |
| | <u>—</u> | <u>2,280</u> | <u>—</u> | <u>18</u> | <u>2,298</u> |

For the five months ended 31 May 2018 (unaudited)

| | Fees <i>HK\$'000</i> | Salaries, allowances and other benefits <i>HK\$'000</i> | Performance based bonuses (<i>Note</i>) <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|-------------------------|---|---|---|--------------------------|
| Executive directors | | | | | |
| Mr. Edmond Tam | — | 500 | — | — | 500 |
| Ms. Paulina Yeung | — | 450 | — | 8 | 458 |
| Mr. Raymond So | — | — | — | — | — |
| | <u>—</u> | <u>950</u> | <u>—</u> | <u>8</u> | <u>958</u> |

For the five months ended 31 May 2019

| | Fees <i>HK\$'000</i> | Salaries, allowances and other benefits <i>HK\$'000</i> | Performance based bonuses (<i>Note</i>) <i>HK\$'000</i> | Retirement benefit scheme contributions <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|----------------------------|-------------------------|---|---|---|--------------------------|
| Executive directors | | | | | |
| Mr. Edmond Tam | — | 500 | — | — | 500 |
| Ms. Paulina Yeung | — | 450 | — | 8 | 458 |
| Mr. Raymond So | — | — | — | — | — |
| | <u>—</u> | <u>950</u> | <u>—</u> | <u>8</u> | <u>958</u> |

Note: The performance based bonuses are determined on the performance of the individuals and the profitability of the group entities for the Track Record Period.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

No independent non-executive directors were appointed by the Company during the Track Record Period. Mr. Lai Yat Kwong, Fred, Mr. Lui Ho Ming, Paul and Mr. Woo Chun Fai were appointed as independent non-executive directors of the Company on 26 July 2019.

(b) Employees' emoluments

The five highest paid individuals of the Group during the Track Record Period included two directors, details of whose remuneration are set out in note 11(a) above. Details of the remuneration during the Track Record Period of the remaining three highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | Year ended 31 December | | | Five months ended 31 May | |
|---|------------------------|------------------|------------------|-----------------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 | 2018 HK\$'000 | 2019 HK\$'000 |
| Salaries, allowances and other benefits | 1,400 | 1,440 | 1,582 | 486 | 776 |
| Performance based bonuses (note) | 70 | 93 | 105 | 205 | 1,642 |
| Retirement benefit scheme contributions | 54 | 54 | 36 | 21 | 15 |
| | <u>1,524</u> | <u>1,587</u> | <u>1,723</u> | <u>712</u> | <u>2,433</u> |

Note: The performance based bonuses are determined on the performance of the individuals and the profitability of the group entities for the Track Record Period.

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following band is as follows:

| | Number of employees | | | | |
|--------------------------------|------------------------|----------|----------|-----------------------------|----------|
| | Year ended 31 December | | | Five months ended 31 May | |
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| Nil to HK\$1,000,000 | 3 | 3 | 3 | 3 | 2 |
| HK\$1,500,001 to HK\$2,000,000 | — | — | — | — | 1 |
| | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> |

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the Track Record Period. No emoluments were paid by the Group to any of the directors, the chief executive or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for the Track Record Period.

12. EARNINGS PER SHARE

| | Year ended 31 December | | | Five months ended 31 May | |
|---|------------------------|-----------------|-----------------|-----------------------------|-----------------|
| | 2016 | 2017 | 2018 | 2018 | 2019 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Earnings: | | | | | |
| Earnings for the purpose of calculating basic earnings per share (Profit for the year/period attributable to the owners of the Company) | <u>41,159</u> | <u>46,565</u> | <u>37,165</u> | <u>10,806</u> | <u>9,631</u> |
| | <i>'000</i> | <i>'000</i> | <i>'000</i> | <i>'000</i> | <i>'000</i> |
| Number of shares: | | | | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | <u>838,077</u> | <u>838,077</u> | <u>838,077</u> | <u>838,077</u> | <u>899,969</u> |

The number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation as defined in note 1 and the Capitalisation Issue as referred to in the section headed "Share Capital" in the prospectus had been effected on 1 January 2016.

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,

13. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

The subsidiary of the Group declared the following interim dividends to its shareholders during the Track Record Periods:

| | Year ended 31 December | | |
|-------------|------------------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| JA Overseas | <u>8,502</u> | <u>24,748</u> | <u>14,742</u> |

The rate of dividends and number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land HK\$'000 | Land and buildings HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|--|-------------------------------|-----------------------------------|---------------------------------------|------------------------------------|--|-------------------------------|---|-------------------|
| COST | | | | | | | | |
| At 1 January 2016 | — | 86,579 | 556 | 25,016 | 6,911 | 1,638 | 12,311 | 133,011 |
| Additions | — | 23,380 | 237 | 2,620 | 630 | 187 | 13,317 | 40,371 |
| Transfers | — | 1,601 | — | — | — | — | (1,601) | — |
| Disposals/write off | — | — | — | (792) | — | — | — | (792) |
| Currency realignment | — | (5,903) | (5) | (1,145) | (300) | (98) | (1,452) | (8,903) |
| At 31 December 2016 | — | 105,657 | 788 | 25,699 | 7,241 | 1,727 | 22,575 | 163,687 |
| Additions | — | 2,123 | 515 | 2,822 | 775 | 109 | 183 | 6,527 |
| Transfers | — | 11,459 | — | — | — | — | (11,459) | — |
| Disposals/write off | — | — | — | (1,612) | (66) | (137) | — | (1,815) |
| Currency realignment | — | 7,570 | 29 | 1,364 | 367 | 106 | 1,308 | 10,744 |
| At 31 December 2017 | — | 126,809 | 1,332 | 28,273 | 8,317 | 1,805 | 12,607 | 179,143 |
| Additions | — | 103 | 760 | 1,498 | 705 | 486 | 912 | 4,464 |
| Transfers | — | 1,568 | — | — | — | — | (1,568) | — |
| Transfer from investment property (Note 15) | — | 28,244 | — | — | — | — | — | 28,244 |
| Disposals/write off | — | — | — | — | (60) | (617) | — | (677) |
| Currency realignment | — | (7,094) | (54) | (1,300) | (353) | (89) | (770) | (9,660) |
| At 31 December 2018 | — | 149,630 | 2,038 | 28,471 | 8,609 | 1,585 | 11,181 | 201,514 |
| Adoption of HKFRS 16 | 52,926 | 6,121 | — | — | — | — | — | 59,047 |
| At 1 January 2019 (restated) | 52,926 | 155,751 | 2,038 | 28,471 | 8,609 | 1,585 | 11,181 | 260,561 |
| Additions | — | 1,804 | 69 | 413 | 876 | — | 580 | 3,742 |
| Transfers | — | 183 | — | — | — | — | (183) | — |
| Disposals/write off | — | — | — | (11) | (276) | — | — | (287) |
| Currency realignment | 935 | 1,810 | 24 | 360 | 103 | 21 | 198 | 3,451 |
| At 31 May 2019 | 53,861 | 159,548 | 2,131 | 29,233 | 9,312 | 1,606 | 11,776 | 267,467 |
| DEPRECIATION | | | | | | | | |
| At 1 January 2016 | — | 5,378 | 395 | 6,735 | 4,577 | 763 | — | 17,848 |
| Provided for the year | — | 4,645 | 172 | 3,256 | 757 | 246 | — | 9,076 |
| Eliminated on disposals/write off | — | — | — | (411) | — | — | — | (411) |
| Currency realignment | — | (469) | (2) | (307) | (172) | (52) | — | (1,002) |
| At 31 December 2016 | — | 9,554 | 565 | 9,273 | 5,162 | 957 | — | 25,511 |
| Provided for the year | — | 5,422 | 189 | 3,550 | 818 | 195 | — | 10,174 |
| Eliminated on disposals/write off | — | — | — | (98) | (63) | (130) | — | (291) |
| Currency realignment | — | 820 | 8 | 476 | 225 | 70 | — | 1,599 |
| At 31 December 2017 | — | 15,796 | 762 | 13,201 | 6,142 | 1,092 | — | 36,993 |
| Provided for the year | — | 5,515 | 320 | 3,300 | 892 | 187 | — | 10,214 |
| Transfer from investment property (Note 15) | — | 4,648 | — | — | — | — | — | 4,648 |
| Eliminated on disposals/write off | — | — | — | — | (60) | (518) | — | (578) |
| Currency realignment | — | (963) | (16) | (535) | (233) | (57) | — | (1,804) |
| At 31 December 2018 | — | 24,996 | 1,066 | 15,966 | 6,741 | 704 | — | 49,473 |
| Adoption of HKFRS 16 | 5,020 | — | — | — | — | — | — | 5,020 |
| At 1 January 2019 (restated) | 5,020 | 24,996 | 1,066 | 15,966 | 6,741 | 704 | — | 54,493 |
| Provided for the period | 456 | 3,517 | 194 | 1,305 | 441 | 84 | — | 5,997 |
| Eliminated on disposals/write off | — | — | — | (11) | (261) | — | — | (272) |
| Currency realignment | 90 | 327 | 8 | 178 | 72 | 10 | — | 685 |
| At 31 May 2019 | 5,566 | 28,840 | 1,268 | 17,438 | 6,993 | 798 | — | 60,903 |
| CARRYING VALUES | | | | | | | | |
| At 31 December 2016 | — | 96,103 | 223 | 16,426 | 2,079 | 770 | 22,575 | 138,176 |
| At 31 December 2017 | — | 111,013 | 570 | 15,072 | 2,175 | 713 | 12,607 | 142,150 |
| At 31 December 2018 | — | 124,634 | 972 | 12,505 | 1,868 | 881 | 11,181 | 152,041 |
| At 31 May 2019 | 48,295 | 130,708 | 863 | 11,795 | 2,319 | 808 | 11,776 | 206,564 |

The cost of above items of property, plant and equipment, other than construction in progress, less their residual values are depreciated on a straight-line basis at the following rates per annum:

| | |
|-----------------------------------|---|
| Leasehold land | Over the term of the lease |
| Land and buildings | 2.5%–5% or over the term of the lease |
| Leasehold improvements | 20% or over the term of the lease, whichever is shorter |
| Plant and machinery | 10–33.3% |
| Furniture, fixtures and equipment | 20–33.3% |
| Motor vehicles | 20% |

The carrying amounts of the right-of-use assets at 31 May 2019 and the depreciation by classes of right-of-use assets are set out as below:

| | |
|--|--------------------|
| | As at |
| | 31 May 2019 |
| | <i>HK\$'000</i> |
| Carrying amounts: | |
| Leasehold land | 48,295 |
| Land and buildings | <u>6,909</u> |
| | <u>55,204</u> |
| | Five months |
| | ended |
| | 31 May 2019 |
| | <i>HK\$'000</i> |
| Depreciation recognised in profit or loss: | |
| Leasehold land | 456 |
| Land and buildings | <u>907</u> |
| | <u>1,363</u> |

The Group has pledged land and buildings with a carrying value of HK\$32,918,000, HK\$33,030,000, HK\$115,003,000 and HK\$114,091,000 as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively, to secure general banking facilities granted to the Group. In addition, the Group has pledged plant and machinery with a carrying value of HK\$4,201,000 and HK\$3,280,000 as at 31 December 2018 and 31 May 2019, respectively, and leasehold land with a carrying amount of HK\$48,295,000 as at 31 May 2019 to secure bank borrowings granted to the Group.

15. INVESTMENT PROPERTY

| | <i>HK\$'000</i> |
|--|-----------------|
| COST | |
| At 1 January 2016, 31 December 2016 and 2017 | 28,244 |
| Transfer to property, plant and equipment (<i>Note 14</i>) | <u>(28,244)</u> |
| At 31 December 2018 and 31 May 2019 | <u>—</u> |
| DEPRECIATION | |
| At 1 January 2016 | 2,530 |
| Provided for the year | <u>706</u> |
| At 31 December 2016 | 3,236 |
| Provided for the year | <u>706</u> |
| At 31 December 2017 | 3,942 |
| Provided for the year | 706 |
| Transfer to property, plant and equipment (<i>Note 14</i>) | <u>(4,648)</u> |
| At 31 December 2018 and 31 May 2019 | <u>—</u> |
| CARRYING VALUE | |
| At 31 December 2016 | <u>25,008</u> |
| At 31 December 2017 | <u>24,302</u> |
| At 31 December 2018 and 31 May 2019 | <u>—</u> |

The above investment property is depreciated on a straight-line basis at 2.5% per annum.

The investment property is leasehold land and building located in Hong Kong held under medium-term leases.

During the year ended 31 December 2018, the directors of the Company transferred the entire investment property to property, plant and equipment, upon the expiry of the operating lease with the tenant, for the Group's administrative and marketing purpose. The fair value of the Group's investment property as at 31 December 2016 and 2017 is HK\$40,565,000 and HK\$45,616,000. The fair values have been determined by the directors of the Company.

The directors of the Company determined the fair value of the investment property as at 31 December 2016 and 2017 by reference to the comparison method of valuation. The inputs used by the directors of the Company in the fair value measurements mainly include the market value of comparable properties of similar size, characteristics and location.

The Group's investment property are classified as Level 3 in the fair value hierarchy as at 31 December 2016 and 2017. There were no transfers into or out of Level 3 during the two years ended 31 December 2017.

The Group has pledged investment property with a carrying value of HK\$25,008,000 and HK\$24,302,000 as at 31 December 2016 and 2017, respectively, to secure general banking facilities granted to the Group.

16. PREPAID LEASE PAYMENTS

| | As at 31 December | | |
|-------------------------------------|-------------------|---------------|---------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Analysed for reporting purposes as: | | | |
| Current asset | 1,049 | 1,128 | 1,059 |
| Non-current asset | <u>48,535</u> | <u>51,071</u> | <u>46,847</u> |
| | <u>49,584</u> | <u>52,199</u> | <u>47,906</u> |

The Group has pledged prepaid lease payments with a carrying value of nil, nil and HK\$47,906,000 as at 31 December 2016, 2017 and 2018 respectively, to secure bank borrowings granted to the Group. On 1 January 2019, the Group has applied HKFRS 16 and the prepaid lease payments with carrying value of HK\$47,906,000 was reclassified to right-of-use assets.

17. INVENTORIES

| | As at 31 December | | | As at |
|------------------|-------------------|---------------|----------------|----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Raw materials | 63,749 | 62,102 | 57,941 | 75,822 |
| Work in progress | 8,564 | 9,088 | 14,474 | 8,803 |
| Finished goods | <u>14,294</u> | <u>19,788</u> | <u>36,679</u> | <u>39,690</u> |
| | <u>86,607</u> | <u>90,978</u> | <u>109,094</u> | <u>124,315</u> |

18. TRADE AND OTHER RECEIVABLES

The Group

| | As at 31 December | | | As at |
|--|-------------------|----------------|----------------|----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | HK\$'000 |
| Trade receivables (goods and services) | 26,655 | 32,552 | 34,397 | 13,620 |
| Less: Allowance for credit losses | <u>(2,438)</u> | <u>(2,207)</u> | <u>(2,373)</u> | <u>(2,253)</u> |
| | 24,217 | 30,345 | 32,024 | 11,367 |
| Bills receivables | 68,951 | 51,485 | — | — |
| Other receivables in respect of factored trade receivables | — | — | 15,756 | 8,405 |
| Prepayments | 2,751 | 5,285 | 5,925 | 4,832 |
| Prepayments to import-export corporations (<i>Note</i>) | 39,157 | — | 46,014 | 29,645 |
| Deferred issue costs | — | — | 5,265 | 8,458 |
| Other deposits | 3,016 | 3,209 | 3,208 | 4,802 |
| Tax recoverable | 370 | 5,431 | 673 | 1,722 |
| Other receivables | <u>1,150</u> | <u>573</u> | <u>831</u> | <u>2,269</u> |
| Less: rental deposits (non-current portion) | <u>(1,485)</u> | <u>(1,570)</u> | <u>(1,606)</u> | <u>(1,344)</u> |
| | <u>138,127</u> | <u>94,758</u> | <u>108,090</u> | <u>70,156</u> |

Note: The Group entered into agreements with independent import-export corporations for the export services from the PRC to overseas. Separate agreements were entered into between the import-export corporations and Shanghai Jielong Trading Co., Ltd. (“Shanghai Jielong”), a subsidiary of the Group, and Justin Allen Limited (“Justin Allen”), another subsidiary of the Group. Other receivables represents the prepayments in advance made by Justin Allen to the import-export corporations. Other payables represents the prepayments in advance made by the import-export corporations to Shanghai Jielong and the purchase payable due to the import-export corporations (Note 23).

The Group allows a credit period of 0 to 120 days to its trade customers.

The following is an aged analysis of trade and bill receivables net of allowance for credit losses, presented based on the delivery dates at the end of each reporting period:

| | As at 31 December | | | As at |
|--------------------------|-------------------|---------------|---------------|---------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | HK\$'000 |
| Trade receivables | | | | |
| 0–30 days | 21,752 | 26,923 | 25,051 | 8,628 |
| 31–60 days | 688 | 2,519 | 6,030 | 1,204 |
| 61–90 days | 1,618 | 516 | 764 | 220 |
| Over 90 days | 159 | 387 | 179 | 1,315 |
| | <u>24,217</u> | <u>30,345</u> | <u>32,024</u> | <u>11,367</u> |
| Bill receivables | | | | |
| 0–30 days | 15,296 | 15,942 | — | — |
| 31–60 days | 44,942 | 4,800 | — | — |
| 61–90 days | 8,713 | 9,986 | — | — |
| Over 90 days | — | 20,757 | — | — |
| | <u>68,951</u> | <u>51,485</u> | <u>—</u> | <u>—</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 terms granted to customers are reviewed regularly. The majority of the trade receivables that are neither past due nor impaired have no history of defaulting on repayments.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$792,000 and HK\$561,000 as at 31 December 2016 and 2017, respectively, which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considers such balances could be recovered based on historical experience. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired:

| | As at 31 December | |
|--------------|-------------------|------------|
| | 2016 | 2017 |
| | HK\$'000 | HK\$'000 |
| Overdue: | | |
| 1–30 days | 733 | 445 |
| Over 90 days | <u>59</u> | <u>116</u> |
| | <u>792</u> | <u>561</u> |

In determining the recoverability of a trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date.

Movement of allowance on trade receivables for the years ended 31 December 2016 and 2017:

| | As at 31 December | |
|--|-------------------|--------------|
| | 2016 | 2017 |
| | HK\$'000 | HK\$'000 |
| Balance at the beginning of the year | 1,509 | 2,438 |
| Allowance for doubtful debts | 2,193 | 215 |
| Reversal of allowance for doubtful debts | (1,264) | (231) |
| Amounts written off as uncollectible | — | (215) |
| Closing at the end of the year | <u>2,438</u> | <u>2,207</u> |

Bills receivables are those not yet due at the end of each reporting period and the management considers the default rate is low as the Group did not encounter any default on bills receivables based on the past experience. The maturity period of all bills receivables as at 31 December 2016 and 2017 was ranging from 30 days to 120 days.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 and for the five months ended 31 May 2019 are set out in note 32.

The Company

The amount represents deferred issue costs and prepayments of expenses at 31 December 2017, 2018 and 31 May 2019.

19. TRADE RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | As at 31 December | | | As at |
|-----------------------------|-------------------|----------|---------------|------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | HK\$'000 |
| Trade receivables at FVTOCI | <u>—</u> | <u>—</u> | <u>19,749</u> | <u>299</u> |

The following is an aging analysis of trade receivables at FVTOCI presented based on the delivery dates at the end of each reporting period:

| | As at 31 December | | | As at |
|-----------|-------------------|----------|---------------|------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | HK\$'000 |
| 0–30 days | <u>—</u> | <u>—</u> | <u>19,749</u> | <u>299</u> |

Details of impairment assessment of trade receivables at FVTOCI for the year ended 31 December 2018 and for the five months ended 31 May 2019 are set out in note 32.

20. AMOUNTS DUE FROM (TO) SHAREHOLDERS/ULTIMATE HOLDING COMPANY/A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The Group

Details of amounts due from (to) shareholders, ultimate holding company a non-controlling shareholder of a subsidiary are as follows:

| | As at 31 December | | | As at | Year ended 31 December | | | Maximum amount outstanding |
|--|-------------------|----------------|------------------|-----------------|------------------------|----------|----------|----------------------------|
| | 2016 | 2017 | 2018 | 31 May | 2016 | 2017 | 2018 | Five months ended |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 | HK\$'000 | HK\$'000 | HK\$'000 | 31 May |
| | | | HK\$'000 | | | | | 2019 |
| | | | | | | | | HK\$'000 |
| Amounts due from shareholders | | | | | | | | |
| Mr. Edmond Tam (Note i) | —* | 236 | 294 | 191 | —* | 7,965 | 332 | 294 |
| Mr. Raymond Tam (Note i) | 1,038 | 1,772 | 1,600 | 14 | 2,793 | 2,554 | 1,785 | 2,091 |
| Ms. Paulina Yeung (Note i) | — | — | 54 | — | N/A | N/A | 73 | 70 |
| | <u>1,038</u> | <u>2,008</u> | <u>1,948</u> | <u>205</u> | | | | |
| Amount due from ultimate holding company: | | | | | | | | |
| Strategic King (Note i) | — | — | — | 16 | N/A | N/A | N/A | 16 |
| Amounts due to shareholders | | | | | | | | |
| Mr. Edmond Tam (Note ii) | (18,146) | (1,696) | (110,761) | (53,477) | N/A | N/A | N/A | N/A |
| Ms. Paulina Yeung (Note i) | (958) | — | — | (427) | N/A | N/A | N/A | N/A |
| Mr. Kwok (Note i) | (514) | (1,187) | — | — | N/A | N/A | N/A | N/A |
| | <u>(19,618)</u> | <u>(2,883)</u> | <u>(110,761)</u> | <u>(53,904)</u> | | | | |
| Amount due to ultimate holding company: | | | | | | | | |
| Strategic King (Note i) | (11) | (4) | (13,170) | — | N/A | N/A | N/A | N/A |
| Amount due to a non-controlling shareholder of a subsidiary: | | | | | | | | |
| 許昌豫中紡織有限公司 (“許昌豫中紡織”) (Note i) | (7,221) | (937) | (879) | (894) | N/A | N/A | N/A | N/A |

* Less than HK\$1,000.

Note:

- (i) The amounts are non-trade nature, unsecured, interest-free and repayable on demand.
- (ii) Included in the balance as at 31 December 2016, an amount of USD1,250,000 (equivalent to HK\$9,750,000) due to Mr. Edmond Tam was non-trade, unsecured, repayable on demand and interest-bearing at 4.50%. Included in the balance as at 31 December 2018 and 31 May 2019, an amount of HK\$109,857,000 and HK\$52,727,000, respectively, due to Mr. Edmond Tam was non-trade, unsecured, interest-free and repayable on a date mutually agreeable by JA Overseas and Mr. Edmond Tam. The remaining balances as at 31 December 2016, 2017, 2018 and 31 May 2019 are non-trade nature, unsecured, interest-free and repayable on demand.

The Company

The amount due from a subsidiary, JA Overseas, represents dividend receivable and is unsecured, interest-free and repayable on demand.

The amount due to a subsidiary, Justin Allen, is unsecured, interest-free and repayable on demand.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 December | | | As at |
|---|-------------------|------------|--------------|----------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Financial assets mandatorily measured at FVTPL: | | | | HK\$'000 |
| — Structured bank deposits | — | — | 6,195 | — |
| Financial assets designated at FVTPL: | | | | |
| — Structured bank deposits | — | 120 | — | — |
| | <u>—</u> | <u>120</u> | <u>6,195</u> | <u>—</u> |

As at 31 December 2017 and 2018, structured bank deposits carried interest at variable rate. Interest rates of these structured deposits varied depending on the movement of market interest rate at the maturity date. The deposits may be withdrawn by the Group at any time.

22. BANK BALANCES AND CASH

| | As at 31 December | | | As at |
|---|-------------------|---------------|---------------|---------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Cash on hand and in bank | 29,669 | 41,595 | 23,204 | 24,289 |
| Bank deposit with original maturity date more than 3 months | — | — | 3,916 | 3,900 |
| | <u>29,669</u> | <u>41,595</u> | <u>27,120</u> | <u>28,189</u> |

Bank balances carry interest at market rates which range from 0.01% to 1.00%, 0.01% to 3.00%, 0.01% to 2.00% and 0.01% to 2.00% per annum as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively.

All monies over bank account in a bank of HK\$6,756,000, HK\$16,478,000, HK\$14,639,000 and HK\$4,887,000 as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively, has been pledged to secure general banking facilities granted to the Group.

The Group's bank balances and cash that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

| | As at 31 December | | | As at |
|--|-------------------|----------|----------|--------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Denominated in HK\$ | 263 | 1,108 | 1,141 | 3,051 |
| Denominated in RMB ("Renminbi") | 29 | 140 | 87 | 7 |
| Denominated in CAD ("Canadian dollars") | 6 | 180 | 168 | 149 |
| Denominated in KHR ("Katekyo Hitman Reborn") | 212 | 167 | 106 | 127 |

23. TRADE AND OTHER PAYABLES

| | As at 31 December | | | As at |
|---|-------------------|---------------|----------------|----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Trade payables | 34,312 | 45,385 | 35,284 | 47,083 |
| Prepayments from and purchase payables due to import-export corporations (<i>Note 18</i>) | 48,189 | 6,798 | 52,540 | 30,620 |
| Accrued expenses | 9,835 | 10,416 | 23,581 | 18,657 |
| Accrued issue costs | — | — | 1,926 | 1,171 |
| Value-added tax payables | 3,510 | 4,520 | 4,378 | 2,031 |
| Other tax payables | 1,948 | 1,661 | 1,463 | 2,937 |
| Payables for acquisition of property, plant and equipment | 3,435 | 358 | 262 | 318 |
| Other payables | 4,043 | 3,781 | 3,332 | 2,250 |
| | <u>105,272</u> | <u>72,919</u> | <u>122,766</u> | <u>105,067</u> |

The following is an aged analysis of trade payables presented based on the invoice dates of goods at the end of each reporting period:

| | As at 31 December | | | As at |
|--------------|-------------------|---------------|---------------|---------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| 0–30 days | 31,514 | 36,674 | 32,094 | 44,299 |
| 31–60 days | 2,218 | 4,333 | 2,368 | 1,487 |
| 61–90 days | 14 | 1,153 | 49 | 491 |
| Over 90 days | 566 | 3,225 | 773 | 806 |
| | <u>34,312</u> | <u>45,385</u> | <u>35,284</u> | <u>47,083</u> |

The credit period on purchases of goods is 0 to 90 days upon the issue of invoices.

The Group's trade payables that are denominated in currencies other than functional currencies of the relevant group entities are set out below:

| | As at 31 December | | | As at |
|---------------------|-------------------|----------|----------|----------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Denominated in HK\$ | <u>7</u> | <u>—</u> | <u>—</u> | <u>—</u> |

24. LEASE LIABILITIES

| | As at 31 May 2019 HK\$'000 |
|-------------|-------------------------------------|
| Non-current | 4,569 |
| Current | <u>2,031</u> |
| | <u>6,600</u> |

| | As at 31 May 2019 | |
|---|--|--|
| | Minimum lease payments due HK\$'000 | Present value of lease liabilities HK\$'000 |
| Lease liabilities comprise: | | |
| — within one year | 2,500 | 2,031 |
| — more than one year but not exceeding two years | 2,449 | 2,160 |
| — more than two years but not exceeding five years | <u>2,554</u> | <u>2,409</u> |
| | 7,503 | 6,600 |
| Less: future finance charge | <u>(903)</u> | <u>N/A</u> |
| Present value of lease liabilities | <u>6,600</u> | <u>6,600</u> |

The Group leases various properties to operate its factories and these lease liabilities are measured at the present value of the lease payments that are not yet paid.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's treasury function.

The total cash outflows for leases including payments of lease liabilities for the five months ended 31 May 2019 was HK\$954,000.

25. BANK BORROWINGS

| | As at 31 December | | | As at |
|---|-------------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| | | | | HK\$'000 |
| Bills discounted with recourse, secured and guaranteed | 58,928 | 41,990 | — | — |
| Bank loans, secured and guaranteed | 38,764 | 32,290 | 27,429 | 47,023 |
| | <u>97,692</u> | <u>74,280</u> | <u>27,429</u> | <u>47,023</u> |
| Carrying amount repayable*: | | | | |
| Within one year | 2,190 | 14,363 | 13,361 | 2,249 |
| More than one year, but not exceeding two years | 2,190 | 2,356 | 2,210 | 1,874 |
| More than two years, but not exceeding five years | 4,929 | 2,945 | 552 | — |
| | 9,309 | 19,664 | 16,123 | 4,123 |
| Carrying amount of bank loans that contain a repayable on demand clause (show under current liabilities) but repayable: | | | | |
| Within one year | 75,757 | 43,310 | 11,306 | 42,900 |
| More than one year, but not exceeding two years | 1,320 | 11,306 | — | — |
| More than two years, but not exceeding five years | 11,306 | — | — | — |
| | <u>97,692</u> | <u>74,280</u> | <u>27,429</u> | <u>47,023</u> |
| Less: Amount included under the current liabilities (including bank loans with a repayable on demand clause) | <u>(90,573)</u> | <u>(68,979)</u> | <u>(24,667)</u> | <u>(45,149)</u> |
| Amount due after one year shown under non-current liabilities | <u>7,119</u> | <u>5,301</u> | <u>2,762</u> | <u>1,874</u> |
| Fixed-rate borrowings | 9,309 | 19,664 | 4,972 | 4,123 |
| Variable-rate borrowings | 88,383 | 54,616 | 22,457 | 42,900 |
| | <u>97,692</u> | <u>74,280</u> | <u>27,429</u> | <u>47,023</u> |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

As at 31 December 2016, 2017, 2018 and 31 May 2019, Group's bank borrowings that are denominated in HK\$, which is not the functional currency of the relevant group entities, amounted to HK\$13,946,000, HK\$12,626,000, HK\$11,306,000 and nil respectively.

The Group's variable-rate borrowings carry interest at Hong Kong Interbank Offered Rate, London Interbank Offered Rate or the People's Bank of China's benchmark rate plus certain basis points. The range of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

| | As at 31 December | | | As at |
|---------------------------|-------------------|-------------|-------------|----------------|
| | 2016 | 2017 | 2018 | 31 May 2019 |
| Effective interest rates: | | | | |
| Fixed-rate borrowings | 6.18% | 5.50%–6.18% | 6.18% | 6.18% |
| Variable-rate borrowings | 2.00%–3.35% | 2.52%–2.97% | 3.14%–5.22% | 4.02%–4.91% |

As at 31 December 2016, bank borrowings amounting to HK\$97,692,000 are personally guaranteed by Mr. Edmond Tam. All monies over bank account and securities held by Mr. Edmond Tam in the corresponding bank are pledged to secure general banking facilities granted to a subsidiary. All of the bank borrowings are secured by buildings and investment property of the Group with carrying amounts of HK\$32,918,000 and HK\$25,008,000 respectively.

As at 31 December 2017, bank borrowings amounting to HK\$74,280,000 are personally guaranteed by Mr. Edmond Tam. All monies over bank account and securities held by Mr. Edmond Tam in the corresponding bank are pledged to secure general banking facilities granted to a subsidiary. A bank borrowing amounting to HK\$12,007,000 is also personally guaranteed by Ms. Paulina Yeung and secured by a property held by Ms. Paulina Yeung. Bank borrowings amounting to HK\$62,273,000 are secured by buildings and investment property of the Group with carrying amounts of HK\$33,030,000 and HK\$24,302,000 respectively.

As at 31 December 2018, bank borrowings amounting to HK\$27,429,000 are personally guaranteed by Mr. Edmond Tam. All monies over bank account and securities held by Mr. Edmond Tam in the corresponding bank are pledged to secure general banking facilities granted to a subsidiary. Bank borrowings amounting to HK\$27,429,000 are secured by land and buildings, plant and machinery and prepaid lease payments of the Group with carrying amounts of HK\$115,003,000, HK\$4,201,000 and HK\$47,906,000 respectively.

As at 31 May 2019, bank borrowings amounting to HK\$47,023,000 are personally guaranteed by Mr. Edmond Tam. All monies over bank account and securities held by Mr. Edmond Tam in the corresponding bank are pledged to secure general banking facilities granted to a subsidiary. Bank borrowings amounting to HK\$47,023,000 are secured by leasehold land, land and buildings and plant and machinery of the Group with carrying amounts of HK\$48,295,000, HK\$114,091,000 and HK\$3,280,000 respectively.

26. DEFERRED TAX ASSETS/LIABILITY

The following is the deferred tax assets and liability recognised and movements thereon during the Track Record Period:

| | Unrealised profit on inventories <i>HK\$'000</i> | ECL provision of trade receivables <i>HK\$'000</i> | Other temporary difference <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------------|--|--|--|---------------------------------|
| At 1 January 2016 | 297 | — | — | 297 |
| Credit (charge) to profit or loss | <u>471</u> | <u>—</u> | <u>(980)</u> | <u>(509)</u> |
| At 31 December 2016 | 768 | — | (980) | (212) |
| (Charge) credit to profit or loss | <u>(90)</u> | <u>—</u> | <u>980</u> | <u>890</u> |
| At 31 December 2017 | 678 | — | — | 678 |
| Adjustments (<i>Note 2</i>) | <u>—</u> | <u>50</u> | <u>—</u> | <u>50</u> |
| At 1 January 2018 (restated) | 678 | 50 | — | 728 |
| Credit (charge) to profit or loss | <u>813</u> | <u>(20)</u> | <u>800</u> | <u>1,593</u> |
| At 31 December 2018 | 1,491 | 30 | 800 | 2,321 |
| Credit (charge) to profit or loss | <u>974</u> | <u>(22)</u> | <u>—</u> | <u>952</u> |
| At 31 May 2019 | <u>2,465</u> | <u>8</u> | <u>800</u> | <u>3,273</u> |

No deferred tax asset has been recognised in respect of the unutilised tax losses of HK\$4,933,000, HK\$14,005,000, HK\$19,369,000 and HK\$19,693,000 as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively, due to the unpredictability of future profit streams. Unrecognised tax losses of HK\$4,933,000, HK\$14,005,000, HK\$19,369,000 and HK\$19,693,000 as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively, in the tax jurisdiction of the PRC may be carried forward for five years.

The Group has other deductible temporary difference of HK\$1,000,000 as at 31 December 2018 and 31 May 2019. No deferred tax asset has been recognised in respect of such temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC companies from 1 January 2008 onwards. Deferred taxation has not been provided for in the Historical Financial Information in respect of temporary differences attributable to accumulated profits of the PRC subsidiary amounting to approximately HK\$3,522,000, HK\$479,000, HK\$7,082,000 and HK\$6,667,000, respectively, as at 31 December 2016, 2017, 2018 and 31 May 2019, as the Group is able to control the timing of reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

27. SHARE CAPITAL

The share capital as at 1 January 2016, 31 December 2016, 2017, 2018 and 31 May 2019 represented the share capital of the following companies:

The Group

| Name of the companies | As at | As at 31 December | | | As at |
|-----------------------|--------------|-------------------|--------------|-----------|-----------|
| | 1 January | 2016 | 2017 | 2018 | 31 May |
| | 2016 | 2016 | 2017 | 2018 | 2019 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| The Company | —* | —* | —* | —* | —* |
| Jie Wei (Cambodia) | 7,800 | 7,800 | 7,800 | — | — |
| JA Overseas | 83 | 83 | 83 | 83 | — |
| Power Summit | —* | —* | —* | — | — |
| Castle Eagle | —* | —* | —* | — | — |
| | <u>7,883</u> | <u>7,883</u> | <u>7,883</u> | <u>83</u> | <u>—*</u> |

The Company

| | Number of shares | Amount HK\$'000 |
|--|-------------------|--------------------|
| Ordinary shares of HK\$0.01 per share | | |
| Authorised: | | |
| Balance at 1 January 2016, 31 December 2016, 2017, 2018 and 31 May 2019 | <u>38,000,000</u> | <u>380,000</u> |
| Issued and fully paid: | | |
| Balance at 1 January 2016, 31 December 2016, 2017, 2018 | 1 | —* |
| Issue of shares (<i>Note</i>) | <u>11,946</u> | <u>—*</u> |
| Balance at 31 May 2019 | <u>11,947</u> | <u>—*</u> |

* Less than HK\$1,000.

Note: On 27 February 2019, 10,679 shares and 1,267 shares were issued and allotted to Strategic King and the non-controlling shareholders of JA Overseas, respectively, as consideration of transferring the entire shareholdings in JA Overseas to the Company. Details are set out note 1(d) and (e).

28. RETIREMENT BENEFIT SCHEMES

The Group participates in a defined contribution scheme which is registered under the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. For members of the MPF Scheme, the Group contributes at the lower of HK\$1,500 per month or 5% of relevant payroll costs each month to the MPF Scheme, in which the contribution is matched by the employee.

The Group also participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC and other jurisdictions where the Group operates. Certain employees of the Group eligible for participating in the retirement schemes are entitled to retirement benefits from the schemes.

The Group is required to make contributions to the retirement schemes up to the time of retirement of the eligible employees, excluding those employees who resign before their retirement, at a percentage that is specified by the local government authorities.

The total expense recognised in profit or loss of HK\$2,752,000, HK\$3,605,000, HK\$7,894,000, HK\$3,010,000 (unaudited) and HK\$3,466,000 for the years ended 31 December 2016, 2017, 2018 and for the five months ended 31 May 2018 and 31 May 2019, respectively, represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

29. OPERATING LEASES

The Group as lessee

The Group made minimum lease payments in respect of its office premises and production plants amounting to HK\$1,274,000, HK\$2,513,000 and HK\$2,790,000 during the year ended 31 December 2016, 2017 and 2018, respectively.

At 31 December 2016, 2017 and 2018, the Group has commitments for future minimum lease payments under non-cancellable operating leases. At 31 May 2019, the Group has commitment for future minimum lease payments in respect of short-term leases upon application of HKFRS 16.

| | As at 31 December | | | As at |
|--|-------------------|--------------|--------------|------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Within one year | 1,769 | 1,783 | 2,595 | 252 |
| In the second to fifth years inclusive | <u>1,824</u> | <u>378</u> | <u>4,296</u> | <u>—</u> |
| | <u>3,593</u> | <u>2,161</u> | <u>6,891</u> | <u>252</u> |

Operating lease payments represent rentals payable by the Group for certain of its office premises and production plants. Leases are negotiated and rentals are fixed for terms ranging from one to five years.

The commitments for future minimum lease payments to Ms. Paulina Yeung included above are as follows:

| | As at 31 December | | |
|--|-------------------|------------|------------|
| | 2016 | 2017 | 2018 |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Within one year | — | 117 | 117 |
| In the second to fifth years inclusive | <u>—</u> | <u>117</u> | <u>—</u> |
| | <u>—</u> | <u>234</u> | <u>117</u> |

The Group as lessor

Property rental income earned were HK\$1,296,000, HK\$1,249,000 and HK\$1,181,000 during the year ended 31 December 2016, 2017 and 2018, respectively. Certain of the Group's properties was held for rental purposes, with a carrying amount of HK\$25,008,000 and HK\$24,302,000 as at 31 December 2016 and 2017. All of the properties held for rental purposes have committed terms for the two years ended 31 December 2017.

At 31 December 2016 and 2017, the Group had contracted with tenants for the following future minimum lease payments.

| | As at 31 December | |
|-----------------|--------------------------|-----------------|
| | 2016 | 2017 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | <u>1,145</u> | <u>1,145</u> |

30. CAPITAL COMMITMENTS

| | As at 31 December | | | As at |
|--|--------------------------|-----------------|-----------------|-----------------|
| | 2016 | 2017 | 2018 | 31 May |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the Historical Financial Information | <u>11,300</u> | <u>4,401</u> | <u>1,852</u> | <u>1,885</u> |

31. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group 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 Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes the secured bank borrowings disclosed in note 25, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly. As part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the management of the Group, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

32. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

| | As at 31 December | | | As at |
|--|-------------------|----------|----------|------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 HK\$'000 |
| <i>The Group</i> | | | | |
| Financial assets | | | | |
| Loans and receivables (including cash and cash equivalents) | 125,025 | 126,006 | — | — |
| Financial assets at amortised cost | — | — | 77,679 | 51,795 |
| Trade receivable at FVTOCI | — | — | 19,749 | 299 |
| Financial assets designated at FVTPL | — | 120 | — | — |
| Financial assets at FVTPL | — | — | 6,195 | — |
| Financial liabilities | | | | |
| Amortised cost | 175,364 | 134,426 | 197,643 | 152,447 |
| Lease liabilities | — | — | — | 6,600 |
| <i>The Company</i> | | | | |
| Financial liability | | | | |
| Amortised cost | 209 | 826 | 15,168 | 31,420 |

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, trade receivable at FVTOCI, amounts due from shareholders, amount due from ultimate holding company, financial assets at FVTPL, bank balances and cash, trade and other payables, lease liabilities, amount due to ultimate holding company, amounts due to shareholders, amount due to a non-controlling shareholder of a subsidiary and bank borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (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 manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk**Currency risk*

The Group undertakes certain transactions denominated in foreign currencies which are different from USD and RMB, the functional currency of the respective group entities. The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities as at 31 December 2016, 2017, 2018 and 31 May 2019 are as follows:

| | Assets | | | | Liabilities | | | |
|------|-------------------|----------|----------|----------|-------------------|----------|----------|----------|
| | As at 31 December | | | As at | As at 31 December | | | As at |
| | 2016 | 2017 | 2018 | 31 May | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| HK\$ | 420 | 1,612 | 1,534 | 3,348 | 31,507 | 14,230 | 134,720 | 53,154 |
| RMB | 29 | 140 | 87 | 7 | — | — | — | — |
| CAD | 6 | 180 | 168 | 149 | — | — | — | — |
| KHR | 212 | 167 | 106 | 127 | — | — | — | — |

Sensitivity analysis

Under the pegged exchange rate system, the financial impact arising from changes in exchange rates between HK\$ and USD is not expected to be significant and therefore, the corresponding sensitivity analysis is not prepared.

The above RMB, CAD and KHR denominated assets are insignificant to the Group. Accordingly, no sensitivity analysis is presented in management's opinion.

The Company is mainly operated in its local jurisdiction with most of the transactions settled in its functional currencies of the operations and did not have significant exposure to risk resulting from changes in foreign currency exchange rates.

Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate amount due to a shareholder (see note 20 for details) and fixed-rate bank borrowings (see note 25 for details). However, management considers the fair value interest rate risk is insignificant as they are relatively short-term.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate financial assets at FVTPL (see note 21 for details) and bank balances (see note 22 for details) and variable-rate bank borrowings (see note 25 for details) due to the fluctuation of the prevailing market interest rate.

The Group currently does not have an interest rate hedging policy to hedge against the exposure. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liabilities outstanding at the end of the reporting period were outstanding for the whole year/period. A 50 basis points increase or decrease is used when reporting interest rate risk internally to key management personnel and represents the management's assessment of the reasonably possible change in interest rates. Financial assets at FVTPL and bank balances are excluded from sensitivity analysis as the directors of the Company consider that the exposure of cash flow interest rate risk arising from variable-rate financial assets at FVTPL and bank balances is insignificant.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2016, 2017, 2018 and for the five months ended 31 May 2019 would decrease/increase by HK\$369,000, HK\$228,000, HK\$94,000 and HK\$74,000, respectively.

Credit risk and impairment assessment

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge obligations by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

The Group's credit risk is primarily attributable to its trade receivables. 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 trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as 49%, 37%, 33% and 3% of the total gross trade receivables was due from the Group's largest customer as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively, and 94%, 69%, 84% and 85% of the total gross trade receivables was due from the five largest customers as at 31 December 2016, 2017, 2018 and 31 May 2019, respectively.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Group's exposure to credit risk after adoption of HKFRS 9

After the adoption of HKFRS 9, in addition to the credit risk limit management and other mitigation measures as described above, the Group monitors all financial assets, except for trade receivables, that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime ECL rather than 12m ECL.

Trade receivables

For trade receivables (including trade receivables at FVTOCI), the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items individually.

The Group writes off trade receivables when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

Other receivables, amounts due from shareholders and amount due from ultimate holding company

For other receivables, amounts due from shareholders and amount due from ultimate holding company, the Group has applied the general approach in HKFRS 9 to measure the loss allowance at 12m ECL, since the directors of the Company assessed that there has not been any significant increase in credit risk since initial recognition.

In determining the expected credit losses, the Group determines the ECL on these items individually based on past default experience of the counterparty and reputation.

Bank balances

The bank balances is determined to have low credit risk. The credit risk on bank balances is limited because the counterparties are reputable banks and the risk of inability to pay is low.

As part of the Group's credit risk management, the Group applied internal credit rating for its customers. The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables |
|-------------------------------|--|------------------------------------|
| Group A | The counter party has a low risk of default based on historical repayment records and has a good reputation | Lifetime ECL — not credit-impaired |
| Group B | The counter party has higher creditability but sometimes repays after due dates | Lifetime ECL — not credit-impaired |
| Group C | The counter party usually settles after due day with a higher risk of default | Lifetime ECL — not credit-impaired |
| Group D | There is evidence indicating the asset is credit-impaired | Lifetime ECL — credit-impaired |
| Group E | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off |

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| As at 31 December 2018 | | Note | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount | |
|---|----|------|---------------------------|---------------------------|----------------------------------|-----------------------|----------|
| | | | | | | HK\$'000 | HK\$'000 |
| Trade receivables at FVTOCI | | | | | | | |
| Trade receivables | 19 | | N/A | (Note ii) | Lifetime ECL | 19,749 | 19,749 |
| Financial assets at amortised cost | | | | | | | |
| Trade receivables | 18 | | N/A | Group A | Lifetime ECL not credit-impaired | 32,011 | |
| | | | | Group C | Lifetime ECL not credit-impaired | 179 | |
| | | | | Group D | Lifetime ECL credit-impaired | 2,207 | 34,397 |
| Other receivables | 18 | | N/A | (Note i) | 12-month ECL | 16,587 | 16,587 |
| Amounts due from shareholders | 20 | | N/A | (Note i) | 12-month ECL | 1,948 | 1,948 |
| Bank balance and cash | 22 | | A + to BBB- | N/A | 12-month ECL | 27,120 | 27,120 |
| As at 31 May 2019 | | Note | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount | |
| | | | | | | HK\$'000 | HK\$'000 |
| Trade receivables at FVTOCI | | | | | | | |
| Trade receivables | 19 | | N/A | (Note ii) | Lifetime ECL | 299 | 299 |
| Financial assets at amortised cost | | | | | | | |
| Trade receivables | 18 | | N/A | Group A | Lifetime ECL not credit-impaired | 11,298 | |
| | | | | Group C | Lifetime ECL not credit-impaired | 115 | |
| | | | | Group D | Lifetime ECL credit-impaired | 2,207 | 13,620 |
| Other receivables | 18 | | N/A | (Note i) | 12-month ECL | 12,018 | 12,018 |

| As at 31 May 2019 | Note | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amount | |
|--|------|------------------------|------------------------|--------------------------|-----------------------|----------|
| | | | | | HK\$'000 | HK\$'000 |
| Amount due from ultimate holding company | 20 | N/A | (Note i) | 12-month ECL | 16 | 16 |
| Amounts due from shareholders | 20 | N/A | (Note i) | 12-month ECL | 205 | 205 |
| Bank balance and cash | 22 | A + to BBB- | N/A | 12-month ECL | 28,189 | 28,189 |

Notes:

- i For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.
- ii For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the expected credit losses on trade receivables individually.

The following table provides information about the exposure to credit risk for trade receivables (including trade receivables at FVTOCI) as at 31 December 2018 and 31 May 2019 within lifetime ECL (non credit-impaired).

As at 31 December 2018**Gross carrying amount**

| Internal credit rating | Average loss rate | Trade receivables HK\$'000 |
|------------------------|-------------------|-------------------------------|
| Group A | 0.43% | 32,011 |
| Group C | 15.08% | 179 |
| | | 32,190 |

| Internal credit rating | Average loss rate | Trade receivables at FVTOCI HK\$'000 |
|------------------------|-------------------|---|
| Group A | 0.39% | 19,749 |

As at 31 May 2019

Gross carrying amount

| Internal credit rating | Average loss rate | Trade receivables HK\$'000 |
|------------------------|-------------------|-------------------------------|
| Group A | 0.25% | 11,298 |
| Group C | 15.20% | <u>115</u> |
| | | <u><u>11,413</u></u> |

| Internal credit rating | Average loss rate | Trade receivables at FVTOCI HK\$'000 |
|------------------------|-------------------|--|
| Group A | 0.33% | <u>299</u> |

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 that is available without undue cost or effort.

In the opinion of the directors of the Company, the trade receivables within Groups A and C at the end of the reporting period which have been past due 90 days or more are not considered as in default by considering the expected subsequent and historical repayment from the trade debtors.

Movement in the allowance for impairment of trade receivables:

| | Lifetime ECL (not credit- impaired) HK\$'000 | Lifetime ECL (credit- impaired) HK\$'000 | Total HK\$'000 |
|--------------------------------------|---|---|---------------------|
| As at 31 December 2017 under HKAS 39 | — | 2,207 | 2,207 |
| Adoption of HKFRS 9 | <u>287</u> | <u>—</u> | <u>287</u> |
| As at 1 January 2018 — As restated | 287 | 2,207 | 2,494 |
| Impairment losses reversed | (287) | — | (287) |
| New financial assets originated | <u>166</u> | <u>—</u> | <u>166</u> |
| As at 31 December 2018 | 166 | 2,207 | 2,373 |
| Impairment losses reversed | (166) | — | (166) |
| New financial assets originated | <u>46</u> | <u>—</u> | <u>46</u> |
| As at 31 May 2019 | <u><u>46</u></u> | <u><u>2,207</u></u> | <u><u>2,253</u></u> |

Liquidity risk

In management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group relies on external borrowings and advances from shareholders as significant sources of liquidity.

The following tables detail 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. The maturity dates for other financial liabilities are based on the agreed repayment dates.

Liquidity tables

As at 31 December 2016

| | Weighted average interest rate % | On demand or less than 3 months HK\$'000 | 4 months to 1 year HK\$'000 | 1 year to 2 years HK\$'000 | 2 years to 5 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31 December 2016 HK\$'000 |
|--|---|---|-----------------------------------|----------------------------------|-----------------------------------|---|--|
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | N/A | 50,822 | — | — | — | 50,822 | 50,822 |
| Amount due to ultimate holding company | N/A | 11 | — | — | — | 11 | 11 |
| Amounts due to shareholders | N/A | 9,868 | — | — | — | 9,868 | 9,868 |
| Amount due to a shareholder | 4.5% | 9,750 | — | — | — | 9,750 | 9,750 |
| Amount due to a non-controlling shareholder of a subsidiary | N/A | 7,221 | — | — | — | 7,221 | 7,221 |
| Secured bank borrowings | | | | | | | |
| — fixed rate | 6.18% | 689 | 2,015 | 2,568 | 5,284 | 10,556 | 9,309 |
| — variable rate | 2.32% | 89,125 | — | — | — | 89,125 | 88,383 |
| | | <u>167,486</u> | <u>2,015</u> | <u>2,568</u> | <u>5,284</u> | <u>177,353</u> | <u>175,364</u> |

As at 31 December 2017

| | Weighted average interest rate % | On demand or less than 3 months HK\$'000 | 4 months to 1 year HK\$'000 | 1–2 years HK\$'000 | 2 years to 5 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31 December 2017 HK\$'000 |
|--|---|---|-----------------------------------|-----------------------|-----------------------------------|---|--|
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | N/A | 56,322 | — | — | — | 56,322 | 56,322 |
| Amount due to ultimate holding company | N/A | 4 | — | — | — | 4 | 4 |
| Amounts due to shareholders | N/A | 2,883 | — | — | — | 2,883 | 2,883 |
| Amount due to a non-controlling shareholder of a subsidiary | N/A | 937 | — | — | — | 937 | 937 |
| Secured bank borrowings | | | | | | | |
| — fixed rate | 6.09% | 869 | 14,368 | 2,617 | 3,066 | 20,920 | 19,664 |
| — variable rate | 2.83% | 55,004 | — | — | — | 55,004 | 54,616 |
| | | <u>116,019</u> | <u>14,368</u> | <u>2,617</u> | <u>3,066</u> | <u>136,070</u> | <u>134,426</u> |

As at 31 December 2018

| | Weighted average interest rate % | On demand or less than 3 months HK\$'000 | 4 months to 1 year HK\$'000 | 1-2 years HK\$'000 | 2 years to 5 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31 December 2018 HK\$'000 |
|--|---|---|-----------------------------------|-----------------------|-----------------------------------|---|--|
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | N/A | 45,404 | — | — | — | 45,404 | 45,404 |
| Amount due to ultimate holding company | N/A | 13,170 | — | — | — | 13,170 | 13,170 |
| Amounts due to shareholders | N/A | 110,761 | — | — | — | 110,761 | 110,761 |
| Amount due to a non-controlling shareholder of a subsidiary | N/A | 879 | — | — | — | 879 | 879 |
| Secured bank borrowings | | | | | | | |
| — fixed rate | 6.18% | 626 | 1,828 | 2,318 | 558 | 5,330 | 4,972 |
| — variable rate | 4.17% | 22,599 | — | — | — | 22,599 | 22,457 |
| | | <u>193,439</u> | <u>1,828</u> | <u>2,318</u> | <u>558</u> | <u>198,143</u> | <u>197,643</u> |

As at 31 May 2019

| | Weighted average interest rate % | On demand or less than 3 months HK\$'000 | 4 months to 1 year HK\$'000 | 1-2 years HK\$'000 | 2 years to 5 years HK\$'000 | Total undiscounted cash flows HK\$'000 | Carrying amount at 31 May 2019 HK\$'000 |
|--|---|---|-----------------------------------|-----------------------|-----------------------------------|---|---|
| Non-derivative financial liabilities | | | | | | | |
| Trade and other payables | N/A | 50,626 | — | — | — | 50,626 | 50,626 |
| Lease liabilities | 8.39% | 621 | 1,879 | 2,449 | 2,554 | 7,503 | 6,600 |
| Amounts due to shareholders | N/A | 53,904 | — | — | — | 53,904 | 53,904 |
| Amount due to a non-controlling shareholder of a subsidiary | N/A | 894 | — | — | — | 894 | 894 |
| Secured bank borrowings | | | | | | | |
| — fixed rate | 6.18% | 623 | 1,817 | 1,927 | — | 4,367 | 4,123 |
| — variable rate | 4.54% | 43,342 | — | — | — | 43,342 | 42,900 |
| | | <u>150,010</u> | <u>3,696</u> | <u>4,376</u> | <u>2,554</u> | <u>160,636</u> | <u>159,047</u> |

The amounts included above for variable interest rate 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 the reporting period.

Bank borrowings with a repayment on demand clause are included in the “on demand or less than 3 months” time band in the above maturity analysis. As at 31 December 2016, 2017, 2018 and 31 May 2019, the aggregate undiscounted principal amounts of these bank borrowings amounted to HK\$88,383,000, HK\$54,616,000, HK\$11,306,000 and HK\$42,900,000, respectively. Taking into account the Group’s financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank borrowings will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements. Accordingly the aggregate principal and interest cash outflows will amount to HK\$89,125,000, HK\$55,004,000, HK\$11,397,000 and HK\$43,342,000 as at 31 December 2016, 2017, 2018 and 31 May 2019 respectively.

**Maturity Analysis — Bank borrowings subject to a repayment
on demand clause based on scheduled repayments**

| | 0–3 months | 4 months to 1 year | 1–2 years | 2–5 years | Total undiscounted cash flows | Carrying amount |
|------------------|-----------------|-----------------------|-----------------|-----------------|-------------------------------------|--------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 31 December 2016 | 74,860 | 1,251 | 1,617 | 11,397 | 89,125 | 88,383 |
| 31 December 2017 | 42,396 | 1,211 | 11,397 | — | 55,004 | 54,616 |
| 31 December 2018 | 398 | 10,999 | — | — | 11,397 | 11,306 |
| 31 May 2019 | 43,342 | — | — | — | 43,342 | 42,900 |

The Company

Amount due to a subsidiary is interest-free and repayable on demand.

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of financial instruments.

(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

The Group's trade receivables at FVTOCI and financial assets at FVTPL are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined.

| Financial assets | Fair value as at | | | Fair value | Fair value hierarchy | Valuation techniques and key inputs |
|-----------------------------|------------------|----------|----------|------------|----------------------|---|
| | 31 December | | | as at | | |
| | 2016 | 2017 | 2018 | 31 May | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 | | |
| | | | | HK\$'000 | | |
| Trade receivables at FVTOCI | — | — | 19,749 | 299 | Level 2 | Discounted cash flow method. The key input is market interest rate. |
| Financial assets at FVTPL | — | 120 | 6,195 | — | Level 3 | Discounted cash flow method. The key inputs are market interest rate and estimated performance of underlying investments. <i>(Note)</i> |

Note: The financial impact arising from changes in unobservable inputs is not expected to be significant and therefore, no sensitivity analysis is presented in management's opinion.

There is no transfer between different levels of the fair value hierarchy during the Track Record Period.

(ii) Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

The fair values of these financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

33. RECONCILIATION OF 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.

| | Amount due to ultimate holding company HK\$'000 | Amounts due to shareholders HK\$'000 | Amount due to a non-controlling shareholder of a subsidiary HK\$'000 | Amount due to a related party HK\$'000 | Interest payable HK\$'000 | Dividend payable HK\$'000 | Bank borrowings HK\$'000 | Deferred issue costs HK\$'000 | Lease liabilities HK\$'000 | Total HK\$'000 |
|-----------------------------------|--|---|---|---|------------------------------|------------------------------|-----------------------------|----------------------------------|-------------------------------|-------------------|
| At 1 January 2016 | — | 20,610 | 7,721 | 386 | — | — | 59,125 | — | — | 87,842 |
| Financing cash flows | (9) | (5,569) | — | (6) | (2,502) | (670) | 280,804 | — | — | 272,048 |
| Interest expense | — | — | — | — | 2,502 | — | — | — | — | 2,502 |
| Dividend declared (Note 13) | — | — | — | — | — | 8,502 | — | — | — | 8,502 |
| Exchange difference | — | (242) | (500) | (10) | — | — | (531) | — | — | (1,283) |
| Non-cash transaction (Note 34) | 20 | 4,819 | — | (370) | — | (7,832) | (241,706) | — | — | (245,069) |
| At 31 December 2016 | 11 | 19,618 | 7,221 | — | — | — | 97,692 | — | — | 124,542 |
| Financing cash flows | (7) | (17,556) | — | — | (4,016) | (24,075) | 123,886 | — | — | 78,232 |
| Interest expense | — | — | — | — | 4,016 | — | — | — | — | 4,016 |
| Dividend declared (Note 13) | — | — | — | — | — | 24,748 | — | — | — | 24,748 |
| Exchange difference | — | 148 | 276 | — | — | — | 1,084 | — | — | 1,508 |
| Non-cash transaction (Note 34) | — | 673 | — | — | — | (673) | (148,382) | — | — | (148,382) |
| Others (Note) | — | — | (6,560) | — | — | — | — | — | — | (6,560) |
| At 31 December 2017 | 4 | 2,883 | 937 | — | — | — | 74,280 | — | — | 78,104 |
| Financing cash flows | (4) | (2,883) | — | — | (5,802) | (1,563) | 2,973 | (3,339) | — | (10,618) |
| Interest expense | — | — | — | — | 5,802 | — | — | — | — | 5,802 |
| Dividend declared (Note 13) | — | — | — | — | — | 14,742 | — | — | — | 14,742 |
| Exchange difference | — | (92) | (58) | — | — | — | (1,175) | — | — | (1,325) |
| Non-cash transaction (Note 34) | 13,179 | 111,057 | — | — | — | (13,179) | (48,649) | — | — | 62,408 |
| Others | (9) | (204) | — | — | — | — | — | 5,265 | — | 5,052 |
| At 31 December 2018 | 13,170 | 110,761 | 879 | — | — | — | 27,429 | 1,926 | — | 154,165 |
| Adoption of HKFRS 16 | — | — | — | — | — | — | — | — | 5,799 | 5,799 |
| Financing cash flows | (13,170) | (56,874) | — | — | (2,617) | — | 19,336 | (3,948) | (954) | (58,227) |
| Interest expense | — | — | — | — | 2,617 | — | — | — | 216 | 2,833 |
| Exchange difference | — | 17 | 15 | — | — | — | 258 | — | (108) | 182 |
| Non-cash transaction | — | — | — | — | — | — | — | — | 1,647 | 1,647 |
| Others | — | — | — | — | — | — | — | 3,193 | — | 3,193 |
| At 31 May 2019 | — | 53,904 | 894 | — | — | — | 47,023 | 1,171 | 6,600 | 109,592 |
| At 1 January 2018 | 4 | 2,883 | 937 | — | — | — | 74,280 | — | — | 78,104 |
| Financing cash flows | — | (1,178) | — | — | (1,936) | — | (7,206) | (1,391) | — | (11,711) |
| Interest expense | — | — | — | — | 1,936 | — | — | — | — | 1,936 |
| Exchange difference | — | 72 | 39 | — | — | — | 604 | — | — | 715 |
| Non-cash transaction | — | — | — | — | — | — | (46,051) | — | — | (46,051) |
| Others | — | — | — | — | — | — | — | 3,870 | — | 3,870 |
| At 31 May 2018 (unaudited) | 4 | 1,777 | 976 | — | — | — | 21,627 | 2,479 | — | 26,863 |

Note: The repayment of HK\$6,560,000 represents the settlement of purchase of property, plant and equipment.

34. MAJOR NON-CASH TRANSACTIONS

During the years ended 31 December 2016, 2017 and 2018, short term borrowings on bills discounted with recourse of HK\$241,706,000, HK\$148,382,000 and HK\$48,649,000, respectively, were settled through bills receivables discounted to the relevant financial institutions.

During the year ended 31 December 2016, among the dividend declared amounted to HK\$8,502,000, including which HK\$2,993,000, HK\$4,608,000 and HK\$231,000 were settled through amount due from ultimate holding company, amount due to ultimate holding company and amount due to a shareholder respectively.

During the year ended 31 December 2017, among the dividend declared amounted to HK\$24,748,000, including which HK\$673,000 was settled through amount due to a shareholder.

During the year ended 31 December 2018, among the dividend declared amounted to HK\$14,742,000, HK\$13,179,000 was settled through amount due to ultimate holding company.

During the year ended 31 December 2016, amount due to ultimate holding company of HK\$4,588,000 was settled through amount due to a shareholder.

During the year ended 31 December 2016, amount due to a related party, which Mr. Raymond Tam is the controlling shareholder, of HK\$370,000 was settled through amount due from a related party by a subsidiary of the Group.

During the year ended 31 December 2018, amounts of HK\$103,257,000 and HK\$7,800,000 represent the considerations to a shareholder for the acquisitions of Power Summit and Castle Eagle, in which amounts of HK\$1,000,000 and HK\$200,000 was settled by cash, respectively.

35. RELATED PARTY DISCLOSURES**(a) Related party balances**

Details of the outstanding balances with related parties are set out in the consolidated statements of financial position and in note 20.

(b) Related party transactions

During the Track Record Period, the Group entered into the following transactions with related parties:

| Name of related parties | Nature of transactions | Year ended 31 December | | | Five months ended |
|-------------------------|------------------------|------------------------|----------|----------|-------------------|
| | | 2016 | 2017 | 2018 | 31 May 2019 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Mr. Edmond Tam | Interest expense | 484 | — | — | — |
| Ms. Paulina Yeung | Rental expense | 117 | 117 | 117 | 49 |

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the Track Record period is as follows:

| | Year ended 31 December | | | Five months ended |
|---|------------------------|--------------|--------------|-------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Fees, salaries, allowances and other benefits | 4,780 | 2,280 | 2,280 | 950 |
| Retirement benefit scheme contributions | 20 | 18 | 18 | 8 |
| | <u>4,800</u> | <u>2,298</u> | <u>2,298</u> | <u>958</u> |

The remuneration of directors and key executives is determined having regard to performance of individuals and market trends.

(d) Personal guarantees from shareholders

As at 31 December 2016, the general banking facilities amounting to HK\$97,692,000 granted to the Group are secured by personal guarantees from Mr. Edmond Tam.

As at 31 December 2017, the general banking facilities amounting to HK\$74,280,000 granted to the Group are secured by personal guarantees from Mr. Edmond Tam, out of which HK\$12,007,000 is also secured by personal guarantees from Ms. Paulina Yeung.

As at 31 December 2018, the general banking facilities amounting to HK\$27,429,000 granted to the Group are secured by personal guarantees from Mr. Edmond Tam.

As at 31 May 2019, the general banking facilities amounting to HK\$47,023,000 granted to the Group are secured by personal guarantees from Mr. Edmond Tam.

(e) Pledge of assets held by shareholders

As at 31 December 2016, 2017, 2018 and 31 May 2019, the general banking facilities granted by banks to the Group are secured by all monies over bank account and securities held by Mr. Edmond Tam in the corresponding bank.

As at 31 December 2017, the general banking facilities granted by banks to the Group are also secured by a property held by Ms. Paulina Yeung.

36. PARTICULARS OF SUBSIDIARIES

Details of the Company's subsidiaries at the date of this report are as follows:

| Name of subsidiary | Place and date of incorporation/ establishment | Principal place of operation | Paid up issued capital | Proportion of ownership interest attributable to the Group | | | | | Principal activities | Notes |
|---|---|------------------------------|------------------------|--|-------|-------|-------------------|-------------------------|--|-------|
| | | | | As at 31 December 2016 | 2017 | 2018 | As at 31 May 2019 | The date of this report | | |
| JA Overseas | BVI, 26 April 2012 | Hong Kong | US\$11,947 | 89.4% | 89.4% | 89.4% | 100% | 100% | Investment holding | (a) |
| Castle Eagle | BVI, 28 October 2013 | Hong Kong | US\$1 | 100% | 100% | 89.4% | 100% | 100% | Investment holding | (a) |
| Xuchang Gaoshi Garment Co., Ltd. | The PRC, 7 November 2013 | The PRC | RMB0 | 100% | 100% | 89.4% | — | — | Inactive | (g) |
| Jie Wei (Cambodia) | Cambodia 9 February 2011 | Cambodia | US\$1,000,000 | 100% | 100% | 89.4% | 100% | 100% | Manufacturing and sales of sleepwear products, loungewear products and processing services | (b) |
| Justin Allen | Hong Kong, 1 March 1983 | Hong Kong | HK\$100,000 | 89.4% | 89.4% | 89.4% | 100% | 100% | Sales of sleepwear products and loungewear products | (c) |
| Shanghai Jielong | The PRC, 9 June 2006 | The PRC | RMB1,000,000 | 89.4% | 89.4% | 89.4% | 100% | 100% | Sales of fabric | (d) |
| Justin Allen Hong Kong Limited | Hong Kong, 14 January 2016 | Hong Kong | HK\$1,000 | 89.4% | 89.4% | 89.4% | 100% | 100% | Inactive | (e) |
| Power Summit | BVI, 16 May 2012 | Hong Kong | US\$1 | 100% | 100% | 89.4% | 100% | 100% | Inactive | (a) |
| Justin Allen Investment (China) Limited | Hong Kong, 27 July 2011 | Hong Kong | HK\$100,000 | 100% | 100% | 89.4% | 100% | 100% | Inactive | (h) |
| Henan Kaiyu | The PRC, 1 June 2011 | The PRC | RMB119,744,836 | 70% | 75% | 67.0% | 75% | 75% | Manufacturing and sales of sleepwear products, loungewear products and greige fabric and processing services | (f) |

Notes:

- (a) No statutory financial statements of JA Overseas, Castle Eagle and Power Summit have been prepared since the date of incorporation as they are incorporated in jurisdiction where there is no statutory audit requirement.

- (b) The statutory financial statements for each of the years ended 31 December 2016 and 2017 were audited by Allnison Auditing & Consulting Co., Ltd. The statutory financial statements for the year ended 31 December 2018 are not yet issued.
- (c) The statutory financial statements for the year ended 31 December 2016 were audited by K. C. Chan & Company. The statutory financial statements for the years ended 31 December 2017 and 2018 were audited by Goted CPA Limited.
- (d) The statutory financial statements for each of the years ended 31 December 2016, 2017 and 2018 were audited by Shanghai Hui Hong Certified Public Accountants Co., Ltd.
- (e) The statutory financial statements for each of the years ended 31 December 2016 and 2017 were audited by Goted CPA Limited. The statutory financial statements for the year ended 31 December 2018 are not yet issued.
- (f) The statutory financial statements for each of the years ended 31 December 2016 and 2017 were audited by 河南信則會計師事務所有限公司. The statutory financial statements for the year ended 31 December 2018 was audited by 河南勝盟聯合會計師事務所.
- (g) No statutory financial statements for each of the year ended 31 December 2016, 2017 and 2018 as there was no requirement to issue audited accounts by local authorities. The subsidiary was disposed to an independent third party and such disposal was completed on 10 May 2019.
- (h) The statutory financial statements for the year ended 31 December 2016 were audited by K.C. Chan & Company. The statutory financial statements for the year ended 31 December 2017 was audited by Goted CPA Limited. The statutory financial statements for the year ended 31 December 2018 are not yet issued.

Details of non-wholly-owned subsidiary that has material non-controlling interests

The Group's non-wholly-owned subsidiaries that have material non-controlling interests at the end of the reporting period include JA Overseas and Henan Kaiyu. The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

| Name of subsidiary | Place of incorporation/ establishment and principal place of operation | Proportion of ownership interest held by non-controlling interests | | | | Profit (loss) allocated to non-controlling interests | | | | Accumulated non-controlling interests | | | |
|--------------------|---|---|-------|----------------|------------------------|---|-------------|----------------------|-------------------|--|---------|----------------|--------|
| | | As at 31 December | | As at | Year ended 31 December | | Five months | | As at 31 December | | As at | | |
| | | 2016 | 2017 | 31 May 2019 | 2016 | 2017 | 2018 | ended 31 May 2019 | 2016 | 2017 | 2018 | 31 May 2019 | |
| | | | | | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | HKS'000 | |
| JA Overseas | BVI | 10.6% | 10.6% | 10.6% | — | 5,327 | 6,692 | 6,635* | 850 | 15,277 | 19,330 | 19,685* | — |
| Henan Kaiyu | The PRC | 30% | 25% | 33.0%# | 25% | (687) | (1,846) | (1,575) | (81) | 26,619 | 26,721 | 23,415 | 23,782 |

* *excluding non-controlling interests of Henan Kaiyu, JA Overseas' subsidiary.*

On 11 December 2018, pursuant to a sale and purchase agreement entered into between JA Overseas and Mr. Edmond Tam, JA Overseas agrees to purchase and Mr. Edmond Tam agrees to sell the entire issued shares of Power Summit, the then holding company of Henan Kaiyu (note (b) of note 1). Henan Kaiyu becomes a non-wholly owned subsidiary of JA Overseas since 11 December 2018.

Summarised historical financial information in respect of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised historical financial information below represents amounts before intragroup eliminations.

JA Overseas and its subsidiaries

| | As at 31 December | | |
|--|------------------------|------------------|------------------|
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 |
| Current assets | 256,699 | 231,079 | 284,360 |
| Non-current assets | 215,062 | 220,690 | 203,618 |
| Current liabilities | 225,009 | 151,211 | 268,075 |
| Non-current liabilities | 8,099 | 5,301 | 2,762 |
| | <u>238,653</u> | <u>295,257</u> | <u>217,141</u> |
| Equity attributable to owners of the Company | 196,757 | 249,206 | 174,041 |
| Non-controlling interests of JA Overseas | 15,277 | 19,330 | 19,685 |
| Non-controlling interest of Henan Kaiyu | 26,619 | 26,721 | 23,415 |
| | <u>238,653</u> | <u>295,257</u> | <u>217,141</u> |
| | Year ended 31 December | | |
| | 2016 HK\$'000 | 2017 HK\$'000 | 2018 HK\$'000 |
| Revenue | 467,863 | 524,852 | 608,386 |
| Expenses | (422,034) | (472,908) | (549,280) |
| Profit for the year | <u>45,829</u> | <u>51,944</u> | <u>59,106</u> |
| Profit attributable to owners of the Company | 41,189 | 47,098 | 54,046 |
| Profit attributable to the non-controlling interests of JA Overseas | 5,327 | 6,692 | 6,635 |
| Loss attributable to the non-controlling interest of Henan Kaiyu | (687) | (1,846) | (1,575) |
| Profit for the year | <u>45,829</u> | <u>51,944</u> | <u>59,106</u> |
| Other comprehensive (expense) income attributable to owners of the Company | (4,824) | 5,011 | (9,440) |
| Other comprehensive expense attributable to the non-controlling interests of JA Overseas | (41) | (15) | (15) |
| Other comprehensive (expense) income attributable to the non-controlling interest of Henan Kaiyu | (1,900) | 1,948 | (1,731) |
| Other comprehensive (expense) income | <u>(6,765)</u> | <u>6,944</u> | <u>(11,186)</u> |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | 36,365 | 52,109 | 44,606 |
| Non-controlling interests of JA Overseas | 5,286 | 6,677 | 6,620 |
| Non-controlling interest of Henan Kaiyu | (2,587) | 102 | (3,306) |
| | <u>39,064</u> | <u>58,888</u> | <u>47,920</u> |
| Net cash (outflow) inflow from operating activities | (242,226) | (72,128) | 6,990 |
| Net cash outflow from investing activities | (28,975) | (16,913) | (14,466) |
| Net cash inflow (outflow) from financing activities | 272,048 | 100,696 | (10,618) |
| Effect of foreign exchange | (323) | 271 | (297) |
| Net cash inflow (outflow) | <u>524</u> | <u>11,926</u> | <u>(18,391)</u> |

Henan Kaiyu

| | As at 31 December | | | As at |
|---|-------------------|----------------|-----------------|--------------------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Current assets | 33,466 | 58,545 | 70,703 | 59,819 |
| Non-current assets | 150,177 | 156,630 | 140,859 | 140,276 |
| Current liabilities | 92,894 | 101,555 | 111,166 | 97,957 |
| | <u>90,749</u> | <u>113,620</u> | <u>100,396</u> | <u>102,138</u> |
| Equity attributable to owners of the Company | 64,130 | 86,899 | 76,981 | 78,356 |
| Non-controlling interest | 26,619 | 26,721 | 23,415 | 23,782 |
| | <u>90,749</u> | <u>113,620</u> | <u>100,396</u> | <u>102,138</u> |
| | | | | Five months |
| | | | | ended |
| | | | | 31 May |
| | | | | 2019 |
| | | | | HK\$'000 |
| Revenue | 88,316 | 183,899 | 162,972 | 63,365 |
| Expenses | (90,607) | (191,285) | (169,271) | (63,689) |
| Loss for the year/period | <u>(2,291)</u> | <u>(7,386)</u> | <u>(6,299)</u> | <u>(324)</u> |
| Loss attributable to owners of the Company | (1,604) | (5,540) | (4,724) | (243) |
| Loss attributable to non-controlling interest | (687) | (1,846) | (1,575) | (81) |
| Loss for the year/period | <u>(2,291)</u> | <u>(7,386)</u> | <u>(6,299)</u> | <u>(324)</u> |
| Other comprehensive (expense) income attributable to owners of the Company | (4,432) | 5,845 | (5,194) | 1,345 |
| Other comprehensive (expense) income attributable to non-controlling interest | (1,900) | 1,948 | (1,731) | 448 |
| Other comprehensive (expense) income | <u>(6,332)</u> | <u>7,793</u> | <u>(6,925)</u> | <u>1,793</u> |
| Total comprehensive (expense) income for the year/period attributable to: | | | | |
| Owners of the Company | (6,036) | 305 | (9,918) | 1,102 |
| Non-controlling interest | (2,587) | 102 | (3,306) | 367 |
| | <u>(8,623)</u> | <u>407</u> | <u>(13,224)</u> | <u>1,469</u> |
| Net cash inflow (outflow) from operating activities | 18,586 | (10,550) | (8,404) | 11,850 |
| Net cash outflow from investing activities | (13,891) | (4,650) | (1,934) | (347) |
| Net cash (outflow) inflow from financing activities | (2,662) | 14,984 | 11,358 | (11,323) |
| Effect of foreign exchange | (58) | 217 | (178) | 66 |
| Net cash inflow | <u>1,975</u> | <u>1</u> | <u>842</u> | <u>246</u> |

37. TRANSFERS OF FINANCIAL ASSETS

The following were the Group's bills receivables as at 31 December 2016, 2017, 2018 and 31 May 2019, there were discounted to banks on a full recourse basis:

| | As at 31 December | | | As at |
|---|-------------------|-----------------|----------|----------|
| | 2016 | 2017 | 2018 | 31 May |
| | HK\$'000 | HK\$'000 | HK\$'000 | 2019 |
| Carrying amount of discounted bills receivables | 58,928 | 41,990 | — | — |
| Carrying amount of associated liabilities | <u>(58,928)</u> | <u>(41,990)</u> | <u>—</u> | <u>—</u> |
| Net position | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

The Group discounted bills receivables to banks by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivables, it continues to recognise the full carrying amount of the bills receivables and has recognised the cash received on the transfer as discounted bills. These financial assets are carried at amortised cost in the Group's consolidated statements of financial position.

38. SUBSEQUENT EVENTS

Saved as disclosed in the report, subsequent to 31 May 2019, the following significant events took place:

- (i) On 17 October 2019, the authorised share capital of the Company was increased from HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each to HK\$500,000,000 divided into 50,000,000,000 Shares of HK\$0.01 each by creation of an additional 49,962,000,000 shares.
- (ii) The issue of 937,488,053 shares to be made upon capitalisation of part of the amount standing to the credit of the share premium account of the Company as set out in the section headed "Further information about our Group — 3. Resolutions in writing of all Shareholders passed on 17 October 2019" in Appendix V to this prospectus.
- (iii) A share option scheme with principal terms detailed in the section headed "Share Option Scheme" in Appendix V was conditionally adopted by the shareholders of the Company on 17 October 2019.
- (iv) On 30 August 2019, the board of directors of the Company have resolved to declare a dividend of HK\$15,000,000 to the shareholders of the Company.

39. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 May 2019.

The information set forth in this appendix does not form part of the accountants' report on historical financial information of the Group for the three years ended 31 December 2018 and five months ended 31 May 2019 (the "Accountants' Report") prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth 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" to this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the Global Offering (as defined in this prospectus) on the unaudited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 as if the Global Offering had taken place on such day.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 or any future dates following the Global Offering.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group is prepared based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 as shown in the Accountants' Report as set out in Appendix I to this prospectus and adjusted as described below.

| | Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 <i>HK\$'000</i> <i>(Note 1)</i> | Estimated net proceeds from the Global Offering <i>HK\$'000</i> <i>(Note 2)</i> | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 <i>HK\$'000</i> | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 per share <i>HK\$</i> <i>(Note 3)</i> |
|---|--|---|---|---|
| Based on an Offer Price of HK\$0.40 per share | 192,785 | 100,370 | 293,155 | 0.23 |
| Based on an Offer Price of HK\$0.50 per share | 192,785 | 130,683 | 323,468 | 0.26 |

Notes:

1. The audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 is based on the consolidated net assets of the Group attributable to owners of the Company as at 31 May 2019 amounted to HK\$192,785,000 extracted from the Consolidated Financial Statements set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on 312,500,000 Offer Shares to be issued at the Offer Price of HK\$0.40 per Offer Share and HK\$0.50 per Offer Share, respectively, being the low-end and high-end of the indicative Offer Price range, respectively, after deduction of the estimated listing expenses (excluding approximately HK\$27,482,000 of listing expenses recognised in profit or loss up to 31 May 2019). It does not take into account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.
3. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 May 2019 per Share has been arrived at after making the adjustments referred to in this section and on the basis of a total of 1,250,000,000 Shares, assuming of (i) 1 Share in issue as at 31 May 2019; (ii) 11,946 Shares pursuant to the Reorganisation attributable to the Controlling Shareholders (as defined in Appendix I) had been issued; (iii) 937,488,053 Shares pursuant to the Capitalisation Issue had been issued; and (iv) 312,500,000 Offer Shares to be issued pursuant to the Share Offer had been completed on 31 May 2019. It does not take into account of any Shares which may be issued upon the exercise of options which may be granted under the Share Option Scheme, any Shares which may be issued upon the exercise of the Over-allotment Option or any Shares which may be issued or repurchased by the Company pursuant to the Company's general mandates.
4. No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company as at 31 May 2019 to reflect any trading results or other transactions of the Group entered into subsequent to 31 May 2019.
5. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company as at 31 May 2019 does not take into account a dividend declared by the Company in August 2019, details of which are disclosed in the paragraph headed "Financial Information — Dividend" in this prospectus.

Taking into account of the impact of such dividend declared to the owners of the Company of HK\$15,000,000 and estimated net proceeds from the Global Offering at the indicative Offer Price range of lower limit and upper limit of HK\$0.4 and HK\$0.5 per Share, the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the owners of the Company will be HK\$278,155,000 and HK\$308,468,000, respectively. The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per share after taken into account of such dividend declared by the Company, estimated net proceeds from the Global Offering at the indicative Offer Price range of lower limit and upper limit of HK\$0.4 and HK\$0.5 per Offer Share, will be HK\$0.22 and HK\$0.25, respectively.

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 our Group's 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 Justin Allen Holdings Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Justin Allen 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 unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 May 2019 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 19 November 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 proposed listing of the shares of the Company on The Stock Exchange of Hong Kong Limited by way of initial public offering (the "Global Offer") on the Group's financial position as at 31 May 2019 as if the Global Offer had taken place at 31 May 2019. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the five months ended 31 May 2019, 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 (the "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 31 May 2019 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 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 purposes 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
19 November 2019

The following is the text of a letter, summary of values and property valuation report prepared for the purpose of incorporation in this prospectus received from Peak Vision Appraisals Limited, an independent property valuer, in connection with its opinion of market value of the properties owned by our Group as at 31 August 2019.



Unit 702, 7th Floor, Capital Centre
No. 151 Gloucester Road
Wanchai, Hong Kong
www.peakval.com

Tel (852) 2187 2238
Fax (852) 2187 2239

19 November 2019

The Board of Directors
Justin Allen Holdings Limited
31st Floor, Excel Centre
No. 483A Castle Peak Road
Cheung Sha Wan
Kowloon
Hong Kong

Dear Sirs,

In accordance with the instruction from Justin Allen Holdings Limited (the “**Company**”) for us to value the properties owned by the Company and its subsidiaries (together, the “**Group**”) located in Hong Kong Special Administrative Region (“**Hong Kong**”) and the People’s Republic of China (the “**PRC**”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of value of such properties as at 31 August 2019 (the “**Valuation Date**”) for public documentation purpose.

This letter, forming part of our valuation report, identifies the properties being valued, explains the basis and methodology of our valuation, and lists out the assumptions and title investigations which we have made in the course of our valuation, as well as the limiting conditions.

Our valuation is our opinion of market value which is defined to mean “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

In valuing the property nos. 1, 2, 3 and 4, which are held for owner occupation by the Group in Hong Kong and the PRC respectively, we have adopted the Direct Comparison Method assuming the properties are being sold in their existing states by making reference

to comparable sales evidence as available in the relevant market or, where appropriate, the Investment Method by taking into account the current rents passing and the reversionary income potential of each of the properties.

In valuing the property no. 5, which is held for owner occupation by the Group in the PRC, since there are no readily identifiable market comparables due to the nature of buildings and structures constructed, and accordingly such property cannot be valued by comparison with open market transactions. Therefore, we have adopted the Depreciated Replacement Cost (“DRC”) Method in arriving at the value of such property. The DRC Method is based on an estimate of the market value for the existing use of the land of the property by Direct Comparison Method, and the costs to reproduce or replace in new condition the buildings and structures being valued in accordance with current construction costs for similar buildings and structures in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The DRC Method generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

We have grouped the properties owned by the Group into the following categories:

Group I — Properties held for owner occupation by the Group in Hong Kong

Group II — Properties held for owner occupation by the Group in the PRC

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the value if the properties are to be offered for sale at the same time as a portfolio.

Our valuation has been made on the assumption that the owner sells the properties on the open market in their existing states without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangements which could serve to affect the values of the properties. No forced sale situation in any manner is assumed in our valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the properties or for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of onerous nature which could affect their values.

We have caused title searches to be made at the Land Registry in Hong Kong in respect of the property nos. 1 and 2. However, we have not searched the original documents to verify ownership or to ascertain the existence of any amendments.

We have been provided by the Group with copies of documents in relation to the titles to the property nos. 3, 4 and 5 which are located in the PRC. We have not examined the original documents to verify ownership and to ascertain the existence of any amendments which do not appear on the copies handed to us. In the course of our valuation, we have relied on the advice given by the Group and the legal opinions prepared by AllBright Law Offices, the Group's legal adviser on the PRC law (the "PRC Legal Adviser"), regarding the titles to the properties.

The properties were inspected during August and September 2019 by Mr. Tony M. W. Cheng, a manager of our firm who has over 10 years of experience in the inspection of properties in Hong Kong and the PRC and Mr. Steven T.M. Wong, a senior analyst of our firm with 4 years of valuation experience. We have inspected the exterior and, where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

We have not carried out on-site measurements to verify the correctness of the site and floor areas of the properties but have assumed that the site and floor areas shown on the documents and floor plans available to us are correct. Dimensions, measurements and areas included in the attached valuation report are based on information contained in the documents provided to us and are, therefore, only approximations.

We have relied to a considerable extent on the information provided by the Group and the PRC Legal Adviser regarding the titles to the properties and the interests of the Group in the properties. In respect of the properties in the PRC, we have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, site and floor areas, interests attributable to the Group and all other relevant materials regarding the properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld. The management of the Group has reviewed and confirmed the factual content and has agreed to any limiting conditions of this report.

In valuing the properties, we have complied with all the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors and the International Valuation Standards 2017 published by the International Valuation Standards Council, and under generally accepted valuation procedures and practices.

Unless otherwise stated, all monetary amounts stated in our property valuation report are in Hong Kong Dollars (HK\$). The exchange rate adopted in our valuation is approximately RMB1 = HK\$1.10 which was approximately the prevailing exchange rate at the Valuation Date.

We hereby confirm that we have no material connection or involvement with the Group, the properties, or the values reported herein and that we are in a position to provide an objective and unbiased valuation.

Our Summary of Values and property valuation report are enclosed herewith.

Yours faithfully,
For and on behalf of
Peak Vision Appraisals Limited
Nick C. L. Kung
MRICS, MHKIS, RPS (G.P.), MCIREA,
RICS Registered Valuer
Director

Note: Mr. Nick C. L. Kung is a RICS Registered Valuer and a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in Hong Kong and the PRC.

SUMMARY OF VALUES

| Property | Capital value in existing state as at 31 August 2019 | Interest attributable to the Group | Capital value attributable to the Group as at 31 August 2019 |
|---|---|--|---|
| Group I — Properties held for owner occupation by the Group in Hong Kong | | | |
| 1 Unit on the 31 st Floor, Excel Centre, No. 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong | HK\$74,500,000 | 100% | HK\$74,500,000 |
| 2 Car parking space No. P49 on the 9 th Floor, Excel Centre, No. 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong | HK\$1,200,000 | 100% | HK\$1,200,000 |
| | <hr/> | | <hr/> |
| Sub-Total: | <u>HK\$75,700,000</u> | | <u>HK\$75,700,000</u> |

Group II — Properties held for owner occupation by the Group in the PRC

| | | | |
|--|----------------|------|----------------|
| 3 Units 5A to 5C and 5E to 5H of Level 5, Block 2, Huanxian Plaza, No. 515 Yishan Road, Xuhui District, Shanghai, the PRC | HK\$17,809,000 | 100% | HK\$17,809,000 |
|--|----------------|------|----------------|

SUMMARY OF VALUES

| | Property | Capital value in existing state as at 31 August 2019 | Interest attributable to the Group | Capital value attributable to the Group as at 31 August 2019 |
|---|--|---|---|---|
| 4 | Units 6A to 6H of Level 6, Block 2, Huanxian Plaza, No. 515 Yishan Road, Xuhui District, Shanghai, the PRC | HK\$20,669,000 | 100% | HK\$20,669,000 |
| 5 | An industrial complex located on the eastern side of Gongye Avenue and southern side of Keji Avenue, Yanling County, Xuchang City, Henan Province, the PRC | HK\$146,212,000 | 75% | HK\$109,659,000 |
| | Sub-Total: | <u>HK\$184,690,000</u> | | <u>HK\$148,137,000</u> |
| | Grand Total: | <u>HK\$260,390,000</u> | | <u>HK\$223,837,000</u> |

PROPERTY VALUATION REPORT

Group I — Properties held for owner occupation by the Group in Hong Kong

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 August 2019 |
|--|--|--|---|
| 1 Unit on the 31 st Floor, Excel Centre, No. 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong 7,975/167,915 th equal and undivided shares of and in the Remaining Portion of New Kowloon Inland Lot No. 6242 | Excel Centre is a 29-storey office building with shop unit and entrance lobby on ground floor, management office and lift lobby on the 1 st floor, car parking spaces on 3 rd to 9 th floors and office units on 12 th to 35 th floors (4 th floor, 14 th floor, 24 th floor and 34 th floor omitted) completed in about 2010. It is situated on the southeastern side of Castle Peak Road at the section between Tai Nan West Street and Kwong Cheung Street, within Cheung Sha Wan, Kowloon. The property comprises the whole of the 31 st floor of Excel Centre, with a gross floor area of approximately 5,961 sq.ft. (553.79 sq.m.) and saleable area of approximately 4,177 sq.ft. (388.05 sq.m.). New Kowloon Inland Lot No. 6242 is held under Conditions of Exchange No. UB12505 for a term of 50 years commencing from 6 November 1997. The annual government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property subject to General Condition No. 1 of Conditions of Exchange No. 12505 (NKIL 6242). | As at the Valuation Date, the property was owner-occupied by the Group for office use. | HK\$74,500,000 100% interest attributable to the Group: HK\$74,500,000 |

Notes:

- i) According to the Land Registry Search conducted on 28 October 2019, the property is subject to the following encumbrances:
 - a) The registered owner of the property is Justin Allen Limited, an indirect wholly-owned subsidiary of the Company vide Memorial No. 12061100620059 dated 21 May 2012 for a consideration of HK\$39,992,600 (Part).
 - b) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited to secure “all monies” in respect of general banking facilities (Part) vide Memorial No. 12061100620064 dated 21 May 2012.
- ii) The Property is zoned as “Other Specified Uses (Business 2)” under Approved Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated December 2016.
- iii) In our valuation, we have adopted an average market unit rate of approximately HK\$12,500 per sq.ft. on gross floor area basis for the property.

We have made reference to sales transaction comparables in the vicinity. The market sales comparables are about HK\$11,000 to HK\$15,600 per sq.ft. on gross floor area basis. The unit rate adopted by us is consistent with the said sales transaction references after due adjustments. Due adjustments to those sales transaction comparables have been made to reflect factors including but not limited to floor, view, layout, time and location in arriving at our opinion of value.

PROPERTY VALUATION REPORT

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 August 2019 | |
|----------|--|---|--|--|
| 2 | <p>Car parking space No. P49 on the 9th Floor, Excel Centre, No. 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong</p> <p>25/167,915th equal and undivided shares of and in the Remaining Portion of New Kowloon Inland Lot No. 6242</p> | <p>Excel Centre is a 29-storey office building with shop unit and entrance lobby on ground floor, management office and lift lobby on the 1st floor, car parking spaces on 3rd to 9th floors and office units on 12th to 35th floors (4th floor, 14th floor, 24th floor and 34th floor omitted) completed in about 2010. It is situated on the southeastern side of Castle Peak Road at the section between Tai Nan West Street and Kwong Cheung Street, within Cheung Sha Wan, Kowloon.</p> <p>The property comprises a car parking space No. P49 on the 9th floor of Excel Centre.</p> <p>New Kowloon Inland Lot No. 6242 is held under Conditions of Exchange No. UB12505 for terms of 50 years commencing from 6 November 1997.</p> <p>The annual government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property subject to General Condition No. 1 of Conditions of Exchange No. 12505 (NKIL 6242).</p> | <p>As at the Valuation Date, the property was owner-occupied by the Group for car parking space use.</p> | <p>HK\$1,200,000</p> <p>100% interest attributable to the Group: HK\$1,200,000</p> |

Notes:

- i) According to the Land Registry Search conducted on 28 October 2019, the property is subject to the following encumbrances:
 - a) The registered owner of the property is Justin Allen Limited, an indirect wholly-owned subsidiary of the Company vide Memorial No. 12061100620059 dated 21 May 2012 for a consideration of HK\$39,992,600 (Part).
 - b) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited to secure “all monies” in respect of general banking facilities (Part) vide Memorial No. 12061100620064 dated 21 May 2012.
- ii) The Property is zoned as “Other Specified Uses (Business 2)” under Approved Cheung Sha Wan Outline Zoning Plan No. S/K5/37 dated December 2016.
- iii) In our valuation, we have adopted market rent of approximately HK\$3,500 per month of the property. The market yield of the property is about 3.5%.

In the course of our valuation, we have made reference to car parking space rental transaction comparables in the vicinity. The market comparables are about HK\$3,200 to HK\$4,500 per month. The month rental adopted by us is consistent with the said rental transaction references after due adjustments. Due adjustments to those rental transaction comparables have been made to reflect factors including but not limited to floor, time and location in arriving at our opinion of value.

PROPERTY VALUATION REPORT

Group II — Properties held for owner occupation by the Group in the PRC

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 August 2019 |
|---|---|--|---|
| 3 Units 5A to 5C and 5E to 5H of Level 5, Block 2, Huanxian Plaza, No. 515 Yishan Road, Xuhui District, Shanghai, the PRC | Huanxian Plaza (the “Development”), comprises 2 blocks of 25-storey office/apartment buildings built over a 4-storey commercial podium and 1 level of basement carpark completed in about 2003. It is situated on the southeastern side of Yishan Road near its junction with Xiaozha Zhen Street, within Xuhui District, Shanghai. | As at the Valuation Date, the property was owner-occupied by the Group for office use. | HK\$17,809,000 (or equivalent to RMB16,190,000) 100% interest attributable to the Group HK\$17,809,000 (or equivalent to RMB16,190,000) |

The property comprises the whole of level 5 of block 2 of the Development which has been subdivided into 7 office units, having a total gross floor area of approximately 580.44 sq.m. (6,248 sq.ft.). Details of the gross floor area breakdown are listed as follows:

| Unit | Approximate Gross Floor Area (sq.m.) | Approximate Gross Floor Area (sq.ft.) |
|---------------|--|---|
| 5A | 74.13 | 798 |
| 5B | 46.58 | 501 |
| 5C | 159.97 | 1,722 |
| 5E | 95.36 | 1,026 |
| 5F | 48.27 | 520 |
| 5G | 48.27 | 520 |
| 5H | 107.86 | 1,161 |
| Total: | 580.44 | 6,248 |

The land use rights of the Development have been granted for a term expiring on 25 February 2054 for composite use.

Notes:

- i) Pursuant to the Shanghai Certificate of Real Estate Ownership No. Hu Fang Di Xu Zi (2016) Di 014800 dated 3 June 2016 issued by Shanghai Housing Security & Administration Bureau and Shanghai Planning Land & Resources Administration Bureau, the building ownership of the property with a total gross floor area of approximately 580.44 sq.m. is vested in Shanghai Jielong Trading Co., Ltd. (“**Shanghai Jielong**”), an indirect wholly-owned subsidiary of the Company, for a term from 3 June 2016 to 25 February 2054 for composite use. Details of the certificate are listed as follows:

| Block No. | Unit | Approximate Gross Floor Area (sq.m.) | Use |
|---------------|------|--|--------|
| 2 | 5A | 74.13 | Office |
| 2 | 5B | 46.58 | Office |
| 2 | 5C | 159.97 | Office |
| 2 | 5E | 95.36 | Office |
| 2 | 5F | 48.27 | Office |
| 2 | 5G | 48.27 | Office |
| 2 | 5H | 107.86 | Office |
| Total: | | 580.44 | |

- ii) Pursuant to 7 Shanghai Real Estate Sale and Purchase Contracts all dated 14 January 2016 entered into between Zhejiang Xinghe Group Company Limited (“**Zhejiang Xinghe**”) and Shanghai Jielong, Zhejiang Xinghe agreed to sell and Shanghai Jielong agreed to purchase the property for a total consideration of RMB8,996,820. Details of the contracts are summarized as follows:

| Contract No. | Location | Unit | Use | Approximate Gross Floor Area (sq.m.) | Consideration (RMB) |
|---------------|------------------------------|------|--------|--|------------------------|
| 2627272 | Block 2, No. 515 Yishan Road | 5A | Office | 74.13 | 1,149,015 |
| 2627320 | Block 2, No. 515 Yishan Road | 5B | Office | 46.58 | 721,990 |
| 2627334 | Block 2, No. 515 Yishan Road | 5C | Office | 159.97 | 2,479,535 |
| 2627375 | Block 2, No. 515 Yishan Road | 5E | Office | 95.36 | 1,478,080 |
| 2627379 | Block 2, No. 515 Yishan Road | 5F | Office | 48.27 | 748,185 |
| 2627390 | Block 2, No. 515 Yishan Road | 5G | Office | 48.27 | 748,185 |
| 2627431 | Block 2, No. 515 Yishan Road | 5H | Office | 107.86 | 1,671,830 |
| Total: | | | | 580.44 | 8,996,820 |

- iii) We have been provided with a legal opinion on the property by the PRC Legal Adviser, which contains, *inter alia*, the following information which has been translated from Chinese. If there are any inconsistencies, the Chinese version shall prevail:
- (a) The building ownership of the property is legally held by Shanghai Jielong;
 - (b) The building ownership of the property is subject to a mortgage in favour of China Minsheng Banking Corp., Ltd. Shanghai Branch;
 - (c) Shanghai Jielong holds the property and there are no laws, regulations, contracts or undertakings to restrict the transfer, mortgage, lease out, gift or license of all or any part of the property which are not subject to any guarantee, mortgage, seizure or other rights to deal with or restrict such rights; and
 - (d) Shanghai Jielong has fulfilled the registration on the set up, change, and discharge of any collateral related to the property in compliance with relevant laws and regulations.
- iv) In our valuation, we have adopted an average market unit rate of approximately RMB27,900 per sq.m. on gross floor area basis for the property.

In the course of our valuation, we have made reference to sales transaction comparables in the vicinity. The market comparables are about RMB26,000 to RMB35,000 per sq.m. on gross floor area basis. The unit rate adopted by us is consistent with the said sales transaction references after due adjustments. Due adjustments to those sales transaction comparables have been made to reflect factors including but not limited to floor, view, layout, time and location in arriving at our opinion of value.

PROPERTY VALUATION REPORT

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 August 2019 |
|--|---|--|---|
| 4 Units 6A to 6H of Level 6, Block 2, Huanxian Plaza, No. 515 Yishan Road, Xuhui District, Shanghai, the PRC | Huanxian Plaza (the "Development"), comprises 2 blocks of 25-storey office/apartment buildings built over a 4-storey commercial podium and 1 level of basement carpark completed in about 2003. It is situated on the southeastern side of Yishan Road near its junction with Xiaozha Zhen Street, within Xuhui District, Shanghai. | As at the Valuation Date, the property was owner-occupied by the Group for office use. | HK\$20,669,000 (or equivalent to RMB18,790,000) 100% interest attributable to the Group HK\$20,669,000 (or equivalent to RMB18,790,000) |

The property comprises the whole of level 6 of block 2 of the Development which has been subdivided into 8 office units, having a total gross floor area of approximately 671.78 sq.m. (7,232 sq.ft.). Details of the gross floor area breakdown are listed as follows:

| Unit | Approximate Gross Floor Area (sq.m.) | Approximate Gross Floor Area (sq.ft.) |
|---------------|--------------------------------------|---------------------------------------|
| 6A | 106.47 | 1,146 |
| 6B | 67.41 | 726 |
| 6C | 67.41 | 726 |
| 6D | 94.60 | 1,018 |
| 6E | 94.60 | 1,018 |
| 6F | 67.41 | 726 |
| 6G | 67.41 | 726 |
| 6H | 106.47 | 1,146 |
| Total: | 671.78 | 7,232 |

The land use rights of the Development have been granted for a term expiring on 25 February 2054 for composite use.

Notes:

- i) Pursuant to the Shanghai Certificate of Real Estate Ownership No. Hu Fang Di Xu Zi (2016) Di 014801 dated 3 June 2016 issued by Shanghai Housing Security & Administration Bureau and Shanghai Planning Land & Resources Administration Bureau, the building ownership of the property with a total gross floor area of approximately 671.78 sq.m. is vested in Shanghai Jielong Trading Co., Ltd. (“**Shanghai Jielong**”), an indirect wholly-owned subsidiary of the Company, for a term from 3 June 2016 to 25 February 2054 for composite use. Details of the certificate are listed as follows:

| Block No. | Unit | Approximate Gross Floor Area (sq.m.) | Use |
|---------------|------|--|--------|
| 2 | 6A | 106.47 | Office |
| 2 | 6B | 67.41 | Office |
| 2 | 6C | 67.41 | Office |
| 2 | 6D | 94.60 | Office |
| 2 | 6E | 94.60 | Office |
| 2 | 6F | 67.41 | Office |
| 2 | 6G | 67.41 | Office |
| 2 | 6H | 106.47 | Office |
| Total: | | 671.78 | |

- ii) Pursuant to 8 for Shanghai Real Estate Sale and Purchase Contracts all dated 14 January 2016 entered into between Zhejiang Xinghe Group Company Limited (“**Zhejiang Xinghe**”) and Shanghai Jielong, Zhejiang Xinghe agreed to sell and Shanghai Jielong agreed to purchase the property for a total consideration of RMB10,412,590. Details of the contracts are summarized as follows:

| Contract No. | Location | Unit | Use | Approximate Gross Floor Area (sq.m.) | Consideration (RMB) |
|---------------|------------------------------|------|--------|--|------------------------|
| 2627446 | Block 2, No. 515 Yishan Road | 6A | Office | 106.47 | 1,650,285 |
| 2627463 | Block 2, No. 515 Yishan Road | 6B | Office | 67.41 | 1,044,855 |
| 2627507 | Block 2, No. 515 Yishan Road | 6C | Office | 67.41 | 1,044,855 |
| 2627524 | Block 2, No. 515 Yishan Road | 6D | Office | 94.60 | 1,466,300 |
| 2627531 | Block 2, No. 515 Yishan Road | 6E | Office | 94.60 | 1,466,300 |
| 2627565 | Block 2, No. 515 Yishan Road | 6F | Office | 67.41 | 1,044,855 |
| 2627576 | Block 2, No. 515 Yishan Road | 6G | Office | 67.41 | 1,044,855 |
| 2627584 | Block 2, No. 515 Yishan Road | 6H | Office | 106.47 | 1,650,285 |
| Total: | | | | 671.78 | 10,412,590 |

- iii) We have been provided with a legal opinion on the property by the PRC Legal Adviser, which contains, *inter alia*, the following information which has been translated from Chinese. If there are any inconsistencies, the Chinese version shall prevail:
- (a) The building ownership of the property is legally held by Shanghai Jielong;
 - (b) The building ownership of the property is subject to a mortgage in favour of China Minsheng Banking Corp., Ltd. Shanghai Branch;
 - (c) Shanghai Jielong holds the property and there are no laws, regulations, contracts or undertakings to restrict the transfer, mortgage, lease out, gift or licence of all or any part of the property which are not subject to any guarantee, mortgage, seizure or other rights to deal with or restrict such rights; and
 - (d) Shanghai Jielong has fulfilled the registration on the set up, change, and discharge of any collateral related to the property in compliance with relevant laws and regulations.
- iv) In our valuation, we have adopted an average market unit rate of approximately RMB28,000 per sq.m. on gross floor area basis for the property.

In the course of our valuation, we have made reference to sales transaction comparables in the vicinity. The market comparables are about RMB26,000 to RMB35,000 per sq.m. on gross floor area basis. The unit rate adopted by us is consistent with the said sales transaction references after due adjustments. Due adjustments to those sales transaction comparables have been made to reflect factors including but not limited to floor, view, layout, time and location in arriving at our opinion of value.

PROPERTY VALUATION REPORT

| Property | Description and tenure | Particulars of Occupancy | Capital value in existing state as at 31 August 2019 |
|----------|--|---|---|
| 5 | An industrial complex located on the eastern side of Gongye Avenue and southern side of Keji Avenue, Yanling County, Xuchang City, Henan Province, the PRC | As at the Valuation Date, phase I of the property was owner-occupied by the Group for production use whereas phase II of the property was pending for renovation and development. | HK\$146,212,000 (or equivalent to RMB132,920,000) 75% interest attributable to the Group HK\$109,659,000 (or equivalent to RMB99,690,000) |

Phase I of the property comprises 6 blocks of 1 to 4-storey buildings, used as no. 2 clothing workshop, cloth machine workshop, power distribution room, boiler room, canteen complex building and dormitory building, having a total gross floor area of approximately 46,135.75 sq.m. (496,606 sq.ft.) completed between 2014 and 2017. Details of the gross floor area breakdown are listed as follows:

| Building | Approximate Gross Floor Area (sq.m.) | Approximate Gross Floor Area (sq.ft.) |
|--------------------------|--------------------------------------|---------------------------------------|
| No. 2 clothing workshop | 13,323.50 | 143,414 |
| Cloth machine workshop | 25,209.82 | 271,359 |
| Power distribution room | 395.40 | 4,256 |
| Boiler room | 637.18 | 6,859 |
| Canteen complex building | 3,058.41 | 32,921 |
| Dormitory building | <u>3,511.44</u> | <u>37,797</u> |
| Total: | <u>46,135.75</u> | <u>496,606</u> |

The ancillary structures of phase I of the property include 2 blocks of 1-storey ancillary structures used as guard rooms, having a total gross floor area of approximately 40 sq.m. (430 sq.ft.).

Phase II of the property comprises 1 block of 2-storey spinning clothing workshop (clothing) pending for renovation with a gross floor area of approximately 12,154.00 sq.m. (130,826 sq.ft.) and portion of the undeveloped area planned to be developed into 1 block of 2-storey spinning clothing workshop (spinning) with a gross floor area of approximately 23,399.00 sq.m. (251,867 sq.ft.).

The land use rights of the property have been granted for a term expiring on 31 August 2063 for industrial use.

Notes:

- i) Pursuant to the State-owned Land Use Rights Certificate No. Yan Guo Yong (2014) Di 0062, dated 8 April 2014 issued by the People's Government of Yanling County, the land use rights of the property with a site area of approximately 162,439.20 sq.m. have been granted to Henan Kaiyu Spinning, Weaving & Apparel Limited ("**Henan Kaiyu**"), a 75.00% indirect non-wholly-owned subsidiary of the Company, for a term expiring on 31 August 2063 for industrial use.
- ii) Pursuant to the Construction Land Use Planning Permit No. Di Zi Di 411024201400002 dated 14 March 2014 issued by the Yanling County Urban and Rural Planning Bureau, the site area of the property of approximately 162,439.20 sq.m. is approved for industrial use and construction scale with a total gross floor area of not less than approximately 194,927.04 sq.m. has been permitted.
- iii) Pursuant to 6 Real Estate Title Certificates all dated 19 January 2018, issued by the Yanling County Land Resources Bureau (now known as "**Yanling County Ministry of Natural Resources**"), the building ownership of the no. 2 clothing workshop, cloth machine workshop, power distribution room, boiler room, canteen complex building and dormitory building of the property with a total gross floor area of approximately 46,135.75 sq.m. is vested in Henan Kaiyu and the land use rights of the property having a shared site area of approximately 162,439.20 sq.m. (see Note i)) have been granted for a term expiring on 31 August 2063 for industrial use. Details of the certificates are listed as follows:

| Certificate No. | Building | No. of storey | Use | Approximate Gross Floor Area (sq.m.) |
|---|--------------------------|----------------------|-------------------------|---|
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000128 | No. 2 clothing workshop | 1 | Workshop | 13,323.50 |
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000130 | Cloth machine workshop | 1 | Workshop | 25,209.82 |
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000131 | Power distribution room | 1 | Power distribution room | 395.40 |
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000132 | Boiler room | 1 | Factory | 637.18 |
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000133 | Canteen complex building | 2 | Office and canteen | 3,058.41 |
| Yu (2018) Yanling Xian Bu Dong Chan Quan Di 0000134 | Dormitory building | 4 | Dormitory | 3,511.44 |
| Total: | | | | <u>46,135.75</u> |

- iv) Pursuant to the Construction Works Planning Permit No. 41102420180026 dated 29 October 2018 issued by the Yanling County Urban and Rural Planning Bureau, the construction works of spinning clothing workshop (spinning) of phase II of the property with a gross floor area of approximately 23,399.00 sq.m. have been approved.

- v) Pursuant to the Construction Works Planning Permit No. Jian Zi Di 41102420160017 dated 8 November 2016 issued by the Yanling County Urban and Rural Planning Bureau, the construction works of dormitory building, canteen complex building, power distribution room, boiler room and spinning clothing workshop (clothing) of the property with a total gross floor area of approximately 20,376.00 sq.m. (including basement area of 287.00 sq.m.) have been approved. Details of the permit are listed as follows:

| Building | No. of storey | Approximate Gross Floor Area (sq.m.) |
|--|---|---|
| Dormitory building | 4 | 3,752.00 |
| Canteen complex building | 2 | 3,101.00 |
| Power distribution room | 1 (including basement area of 287.00 sq.m.) | 724.00 |
| Boiler room | 1 | 645.00 |
| Spinning clothing workshop (clothing) | 2 | 12,154.00 |
| Total: | | <u>20,376.00</u> |

- vi) Pursuant to the Construction Works Planning Permit No. Jian Zi Di 411024201508260031 dated 8 November 2016 issued by Yanling County Urban and Rural Planning Bureau, the construction works of no. 2 clothing workshop and cloth machine workshop of the property with a total gross floor area of approximately 42,051.00 sq.m. have been approved. Details of the permit are listed as follows:

| Building | No. of storey | Approximate Gross Floor Area (sq.m.) |
|-------------------------|----------------------|---|
| No. 2 clothing workshop | 1 | 13,332.00 |
| Cloth machine workshop | 1 | 28,719.00 |
| Total: | | <u>42,051.00</u> |

- vii) Pursuant to 7 Construction Works Commencement Permits all dated 4 November 2016 issued by Yanling County Housing and Urban-Rural Development Bureau, the construction works of the dormitory building, canteen complex building, power distribution room, boiler room, spinning clothing workshop (clothing), no. 2 clothing workshop and cloth machine workshop of the property with a total gross floor area of approximately 62,427.00 sq.m. (including basement area of 287.00 sq.m.) have been permitted. Details of the permits are listed as follows:

| Permit No. | Building | Approximate Gross Floor Area (sq.m.) |
|--------------------|--|---|
| 411024201611040101 | Dormitory building | 3,752.00 |
| 411024201611040111 | Canteen complex building | 3,101.00 |
| 411024201611040121 | Power distribution room (including basement area of 287.00 sq.m.) | 724.00 |
| 411024201611040131 | Boiler room | 645.00 |
| 411024201611040141 | Spinning clothing workshop (clothing) | 12,154.00 |
| 411024201611040151 | No. 2 clothing workshop | 13,332.00 |
| 411024201611040161 | Cloth machine workshop | 28,719.00 |
| Total: | | <u>62,427.00</u> |

- viii) Pursuant to the Grant Contract of State-owned Land Use Rights No. 411024-CR-2013-0084-5705 entered into between Yanling County Land Resources Bureau (now known as “**Yanling County Ministry of Natural Resources**”) and Henan Kaiyu dated 2 July 2013, Yanling County Land Resources Bureau agreed to grant the land use rights of the property with a site area of 162,439.20 sq.m. to Henan Kaiyu. The salient conditions stipulated in the said contract are summarized as follows:
- a) Site area : 162,439.20 sq.m.
 - b) Location : Eastern side of Gongye Avenue, southern side of Keji Avenue
 - c) Land use : Industrial use
 - d) Land use term : 50 years
 - e) Land grant consideration : RMB41,350,000
 - f) Gross floor area : Approximately 194,927.04 sq.m.
 - g) Plot ratio : Not less than 1.20
 - h) Height limit : not exceeding 24 m
 - i) Site coverage : Not less than 60%
 - j) Greenery ratio : Not more than 20%
 - k) Construction work : Construction to commence before 1 November 2013 and complete before 1 May 2016
- ix) In the course of our valuation, we have attributed no commercial value to the ancillary structures of the property with a total gross floor area of approximately 40.00 sq.m. as proper title certificates had not been obtained by the Group as at the Valuation Date.
- x) We have been provided with a legal opinion on the property by the PRC Legal Adviser, which contains, *inter alia*, the following information which has been translated from Chinese. If there are any inconsistencies, the Chinese version shall prevail:
- (a) Phase I and the land use rights of the property are subject to a mortgage in favour of Standard Chartered Bank (China) Limited Zhengzhou Branch;
 - (b) The land premium for the land use rights of the property has been fully settled;
 - (c) The land use rights and building ownership of the property are legally held by Henan Kaiyu;
 - (d) Henan Kaiyu holds the land use rights and building ownership of the property and there are no laws, regulations, contracts or undertakings to restrict the transfer, mortgage, lease out, gift or licence of all or any part of the land use rights and building ownership of the property which are not subject to any guarantee, mortgage, seizure or other rights to deal with or restrict such rights; and
 - (e) Despite of the delay in commencement and completion of the construction project on its own land, the risk of recourse for liquidated damages or administrative penalties being imposed by the grantor, Yanling Land Resources Bureau, is extremely low.
- xi) In our valuation, we have adopted an average market unit rate of approximately RMB278 per sq.m. for the land portion of the property.

In the course of our valuation on the land portion of the property, we have made reference to recent land sales transaction comparables of industrial use in the vicinity which have characteristics comparable to the land portion of the property. The prices of those sales transaction references are about RMB276 to RMB313 per sq.m.

The unit rate adopted by us is consistent with the said land sales transaction comparables after due adjustments. Due adjustments to the unit rates have been made to reflect factors including but not limited to time, location and size of the land portion of the property in arriving at our opinion of value.

Set out below is a summary of the Memorandum and Articles of Association of our Company and of certain aspects of Cayman Companies Law.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1 Memorandum of Association

The Memorandum of Association of the Company was conditionally adopted on 17 October 2019 and states, *inter alia*, that the liability of the members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VI in the section headed “Appendix VI — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection” in this prospectus.

2 Memorandum and Articles of Association

The Memorandum and Articles of Association of the Company were conditionally adopted on 17 October 2019 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles is HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each.

2.2 *Directors*

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Memorandum and Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing shares or attaching to any class of shares, any share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such times and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on

any shareholders or attaching to any class of shares, any share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Memorandum and Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Memorandum and Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Memorandum and Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Memorandum and Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment 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 first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Memorandum and Articles of Association prohibiting the making of loans to Directors or their respective close associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his close associates (or, if required by the Listing Rules, his other associates) has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director or any of his close associates of any security or indemnity in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) 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 any of his close associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, 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 any of his close associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

- (iv) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (A) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his close associates may benefit; or
 - (B) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their close associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his close associates, as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or any of his close associates 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.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or in connection with the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Memorandum and Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment of office as a result of the termination of this appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the number of Directors and which Directors are to retire by rotation at such meeting. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Memorandum and Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by an ordinary resolution of the members of the Company under the Memorandum and Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or 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 (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. 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 a second or casting vote.

2.3 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.4 *Variation of rights of existing shares or classes of shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied 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 meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Memorandum and Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

2.5 *Alteration of capital*

The Company may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of a larger amount than its existing shares. On any consolidation of fully paid shares and division into shares of larger amount, the Directors may settle any

difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled subject to the provisions of the Companies Law; and
- (c) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.6 Special resolution — majority required

A "special resolution" is defined in the Memorandum and Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths 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 specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “ordinary resolution” is defined in the Memorandum and Articles of Association 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 held in accordance with the Memorandum and Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.7 Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote by any person authorised in such circumstances to do so and such person may vote by proxy.

Save as expressly provided in the Memorandum and Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll save that the chairman of the meeting may allow a resolution which relates purely to a procedural or administrative matter as prescribed under the Listing Rules to be voted on by 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 proxy(ies) or representative(s) at any general meeting of the Company or at any general 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 entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee(s)) which he represents as that recognised clearing house (or its nominee(s)) could exercise as if it were an individual member of the Company holding the number and class of shares specified in such authorisation, including, where a show of hands is allowed, the right to vote individually on a show of hands.

2.8 Annual general meetings and extraordinary general meetings

The Company shall hold a general meeting as its annual general meeting each year, within a period of not more than 15 months after the holding of the last preceding annual general meeting (or such longer period as the Stock Exchange may authorise). The annual general meeting shall be specified as such in the notices calling it.

The board of Directors may, whenever it thinks fit, convene an extraordinary general meeting. General meetings shall also be convened on the written requisition of any one or more members deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisitionists, provided that such requisitionists held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Directors do not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting to be held within a further 21 days, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Directors shall be reimbursed to them by the Company.

2.9 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection by members of the Company (other than officers of the Company) and no such member shall have any

right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date to which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Memorandum and Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

2.10 Auditors

The Company shall at every annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The removal of an auditor before the expiration of his period of office shall require the approval of an ordinary resolution of the members in general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manners as the members may determine.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting shall be called by not less than 21 days' notice in writing and not less than 20 clear business days and any extraordinary general meeting shall be called by not less than 14 days' notice in writing and not less than 10 clear business days. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions and the general nature of the business to be considered at the meeting. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Memorandum and Articles of Association or the terms of issue of the shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

2.12 Transfer of shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and 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 of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four;
- (e) the shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such amount not exceeding the maximum amount as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any share they shall, within two months after the date on which the transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may be suspended and the register of members of the Company closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirement of the Stock Exchange, at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year.

2.13 Power of the Company to purchase its own shares

The Company is empowered by the Companies Law and the Memorandum and Articles of Association to purchase its own shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange. Where our 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 our 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.

2.14 Power of any subsidiary of the Company to own shares

There are no provisions in the Memorandum and Articles of Association relating to the ownership of shares by a subsidiary.

2.15 Dividends and other methods of distribution

Subject to the Companies Law and the Memorandum and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. The Articles of Association provide dividends may be declared and paid out of the profits of our 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 Cayman Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts 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 share all sums of money (if any) presently payable by him to our Company on account of calls or otherwise.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them any dividend which may be at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other monies payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up on the basis that the shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company 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 Directors may think fit on the basis that the shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding or to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall 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 of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge

to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on shares and forfeiture of shares

The Directors may from time to time make calls upon the members of the Company in respect of any monies unpaid on their shares (whether on account of the nominal amount of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment and to whom such payment shall be made) pay to the person at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other monies due in respect thereof.

If a sum called in respect of a share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 20% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited share shall be deemed to be the property of the Company and may be re-allotted, sold or otherwise disposed of.

A person whose shares have been forfeited shall cease to be a member of the Company in respect of the forfeited shares but shall, notwithstanding the forfeiture, 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 Directors shall in their discretion so require) interest thereon at such rate not exceeding 20% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them.

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of a fee of such amount not exceeding the maximum amount as may from time to time be permitted under the Listing Rules as the Directors may determine for each inspection.

2.19 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, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Memorandum and Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of shares of the Company is described in paragraph 2.4 above.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Memorandum and Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company 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 of the Company 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 in a winding up 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 amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any 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 of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (a) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (b) the Company has not during that time or before the expiry of the three month period referred to in (d) below received any indication of the whereabouts or existence of the member; (c) during the 12 year period, at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed by the member; and (d) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Memorandum and Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

2.23 Subscription Rights Reserve

The Articles of Association 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.

SUMMARY OF CAYMAN ISLANDS COMPANIES LAW AND TAXATION

1 Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and

exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2 Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 31 May 2013 under the Companies Law. As such, its 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 size of its authorised share capital.

3 Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

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 premium on those shares shall be transferred to an account called the “share premium account”. At the option of a company, these provisions may not apply to premium 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 a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (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) in 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;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any 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, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its memorandum and articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its memorandum and 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. In addition, such a company may, if authorised to do so by its memorandum and articles of association, purchase its own shares, including any redeemable shares. The manner of such a purchase must be authorised either by the memorandum and articles of association or by an ordinary resolution of the company. The memorandum and articles of association may provide that the manner of purchase may be determined by the directors 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 member of the company holding 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.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act 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.

4 Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of 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 (see paragraph 3 above for details).

5 Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class 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 where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6 Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands 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 Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands 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.

Claims against a company by its shareholders must, as a general rule, 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.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7 Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8 Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) 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.

9 Register of members

An exempted company may, subject to the provisions of its memorandum and articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may from time to time think fit. 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.

10 Inspection of books and records

Members of a company will 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 memorandum and articles of association.

11 Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of at least two-thirds of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, except that a company may in its memorandum and articles of association specify that the required majority shall be a number greater than two-thirds, and may additionally so provide that such majority (being not less than two-thirds) may differ as between matters required to be approved by a special resolution. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the memorandum and articles of association of the company.

12 Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13 Mergers and consolidations

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (a) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company, and (b) "consolidation" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. In order to effect such a merger or consolidation, the directors of each constituent company must approve a written plan of merger or consolidation, which must then be authorised by (a) a special resolution of each constituent company and (b) such other authorisation, if any, as may be specified in such constituent company's memorandum and articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies of the Cayman Islands together with a declaration as to the solvency of the consolidated or

surviving company, a list of the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the members and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

14 Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand 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 and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

15 Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand 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.

16 Indemnification

Cayman Islands law does not limit the extent to which a company's memorandum and articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

17 Liquidation

A company may be placed in liquidation compulsorily by an order of the court, or voluntarily (a) by a special resolution of its members if the company is solvent, or (b) by an ordinary resolution of its members if the company is insolvent. The liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

18 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.

19 Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has applied for an undertaking from the Financial Secretary of the Cayman Islands:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of the withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking will be for a period of twenty years.

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 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 not party to any double tax treaties that are applicable to any payments made by or to the Company.

20 Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

21 General

Ogier, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising 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 section headed "Appendix VI — Documents delivered to the Registrar of Companies in Hong Kong and available for inspection" in Appendix VI in 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/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR GROUP

1. Incorporation of our Company

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 31 May 2013.

Our Company was registered in Hong Kong under Part 16 of the Companies Ordinance as a non-Hong Kong company on 12 September 2013 and its principal place of business in Hong Kong is at 31/F Excel Centre, 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. In compliance with the Companies Ordinance, Mr. Tam, our Executive Director, who resides in Flat G, 16/F, Block 15, Laguna City, 2 Laguna Street, Kwun Tong, Kowloon has been appointed as our authorised representative for the acceptance of service of process and any notice required to be served on our Company in Hong Kong.

Our Company was incorporated in the Cayman Islands and is subject to the Cayman Islands law and its constitution. Its constitution comprises a Memorandum of Association and Articles of Association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of our Company

(a) Authorised share capital

As at the date of incorporation of our Company on 31 May 2013, our authorised share capital was HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. Upon incorporation, one Share was subscribed at nil paid to a company secretarial service provider Codan Trust Company (Cayman) Limited, the initial subscriber, an Independent Third Party, which was then transferred to Strategic King on the same date at par value.

Subsequent to the Reorganisation and conditional upon, among others, the Listing Committee granting the listing of, and permission to deal in the Shares on the Main Board and the obligations of the Underwriters becoming and remaining unconditional and not terminated pursuant to the relevant Underwriting Agreement, our Company will increase its authorised share capital from HK\$380,000 divided into 38,000,000 Shares to HK\$500,000,000 divided into 50,000,000,000 shares through the creation of 49,962,000,000 additional shares.

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares to be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option or any options that may be granted under the Share Option Scheme), the issued share capital of our Company will be HK\$12,500,000 divided into 1,250,000,000 Shares, all fully paid or credited as fully paid, and 3,750,000,000 Shares will remain unissued. Other than the allotment and issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or the Over-allotment Option, our Directors

do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed herein, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all Shareholders passed on 17 October 2019:

On 17 October 2019, pursuant to resolutions in writing passed by all the Shareholders:

- (a) our authorised share capital was increased from HK\$380,000 to HK\$500,000,000 by the creation of a further 49,962,000,000 Shares;
- (b) the Memorandum of Association was adopted with immediate effect;
- (c) the Memorandum and Articles of Association were conditionally adopted with effect from Listing; and
- (d) conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board and on the Underwriting Agreements becoming unconditional and not having been terminated, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Global Offering and the grant of the Over-allotment Option by our Company were approved and our Directors were authorised to approve the allotment and issue of the Offer Shares pursuant to the Global Offering and such number of Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option;
 - (ii) the rules of the Share Option Scheme were approved and adopted and the Directors or any such committee thereof were authorised to approve any amendments 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 the Shares thereunder, to allot, issue and deal with the Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as may be necessary or desirable to implement the Share Option Scheme;
 - (iii) conditional on the share premium account being credited as a result of the Global Offering, our Directors were authorised to capitalise HK\$9,374,880.53 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 937,488,053 Shares for allotment and issue to Shareholder(s) whose name(s) appear(s) on the register of members of our Company at the close of business on 27 November 2019 (or as it/they may direct) in proportion (as nearly as possible

without involving fractions) to its/their then existing 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 (other than the right to participate in the Capitalisation Issue) and our Directors be and they are hereby authorised to give effect to such capitalisation;

- (iv) a general unconditional mandate was given to our Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Memorandum and Articles of Association, or pursuant to the exercise of the Over-allotment Option or any option which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalization Issue, Shares with an aggregate nominal amount of not exceeding the sum of (a) 10% of the total number of Share in issue immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of any option which may be granted under the Share Option Scheme, and (b) the total number of the Share which may be repurchased by our Company pursuant to the authority granted to our Directors as referred to in subparagraph (v) below, 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 of Association, the Companies Law or any applicable laws of the Cayman Islands to be held, or the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors, whichever occurs first (the “**Applicable Period**”);
- (v) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to repurchase Shares with an aggregate number of not exceeding 10% of the total number of the Shares in issue and to be issued immediately following completion of the Global Offering and the Capitalisation Issue but excluding any Shares which may be issued under the Over-allotment Option or pursuant to the exercise of any option which may be granted under the Share Option Scheme until expiry of the Applicable Period; and
- (vi) the extension of the general unconditional mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to the authority granted to our Directors as referred to in subparagraph (v) above.

4. Corporate reorganisation

Our Group underwent the Reorganisation to rationalise our Group’s structure in preparation for the Listing and our Company became the holding company of our Group. Please refer to the section headed “History and Development — Reorganisation” in this prospectus for further details.

5. Changes in share capital of our subsidiaries

Save as disclosed in the section headed “History and Development — The Reorganisation” in this prospectus, there has been no alteration in the share capital of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by our Company of our own securities.

(a) Relevant legal and regulatory requirements

The Listing Rules permit our Shareholders to grant our Directors a general mandate to repurchase the Shares that are listed on the Stock Exchange.

(b) Shareholders' approval

All proposed repurchases of Shares (which must be fully paid up in the case of shares) by our 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.

The Repurchase Mandate was granted to our Directors by our Shareholders pursuant to a resolutions in writing dated 17 October 2019 authorising them to exercise all powers of our Company to repurchase Shares of not exceeding 10% of the number of Shares in the capital of our Company in issue immediately following the completion of the Global Offering and the Capitalisation Issue (excluding Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme) until the expiry of the Applicable Period.

(c) Core connected persons

The Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a “core connected person”, that is, a director, chief executive or substantial shareholder of our Company or any of its subsidiaries or his or her close associates and a core connected person shall not knowingly sell his securities to such a company.

(d) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the Memorandum and Articles, the Listing Rules and the Companies Law. A listed company may not repurchase its own securities 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.

Under the Laws of the Cayman Islands, any repurchases by our Company may be made out of our profit or share premium or out of the proceeds of a fresh issue of the Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be paid out of profits of our Company or out of the share premium account of our Company. Subject to satisfaction of the solvency test prescribed by the Companies Law, a repurchase may also be made out of capital.

On the basis of our current financial position as disclosed in this prospectus and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with 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 our working capital requirements or gearing levels 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 1,250,000,000 Shares in issue immediately after the Listing, would result in up to 125,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

(e) Status of repurchased Shares

All Shares repurchased (whether on the Stock Exchange or otherwise) will be cancelled and the certificates for those Shares must be cancelled and destroyed. Under the Cayman Islands law, a company's repurchased shares may be treated as cancelled and the amount of the company's issued share capital shall be reduced by the aggregate par value of the shares repurchased accordingly although the authorised share capital of the company will not be reduced.

(f) Trading restrictions

The total number of Shares which our Company may repurchase on the Main Board is the number of Shares representing up to a maximum of 10% of the aggregate number of Shares in issue. Our company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring our Company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, our company is prohibited from repurchasing the Shares on the Stock Exchange if the purchase price is 5% or more than the average closing market price for the five preceding trading days on which our Shares were traded on the Main Board. The Listing Rules also prohibit our Company from repurchasing our securities if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant minimum prescribed percentage as required by the

Stock Exchange. Our Company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(g) Suspension of repurchase

Our Company may not make any repurchase of securities on the Stock Exchange at any time after inside information has come to our knowledge until the information is made publicly available. In particular, during the period of one month immediately preceding the earlier of (i) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of a listed company's results for any year, half-year, quarter-year or any other interim period (whether or not required under the Listing Rules) and (ii) the deadline for publication of an announcement of our Company's results for any year, half-year or quarter-year under the Listing Rules, or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, our Company may not repurchase our shares on the Stock Exchange other than in exceptional circumstances. In addition, the Stock Exchange may prohibit a repurchase of securities on the Main Board if our Company has breached the Listing Rules.

(h) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the following business day. In addition, our Company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the purchase price per share or the highest and lowest price paid for all such repurchases, where relevant, and the aggregate prices paid.

(i) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

(j) General

If the Repurchase Mandate is fully exercised immediately following completion of the Global Offering and the Capitalisation Issue (but not taking into account of our 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), the total number of Shares which will be repurchased pursuant to the Repurchase Mandate shall be

125,000,000 Shares, being 10% of the issued share capital of our Company based on the aforesaid assumptions. The percentage shareholding of our Controlling Shareholders will be increased to approximately 74.5% of the issued share capital of our Company immediately following the full exercise of the Repurchase Mandate. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of our Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. However, our Directors have no present intention to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their close associates currently intends to sell any Shares to our Company.

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 securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No core connected person (as defined in the Listing Rules) of our Company has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. Registration under the Companies Ordinance

Our Company is a registered non-Hong Kong company as defined under the Companies Ordinance with a principal place of business in Hong Kong at 31/F Excel Centre, 483A Castle Peak Road, Cheung Sha Wan, Kowloon, Hong Kong. Mr. Tam, our executive Director, has been appointed as the authorized representative of our Company for the acceptance of service of process in Hong Kong. The address for service of process and notices on our Company is the same as the address of our principal place of business in Hong Kong.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF OUR GROUP**1. Summary of material contracts**

The following contracts (not being contracts entered into 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:

- (1) a sale and purchase agreement dated 11 December 2018 entered into between Mr. Tam and JA Overseas in relation to the acquisition of Power Summit from Mr. Tam by JA Overseas for a consideration of RMB90,000,000;
- (2) a supplemental agreement dated 31 May 2019 entered into between Mr. Tam and JA Overseas to amend the payment terms of the sale and purchase agreement mentioned in paragraph (1) above;
- (3) a sale and purchase agreement dated 11 December 2018 entered into between Mr. Tam and JA Overseas in relation to the acquisition of Castle Eagle from Mr. Tam by JA Overseas for a consideration of US\$1,000,000;
- (4) a supplemental agreement dated 31 May 2019 entered into between Mr. Tam and JA Overseas to amend the payment terms of the sale and purchase agreement mentioned in paragraph (3) above;
- (5) a share purchase agreement dated 27 February 2019 entered into between Strategic King and our Company in relation to the acquisition of 10,680 ordinary shares in JA Overseas from Strategic King by our Company for a consideration of 10,679 Shares in our Company to be allotted and issued to Strategic King;
- (6) a share purchase agreement dated 27 February 2019 entered into between Mr. Kwok and our Company in relation to the acquisition of 325 Shares in JA Overseas from Mr. Kwok by our Company for a consideration of 325 Shares in our Company to be allotted and issued to Mr. Kwok;
- (7) a share purchase agreement dated 27 February 2019 entered into between Asia Dragon and our Company in relation to the acquisition of 423 Shares in JA Overseas from Asia Dragon by our Company for a consideration of 423 Shares in our Company to be allotted and issued to Asia Dragon;
- (8) a share purchase agreement dated 27 February 2019 entered into between Mr. Raymond Tam and our Company in relation to the acquisition of 325 Shares in JA Overseas from Mr. Raymond Tam by our Company for a consideration of 325 Shares in our Company to be allotted and issued to Mr. Raymond Tam;
- (9) a share purchase agreement dated 27 February 2019 entered into between Ms. LY Leung and our Company in relation to the acquisition of 97 Shares in JA Overseas from Ms. LY Leung by our Company for a consideration of 97 Shares in our Company to be allotted and issued to Ms. LY Leung;

- (10) a share purchase agreement dated 27 February 2019 entered into between True Glory and our Company in relation to the acquisition of 97 Shares in JA Overseas from True Glory by our Company for a consideration of 97 Shares in our Company to be allotted and issued to True Glory;
- (11) a deed of confirmation dated 27 February 2019 executed by Mr. Kwok in favour of our Company, pursuant to which Mr. Kwok confirmed the withdrawal of a winding up petition;
- (12) a share transfer agreement dated 25 February 2019 entered into between Castle Eagle and He Guangqiong (賀廣瓊) in relation to the disposal of entire interest in Xuchang Gaoshi from Castle Eagle to He Guangqiong;
- (13) the Deed of Non-competition;
- (14) the Deed of Indemnity;
- (15) the cornerstone investment agreement dated 17 November 2019 entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Mr. Shi Jianrong (史建榮), pursuant to which Mr. Shi Jianrong (史建榮) agreed to, among others, acquire the maximum number of Shares that may be purchased with HK\$3.0 million at the Offer Price, rounded down to the nearest whole board lot of 5,000 Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which Mr. Shi Jianrong (史建榮) will pay separately in respect of the number of Shares he shall acquire);
- (16) the cornerstone investment agreement dated 17 November 2019 entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Mr. Xie Boqing (謝伯清), pursuant to which Mr. Xie Boqing (謝伯清) agreed to, among others, acquire the maximum number of Shares that may be purchased with HK\$24.9 million at the Offer Price, rounded down to the nearest whole board lot of 5,000 Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which Mr. Xie Boqing (謝伯清) will pay separately in respect of the number of Shares he shall acquire);
- (17) the cornerstone investment agreement dated 17 November 2019 entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Mr. Zhou Futu (周福土), pursuant to which Mr. Zhou Futu (周福土) agreed to, among others, acquire the maximum number of Shares that may be purchased with HK\$8.0 million at the Offer Price, rounded down to the nearest whole board lot of 5,000 Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which Mr. Zhou Futu (周福土) will pay separately in respect of the number of Shares he shall acquire);
- (18) the cornerstone investment agreement dated 17 November 2019 entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Mr. Lu Guoqing (蘆國慶), pursuant to which Mr. Lu Guoqing (蘆國慶) agreed to, among others, acquire the maximum number of Shares that may be purchased










with HK\$4.1 million at the Offer Price, rounded down to the nearest whole board lot of 5,000 Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which Mr. Lu Guoqing (盧國慶) will pay separately in respect of the number of Shares he shall acquire);

- (19) the cornerstone investment agreement dated 17 November 2019 entered into between our Company, the Sole Sponsor, the Sole Global Coordinator and Mr. Xie Bin (謝斌), pursuant to which Mr. Xie Bin (謝斌) agreed to, among others, acquire the maximum number of Shares that may be purchased with HK\$10.0 million at the Offer Price, rounded down to the nearest whole board lot of 5,000 Shares (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee which Mr. Xie Bin (謝斌) will pay separately in respect of the number of Shares he shall acquire); and
- (20) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of our Group

Registered trademarks

As at the Latest Practicable Date, our Group had registered the following trademarks which we consider to be material to our business:

| Trademark | Owner | Class(es) | Registration No. | Expiry date | Place of registration |
|---|-------|---------------------------|------------------|-------------|-----------------------|
|  | JAL | 23, 24, 25, 26, 35, 40 | 304934539 | 2029-05-21 | Hong Kong |
| JUSTIN ALLEN | JAL | 16, 25, 35 | 302593189 | 2023-04-28 | Hong Kong |
|  | JASH | 25 | 12171298 | 2026-01-06 | PRC |
|  | JASH | 25 | 12171299 | 2024-07-28 | PRC |
|  | JASH | 25 | 18207711 | 2027-02-13 | PRC |
|  | JASH | 25 | 18516006 | 2027-01-13 | PRC |
|  | JASH | 23 | 24237503 | 2028-05-13 | PRC |
|  | JASH | 24 | 24237673 | 2028-05-13 | PRC |
|  | JASH | 25 | 24237841 | 2028-08-20 | PRC |
|  | JASH | 40 | 24239148 | 2028-05-27 | PRC |
| OBJ | JASH | 25 | 20161625 | 2027-10-06 | PRC |

3. Domain names

As at the Latest Practicable Date, the following domain name is considered to be material to our business:

| No. | Domain Name | Expiry date |
|-----|--------------------------|-----------------|
| 1. | www.justinallengroup.com | 16 October 2021 |

4. Directors

(a) Disclosure of Interests — interests and short positions of our Directors and the chief executive of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised and without taking into account Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme, the interests or short positions of our Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were 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 entered in the register referred to therein, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to our Company and the Stock Exchange, once our Shares are listed will be as follows:

(a) (i) Interests in our Shares:

| Director | Nature of Interest | Interests in Shares (Note 1) | Approximate percentage of issued share capital in our Company |
|----------|--|---------------------------------|---|
| Mr. Tam | Interest in controlled corporation <i>(Note 2)</i> | 838,076,505 (L) | 67.1% |
| Mrs. Tam | Family interest of spouse <i>(Note 3)</i> | 838,076,505 (L) | 67.1% |

Notes:

1. The letter “L” denotes the person’s long position in our Shares.
2. Strategic King is owned as to 90% by Mr. Tam and 10% by Mrs. Tam. Mr. Tam controls more than one-third of the voting rights of Strategic King and is deemed interested in the shares held by Strategic King by virtue of the SFO.
3. Mrs. Tam is the spouse of Mr. Tam and is deemed interested in the Shares held by Strategic King by virtue of the SFO.

(ii) Interests in associated corporation of our Company

| Name | Name of associated corporation of our Company | Capacity/ nature of interest | No. of shares held in associated corporation of the Company | Approximate percentage of shareholding |
|-------------|--|---|--|---|
| Mr. Tam | Strategic King | Beneficial owner | 90 (L) | 90.0% |
| Mrs. Tam | Strategic King | Beneficial owner | 10 (L) | 10.0% |

Note 1: The Letter “L” denotes the person’s long position in our Shares.

None of our Directors or our chief executive will immediately following the completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and without taking into account any Shares to be issued upon the exercise of share options granted under the Share Option Scheme~) have any discloseable interests (as referred to in (a) above), other than as disclosed in paragraphs (i) and (ii) above.

(b) *Disclosure of interests — interests and/or short position of our substantial shareholders in the Shares, underlying Shares of our Company and its associated corporations:*

So far as our Directors are aware as at the Latest Practicable Date, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), the following persons (other than the Directors and Chief executive) will have an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the number 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:

(i) Interests in our Company

| Name of Shareholder | Nature of interest | Shares held immediately following the completion of the Global Offering and the Capitalisation Issue (Note 1) | Approximate percentage of shareholding |
|----------------------------|--------------------------------------|--|---|
| Strategic King | Beneficial Owner ^(Note 2) | 838,076,505 (L) | 67.1% |

Notes:

1. The letter “L” denotes the person’s long position in our Shares.
2. Strategic King is owned as to 90% by Mr. Tam and 10% by Mrs. Tam. Mr. Tam and his spouse, Mrs. Tam control more than one-third of the voting rights of Strategic King and are deemed interested in the shares held by Strategic King by virtue of the SFO.

(ii) Interests in Henan Kaiyu

| Name of shareholder | Capacity/nature of interest | Percentage of interest in Henan Kaiyu |
|---|------------------------------------|--|
| Xuchang Yuzhong Textile Co., Ltd (許昌豫中紡織有限公司) | Beneficial Interest | 25% |

(b) Particulars of service agreements and letters of appointment

Each of our executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing, which may be terminated by not less than three months' in writing served by either party on the other and is subject to termination provisions therein and provisions on retirement by rotation of our Directors as set out in the Articles. Particulars of our service agreements of our Directors are in all material respects the same. The salary of our executive Directors is subject to review each year.

Pursuant to the letters of appointment between our Company and our independent non-executive Directors, our independent non-executive Directors have been appointed for a term of three years commencing from the Listing Date which may be terminated by either party by giving three months written notice.

(c) Directors' remuneration

The remuneration of each Director is determined by reference to market terms, seniority, his/her experiences, duties and responsibilities within our Group. Our Directors are entitled to statutory benefits as required by applicable laws from time to time.

- (i) During the three years ended 31 December 2018, the aggregate emoluments paid or payable by our Group to our Directors were approximately HK\$4.8 million, HK\$2.3 million and HK\$2.3 million respectively.
- (ii) Under the arrangements currently in force, the aggregate emoluments payable by our Group to our Directors for the year ending 31 December 2019 are estimated to be approximately HK\$2.4 million.
- (iii) None of our Directors or any past directors of any member of our Group had been paid any sum of money during the Track Record Period as (i) an inducement to join or upon joining our Company; 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.
- (iv) There had been no arrangement under which a Director had waived or agreed to waive any emoluments during the Track Record Period.

5. Related party transactions

Save as disclosed in note 33 and note 25 to the accountants' report set out in Appendix I, respectively to this prospectus, during the two years immediately preceding the date of this prospectus, our Group had not engaged in any other material related party transactions.

6. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme approved by the resolutions in writing of our Shareholders passed on 17 October 2019:

a. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to grant options to any full-time or part-time employees, consultants or potential employees, consultants, executives or officers (including executive, non-executive and independent non-executive directors) of our Company or any of its Subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the sole opinion of the Board, will contribute or have contributed to our Company and/or any of its Subsidiaries (the “**Participants**”) as incentives or rewards for their contribution or potential contribution to our Company and/or any of its subsidiaries and retain high-calibre employees.

b. Conditions and present status of the Share Option Scheme

The Share Option Scheme shall take effect conditional upon (i) the passing of the necessary resolutions by the Board and the shareholders of our Company to approve and adopt the rules of the Scheme; (ii) no objection having been received by our Company from the Listing Committee prior to the listing of the Shares on the Stock Exchange in relation to the adoption of any of the terms of the Scheme; (iii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares falling to be issued pursuant to the exercise of options under the Scheme; (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, following the waiver(s) of any conditions) by the Sole Global Coordinator (acting for and on behalf of the Underwriters) and not being terminated in accordance with their terms or otherwise; and (v) the commencement of dealings in the Shares on the Stock Exchange.

As at the date of this prospectus, no option had been granted or agreed to be granted under the Share Option Scheme.

c. Eligible Participants

On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time to offer to grant to any non-executive Director or independent non-executive Director of our Company appointed, or any director of any of the subsidiaries, or any employee (whether full time or part time) of our Company or its subsidiaries, including any executive Director as the Board may think fit, an option to subscribe for such number of Shares as the Board may determine at the exercise price. The basis of eligibility of any of the class of Participants to the grant of any options shall be determined by the Board from time to time on the basis of their contribution to our Group.

d. Offer and grant of Options

No offer of grant of option shall be made 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, no options shall be granted during the period commencing one month immediately preceding the earlier of (i) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results 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 results for (i) any year or half-year period in accordance with the Listing Rules, and (ii) where our Company has elected to publish them, results for any quarterly or any other interim period, and ending on the actual date of publication of the results for such year, half year, quarterly or interim period (as the case may be).

An offer of the grant of an option ("**Offer**") shall be deemed to have been accepted and the options to which such offer relates shall be deemed to have been accepted and the option to which such offer relates shall be deemed to have been granted and to have taken effect when the duplicate letter comprising acceptance of offer duly signed by the Participant ("**Grantee**") with the number of Shares in respect of which such offer is accepted clearly stated therein, together with a remittance in favor of our Company of HK\$1.0 by way of consideration for the grant thereof is received by our company. Such remittance shall in no circumstances be refundable and shall be deemed as part payment of the exercise price. Once accepted, the option is granted as from the Offer Date (as defined below).

e. Exercise price

The exercise price shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option), but in any case the exercise price shall not be less than the highest of (a) the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange on the date of grant, which must be a Business Day ("**Offer Date**"), (b) the average of the official closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five (5) Business Days immediately preceding the Offer Date, and (c) the nominal value of a Share.

f. Maximum number of Shares and entitlement of an eligible Participant

- i. The overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme shall not exceed 30% of the Shares in issues from time to time.
- ii. The Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme of our Company (and to which the provisions of the Listing Rules are applicable) shall not exceed 125,000,000

Shares (i.e. 10% of the aggregate of the Shares in issue (“**General Scheme Limit**”)). Options lapsed in accordance with the terms of the Share Option Scheme shall not be counted for the purpose of calculating this Scheme Mandate Limit.

- iii. Our Company may seek approval of our Shareholders in general meeting for refreshing the General Scheme Limit. However, the General Scheme Limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of the approval of our Shareholders. Options previous granted under the Share Option Scheme of our Company (and to which the provisions of Chapter 17 of the Listing Rules are applicable) (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme of our Company) will not be counted for the purpose of calculating the limit as “**refreshed**”.

A circular containing the information required under the Listing Rules shall be sent to our Shareholders in connection with the meeting at which their approval will be sought.

- iv. The total number of Shares issued and to be issued upon exercise of the options granted to each eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period not exceed 1% of the Shares in issue (the “**Individual Limit**”). Any further grant of options to an eligible Participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such eligible Participant (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant exceeding the Individual Limit shall be subject to our Shareholders’ approval in general meeting with such eligible Participant and his or her close associates (as defined under the Listing Rules, or his or her associate if the Participant is a connected person) abstaining from voting. A circular containing the information required under the Listing Rules shall be sent to our Shareholders. The number and terms (including the exercise price) of the options to be granted to such Participant must be fixed before our Shareholders’ approval is sought and the date of the meeting of the Board for proposing such further grant of option should be taken as the date of grant for the purpose of calculating the exercise price.

g. Grant of options to Connected Persons

- i. Any grant of options to a Participant who is a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or their respective associates shall be subject to approval by the independent non-executive Directors of our Company (and in the event that the Board offers to grant options to an independent non-executive Director of our Company, the vote of such independent non-executive Director shall not be counted for the purposes of approving such grant).

- ii. Where our Board proposes to grant any option to a Participant who is a substantial shareholder (with the meaning as ascribed under the Listing Rules) of our Company or an independent non-executive Director of our Company, or any of their respective associates would result in our Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share options schemes of our Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed Offer Date of such grant (the “**Offer Date**”):
 - a. representing in aggregate more than 0.1% (or such other higher percentage as may from time to time be specified by the Stock Exchange) of the total number of Shares in issues on the Offer Date; and
 - b. having an aggregate value, based on the closing price of our Shares as stated in the Stock Exchange’s daily quotation sheets on the Offer Date, in excess of HK\$5,000,000 (or such other higher amount as may from time to time be specified by the Stock Exchange), such proposed grant of options must be approved by our Shareholders (voting by way of poll). In such a case, our Company shall send a circular to our Shareholders containing all those terms as required under the Listing Rules. The Eligible Participant concerned and all other connected persons of our Company must abstain from voting in favor of the resolution at such general meeting.

h. Exercise of options

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be determined by our Board at its absolute discretion and notified by our Board to each Grantee as being the period during which an option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular option is granted in accordance with the Share Option Scheme (“**Option Period**”).

i. Vesting

Options may be vested over such period(s) as determined by the Board in its absolute discretion (the “**Vesting Period**”) subject to compliance with the requirements under any applicable laws, regulations or rules to which the Share Option Scheme may be subject, including the Listing Rules or regulations of any stock exchange on which the Shares may be listed and quoted. Options shall become vested as to 25 per cent. of the total number of Shares subject to his option on the first anniversary of the date on which the Vesting Period commences (the “**Commencement Date**”), and an additional 25 per cent. for each of the following three anniversaries thereafter, until 100 per cent. of the total number of Shares subject to his option are vested on the fourth anniversary of the Commencement Date. Furthermore, the Shares to be allotted and issued to a Grantee pursuant to the exercise of any option under the Share Option Scheme may or may not, at the discretion of the Board, be subject to any retention period.

j. Performance target & minimum period before exercise

Unless otherwise determined by our Board and specified in the offer letter to be given to the Participant at the time of the offer of the option, there is no general requirement for any performance target that needs to be achieved by the grantee before an option can be exercised nor any minimum period for which an option must be held before the option can be exercised.

k. Options are personal to the grantee

An option shall be personal to the grantee and shall not be assignable or transferable. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favor of any third party over or in relation to any option, except for the transmission of an option on the death or incapacitation of the grantee to this personal representative(s) according to the terms of the Share Option Scheme.

l. Rights upon death, termination of employment, our Directorship, office or appointment

- i. in the event of the Grantee ceasing to be an Participant for any reason other than on his death, ill-health, injury, disability or the termination of his relationship with our Company and/or any of its Subsidiaries on one or more of the grounds specified in paragraph 8(e), the grantee may exercise the option up to his entitlement at the date of cessation of being an Participant (to the extent not already exercised) within the period of one month (or such longer period as the Board may determine) following the date of such cessation (which date shall be, in relation to a grantee who is an Participant by reason of his employment with our Company or any of its Subsidiaries, the last actual working day with our Company or the relevant Subsidiary whether salary is paid in lieu of notice or not);
- (ii) in the case of the grantee ceasing to be an Participant by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with our Company and/or any of its subsidiaries under paragraph 8(e) has occurred, the grantee or the Personal Representative(s) of the grantee shall be entitled within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Participant or death to exercise the option in full (to the extent not already exercised);

n. Rights on takeover

In the event of a general or partial offer, whether by way of takeover offer, share repurchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares (or all such holders other than the offer or and/or any person controlled by the offer or and/or any person acting in association or concert with the

offeror), our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by exercise in full of the options granted to them, Shareholders. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option in full (to the extent not already exercised) at any time within 14 days after the date on which such general offer becomes or is declared unconditional.

o. Rights on a compromise or arrangement

In the event of a compromise or arrangement between our Company and its creditors (or any class of them) or between our Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of our Company, our Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement, and thereupon any grantee (or her legal personal representative(s)) shall be entitled to exercise all or any of his options in whole or in part at any time prior to 12 noon (Hong Kong time) on the Business Day immediately preceding the date of the meeting directed to be convened by the relevant court for the purposes of considering such compromise or arrangement and if there is more than one meeting for such purpose, the date of the first meeting. Our Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her or its option so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

p. Effects of alterations to capital structure

In the event of any alteration in the capital structure of our Company while any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue or other similar offer of securities to holders of Shares, consolidation, subdivision or reduction or similar reorganisation of the share capital of our Company (other than an issue of Shares as consideration in respect of a transaction to which our company is a party), such corresponding alterations (if any) shall be made in (a) the number of shares subject to any outstanding options, and/or (b) the exercise price, as the approved independent financial adviser of our Company shall at the request of our Company or any grantee, certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of our Company to which a grantee is entitled after such alteration shall remain the same as that to which he or she or it was entitled before such alteration and that the aggregate exercise price payable by a grantee 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 event, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value.

q. *Lapse of options*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- i. the expiry of the Option Period;
- ii. the date of the expiry of the periods for exercising the option;
- iii. the date of which the offer (or as the case may be, revised offer) closes;
- iv. the date of the commencement of the winding-up of our Company (as determined in accordance with the Companies Law);
- v. the date on which the grantee ceases to be an Eligible Employee by reason of the termination of his or her employment on any one or more of the grounds that he or she voluntarily resigns, or has been guilty of misconduct or has found to have breached the terms of employment during his or her employment (regardless of whether such employment contract has already been terminated) leading to a material loss or damage to our Group, or his or her employment has terminated by reason of the failure of such employment to pass the annual evaluation, or 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 or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any other ground on which an employer would be entitled to terminate his or her employment at law or pursuant to any applicable laws or under the grantee's service contract with our Company or the relevant subsidiary. A resolution of the Board or board of directors of the relevant subsidiary to the effect that employment of a grantee has or has not been terminated shall be conclusive;
- vi. the date on which the grantee commits a breach or the options are cancelled in accordance with the Share Option Scheme; or
- vii. the date that is 30 days after the date on which the grantee is terminated by our Company and/or any of its Subsidiaries on a ground other than those set forth in (vi) above.

r. *Ranking of Shares allotted upon exercise of options*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles of our Company for the time being in force and will rank *pari passu* in all respects with and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation of our Company as attached to the fully-paid Shares in issue on the date of issue and rights in respect of any dividend or other

distributions paid or made on or after the date of issue. Shares issued on the exercise of an option shall not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment.

s. Duration of the Share Option Scheme

The Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is conditionally adopted by resolution of our Shareholders.

t. Cancellation of options granted

Subject to the consent from the relevant grantee, our Board may at its discretion cancel options previously granted to and yet to be exercised by a grantee with the relevant grantees abstaining from voting.

u. Termination of the Share Option Scheme

Our Company may terminate the operation of the Share Option Scheme at any time by resolution of the Board or resolution of our Shareholders in general meeting and in such event no further option will be offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of the options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

v. Alteration of the provisions of the Share Option Scheme

Subject to the provisions of the Share Option Scheme, the Board may amend any of the provisions of the Share Option Scheme (including without limitation to amendments in order to comply with changes in legal or regulatory requirements and amendments in order to waive any restrictions, imposed by the provisions of the Share Option Scheme, which are not found in the Listing Rules) at any time (but not so as to affect adversely any rights which have accrued to any grantee at that date).

OTHER INFORMATION

1. Estate duty, tax and other indemnities

Our Controlling Shareholders (collectively the “**Indemnifiers**”) have executed the Deed of Indemnity in favour of our Company (for itself and as trustee for each of its subsidiaries).

Pursuant to the Deed of Indemnity, the Indemnifiers have agreed to jointly and severally indemnify each of the members of our Group against the following:

- (a) any liability for estate duty which might be incurred by any member of our Group by reason of any transfer of property in Hong Kong (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) or any other jurisdiction to us any member of our Group at any time on or prior to the date on which the Global Offering becomes unconditional upon the Effective Date;
- (b) any taxation which might fall on our Group and/or any of our Group Companies resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the Effective Date or arising from the reorganization of our Group described in the section headed “History and development” in this prospectus on or before the Effective Date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation or taxation claim is chargeable against or attributable to any other person, firm or company, subject to certain exceptions set out below;
- (c) any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by our Group directly or indirectly as a result of and in connection with the incidents referred to in the section headed “Business — Legal proceedings and non-compliance” in this prospectus;
- (d) any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs (including all legal costs), or loss of profits, benefits which are or become payable or suffered by our Group directly or indirectly as a result of and in connection with the materialization of any adverse circumstances as set forth in the queries from, or correspondence with any governmental or regulatory authorities;
- (e) all costs (including all legal costs), expenses or other liabilities which any member of our Group may reasonably incur in connection with:
 - (i) the investigation, assessment or the contesting of any Taxation Claim;
 - (ii) the settlement of any claim under this Deed;
 - (iii) any legal proceedings in which any member of our Group claims under or in respect of this Deed and in which judgment is given for any member of our Group; or
 - (iv) the enforcement of any such settlement or judgment falling on any member of our Group;

- (f) any undeclared tax, overdue tax and any other form of tax burden (including tax burden arising from receipt, accumulation or acceptance of income, profit or gain) of any members of our Group before the date on which the precedent conditions are fulfilled; and
- (g) any claim, fine or other form of liability that may arise from breach of any law, regulation and rule by any members of our Group before the date on which the precedent conditions are fulfilled.

The Indemnifiers will, however, not be liable in respect of any taxation referred to in paragraph (b) above:

- (1) to the extent that provision or reserve has been made for such taxation in the audited accounts of our Group for the Track Record Period and to the extent that such taxation is incurred or accrued since 1 June 2019 which arises in our ordinary course of business;
- (2) to the extent that such taxation falls on us in respect of the accounting period commencing on or after 1 June 2019 unless such taxation would not have arisen but for an act or omission of, or transaction voluntarily effected by the Indemnifiers or us (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Effective Date;
- (3) to the extent that such taxation would not have arisen but for a voluntary act or transaction carried out or effected (other than pursuant to a legally binding commitment created on or before the date of the Deed of Indemnity) by us after the date of the Deed of Indemnity;
- (4) to the extent that such taxation arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law, rules and regulations, or the interpretation or practice thereof by any relevant authority coming into force after the date of the Deed of Indemnity or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date of the Deed of Indemnity with retrospective effect; or
- (5) to the extent of any provision or reserve made for taxation in the audited accounts of our Group up to 31 May 2019 and which is finally established to be an over-provision or an excessive reserve.

2. Litigation

Save as disclosed in the paragraph headed “Business — Legal proceeding and non-compliance” in this prospectus, neither our Company nor any of its subsidiaries is engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration

or claim of material importance is known to our Directors to be pending or threatened by or against our Company or any of its subsidiaries, that would have a material adverse effect on the results of operations or financial condition of our Group.

3. Sole Sponsor

The Sole Sponsor has made an application for and on behalf of our Company to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and any Shares to be issued pursuant to the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme. The Sole Sponsor is independent of our Company in accordance with Rule 3A.07 of the Listing Rules.

The Sole Sponsor will be paid by our Company a total fee of HK\$5.5 million to act as the sponsor to our Company in connection with the Listing.

4. Preliminary expenses

The estimated preliminary expenses in relation to the incorporation of our Company are approximately HK\$108,000 and are payable by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to any promoters of our Company in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualifications of experts

The qualifications of the experts who have given opinions or advice in this prospectus are as follows:

| Name | Qualifications |
|-----------------------------------|--|
| Guotai Junan Capital Limited | Licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO |
| Deloitte Touche Tohmatsu Ogier | Certified Public Accountants Legal advisers as to Cayman Islands law |
| Euromonitor International Limited | Industry Consultant |
| AllBright Law Offices | Legal advisers as to PRC law |
| Heng & Partners Law Group | Legal advisers as to Cambodia law |
| Hogan Lovells | Legal advisers as to U.S. law |
| Peak Vision Appraisals Limited | Property valuers |
| Mr. Chan Chung | Barrister-at-law |

7. Experts

Each of the experts named in paragraph 6 above has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report, letter, valuation, opinion or summaries of opinion (as the case may be) and the references to its name included herein in the form and context in which they respectively appear.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) so far as applicable.

9. Taxation of holders of Shares

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the 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.

Under the present Cayman Companies Law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

Potential holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in 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 subscription for, purchase, holding or disposal of or dealing in Shares.

10. Miscellaneous

- (i) Within two years immediately preceding the date of this prospectus:
 - (a) no share or loan capital of our Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (b) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of its subsidiaries; and
 - (c) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any Share in our Company or any of its subsidiaries;

- (ii) no share or loan capital of our Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (iii) none of our Directors has any direct or indirect interest in the promotion at, or in any asset which have been, acquired or disposed by, any member of our Group within the two years preceding the date of this prospectus, or are proposed to be acquired or disposed of by and member of our Group;
- (iv) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (v) there has been no material adverse change in the financial position or prospects of our Group since 30 September 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (vi) there has not been any interruption in the business of our Group which may have or has had a material adverse effect on the financial position of our Group;
- (vii) there is no arrangement under which future dividends are waived or agreed to be waived;
- (viii) there are no founder, management or deferred shares in our Company or any of its subsidiaries;
- (ix) our Group does not have any outstanding convertible debt securities or debentures;
- (x) no securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange;
- (xi) all necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
- (xii) none of the debt and equity securities of the companies comprising our Group is presently listed on any stock exchange or traded on any trading system.

11. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided under section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG
AND AVAILABLE FOR INSPECTION**

1. Documents delivered to the Registrar of Companies in Hong Kong

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were (a) copies of the Application Forms; (b) the written consents referred to in “Other information — 7. Consent of Experts” in Appendix V to this prospectus; and (c) copies of the material contracts referred to in “Further information about our business — 1. Summary of material contracts” in Appendix V to this prospectus.

2. Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Tiang & Partners, our Company’s Hong Kong legal advisers, at Room 2010, 20th floor, Edinburgh Tower, The Landmark, 15 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 of Association and Articles of Association;
- (b) the accountants’ report in respect of the consolidated financial statements of our Group for each of the three years ended 31 December 2018 and the five months ended 31 May 2019 from Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the assurance report on unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this prospectus;
- (d) the industry report issued by Euromonitor International Limited, our Industry Consultant;
- (e) the property valuation report prepared by Peak Vision Appraisals Limited, our property valuer;
- (f) the legal opinions issued by AllBright Law Offices, our legal advisers as to PRC law;
- (g) the legal opinion issued by Heng & Partners Law Group, our legal advisers as to Cambodia law;
- (h) the letter of advice prepared by Ogier, our legal advisers as to Cayman Islands law, summarising certain aspects of the Company law of the Cayman Islands referred to in Appendix IV to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
IN HONG KONG AND AVAILABLE FOR INSPECTION**

- (i) the legal opinions issued by Mr. Chan Chung, our legal adviser as to Hong Kong law;
- (j) the legal opinions issued by Hogan Lovells, our legal advisers as to U.S. law;
- (k) the audited consolidated statements of our Group for each of the three years ended 31 December 2018 and the five months ended 31 May 2019;
- (l) the Cayman Companies Law;
- (m) the material contracts referred to in “B. Further information about the business of our Group — 1. Summary of material contracts” in Appendix V to this prospectus;
- (n) the service agreements and appointment letters referred to in “B. Further Information about the business of our Group — (b) Particulars of service agreements and letters of appointment” in Appendix V to this prospectus; and
- (o) the written consents referred to in “Other information — 7. Experts” in Appendix V to this prospectus.



JUSTIN ALLEN HOLDINGS LIMITED

捷隆控股有限公司