



bonny 博尼

博尼国际控股有限公司
Bonny International Holding Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1906

GLOBAL OFFERING

Sole Sponsor



Innovax
Capital

Sole Global Coordinator



Innovax
Securities

Joint Bookrunners



Innovax
Securities



横华国际
HGNH INTERNATIONAL



越秀證券
YUEXIU SECURITIES



中泰國際
ZHONGTAI INTERNATIONAL

Joint Lead Managers



Innovax
Securities



横华国际
HGNH INTERNATIONAL



中泰國際
ZHONGTAI INTERNATIONAL



脈搏 Pulsar
資本 Capital



越秀證券
YUEXIU SECURITIES



IMPORTANT

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



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Bonny International Holding Limited 博尼国际控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	: 300,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 30,000,000 Shares (subject to adjustment)
Number of International Placing Shares	: 270,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$0.60 per Offer Share, plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Hong Kong Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund on final pricing)
Nominal value	: US\$0.01 per Share
Stock code	: 1906

Sole Sponsor



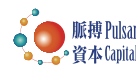
Sole Global Coordinator



Joint Bookrunners



Joint Lead Managers



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

A copy of this prospectus, having attached thereto the documents specified in "Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has 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 for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date. The Price Determination Date is currently expected to be Wednesday, 17 April 2019, and in any event, not later than Tuesday, 23 April 2019. The Offer Price will be not more than HK\$0.60 per Offer Share and is currently expected to be not less than HK\$0.46 per Offer Share unless otherwise announced. If our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not proceed and will lapse. In the case of such event, a notice will be published on the website of the Stock Exchange at www.hkexnews.hk and our website at www.bonnychina.com.

Prior to making an investment decision, prospective investors should carefully consider 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 Offer Shares should note that the Sole Global Coordinator (for itself and on behalf of the Underwriters) is entitled to terminate the obligations of the Underwriters under the Underwriting Agreement by notice in writing to our Company upon the occurrence of any of the events set forth in "Underwriting – Underwriting Arrangements and Expenses – Hong Kong Public Offering – Grounds for Termination" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities laws of the United States and may not be offered, sold, pledged or transferred within the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and in accordance with any applicable state securities laws of the United States. The Offer Shares may be offered, sold or delivered outside the United States in accordance with Regulation S of the U.S. Securities Act.

12 April 2019

EXPECTED TIMETABLE^(Note 1)

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

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from9:00 a.m. on
Friday, 12 April 2019

Latest time to complete electronic applications under **White Form eIPO** service through the designated website www.eipo.com.hk^(Note 2)11:30 a.m. on
Wednesday, 17 April 2019

Application Lists open^(Note 3)11:45 a.m. on
Wednesday, 17 April 2019

Latest time to lodge **WHITE** and **YELLOW** Application Forms and to give **electronic application instructions** to HKSCC^(Note 4)12:00 noon on
Wednesday, 17 April 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
Wednesday, 17 April 2019

Application Lists close^(Note 3)12:00 noon on
Wednesday, 17 April 2019

Expected Price Determination Date^(Note 5) Wednesday, 17 April 2019

(1) Announcement of

- the final Offer Price;
- the results of applications in the Hong Kong Public Offering;
- the indication of level of interest in the International Placing; and
- the basis of allocation of the Hong Kong Offer Shares

to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.bonnychina.com on or beforeThursday, 25 April 2019

EXPECTED TIMETABLE^(Note 1)

(2) Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document or business registration numbers, where appropriate) to be available through a variety of channels as described in the subsection headed "11. Publication of Results" under the section headed "How to Apply for Hong Kong Offer Shares" in this prospectus Thursday, 25 April 2019

(3) A full announcement of the Hong Kong Public Offering containing (1) and (2) above to be published on the Stock Exchange's website at www.hkexnews.hk and our Company's website at www.bonnychina.com^(Note 6) from Thursday, 25 April 2019

Results of allocations for the Hong Kong Public Offering will be available at www.iporesults.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 from Thursday, 25 April 2019

Dispatch of Share certificates in respect of wholly or partially successful applications pursuant to the Hong Kong Public Offering on or before^(Notes 7 and 9) Thursday, 25 April 2019

Dispatch of **White Form e-Refund** payment instructions/refund cheques in respect of wholly successful (where applicable) or wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on or before^(Notes 8 and 9) Thursday, 25 April 2019

Dealings in the Shares on the Stock Exchange to commence at 9:00 a.m. on Friday, 26 April 2019

Notes:

1. All times and dates refer to Hong Kong local times and dates, except as otherwise stated. Details of the structure of the Global Offering, including its conditions are set out in "Structure of the Global Offering" in this prospectus.
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 an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 April 2019, the Application Lists will not open or close on that day. Please see "How to Apply for Hong Kong Offer Shares – 10. Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

EXPECTED TIMETABLE^(Note 1)

4. Applicants who apply for the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares – 6. Applying by Giving Electronic Application Instructions to HKSCC via CCASS” in this prospectus for details.
5. The Price Determination Date is expected to be on or around Wednesday, 17 April 2019 and, in any event, not later than Tuesday, 23 April 2019 (Hong Kong time). If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) by Tuesday, 23 April 2019, the Global Offering will not proceed and will lapse.
6. None of the website or any of the information contained on the website forms part of this prospectus.
7. Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 26 April 2019 provided that the Global Offering has become unconditional in all respects and the Underwriting Agreements have not been terminated in accordance with its terms. Investors who trade Shares prior to the receipt of the Share certificates or the Share certificates becoming valid do so at their own risk.
8. e-Refund payment instructions or refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of or may invalidate the refund cheque.
9. Applicants who have applied on **WHITE** Application Forms or through the **White Form eIPO** service for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by the Application Form may collect any refund cheques and/or Share certificates in person from our Company’s 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 Thursday, 25 April 2019 or such other date as notified by our Company on our Company’s website at www.bonnychina.com and the Stock Exchange’s website at www.hkexnews.hk as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund cheques. Applicants being individuals who are eligible for personal collection must not authorize any other person to make collection on their behalf. Applicants being corporations who are eligible for personal collection must attend through their authorized representatives bearing letters of authorization from their corporations stamped with the corporations’ chop. Identification documents and (where applicable) authorization documents acceptable to our Hong Kong Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 or more Hong Kong Offer Shares may collect their refund cheques, if any, in person but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participant’s stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Forms applicants are the same as those for **WHITE** Application Forms applicants.

Applicants who have applied for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies – Personal Collection – (iv) If you apply via Electronic Application Instructions to HKSCC” in this prospectus for details.

Applicants who have applied through the **White Form eIPO** service and paid their applications monies through single bank accounts may have refund monies (if any) dispatched to that bank account in the form of e-Refund payment instructions. Applicants who have applied through the **White Form eIPO** service and paid their application monies through multiple bank accounts may have refund monies (if any) dispatched to the address as specified in their application instructions in the form of refund cheques by ordinary post at their own risk.

Applicants who have applied for less than 1,000,000 Hong Kong Offer Shares and any uncollected share certificates and/or refund cheques will be dispatched by ordinary post, at the applicants’ risk, to the addresses specified in the relevant applications. Further information is set out in “How to Apply for Hong Kong Offer Shares – 13. Refund of Application Monies” and “How to Apply for Hong Kong Offer Shares – 14. Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

The above expected timetable is a summary only. You should refer to “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” in this prospectus for details of the structure of the Global Offering, including the conditions of the Global Offering, and the procedures for application for Hong Kong Offer Shares.

CONTENTS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorized 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 authorized by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or professional advisers or any other person or party involved in the Global Offering. The contents of our Company's website at www.bonnychina.com do not form part of this prospectus.

	<i>Page</i>
EXPECTED TIMETABLE	i
CONTENTS	iv
SUMMARY	1
DEFINITIONS	16
GLOSSARY	29
FORWARD-LOOKING STATEMENTS	30
RISK FACTORS	32
WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES	64
INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING	68
DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING	73

CONTENTS

CORPORATE INFORMATION	80
INDUSTRY OVERVIEW	83
REGULATORY OVERVIEW	97
HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE	109
BUSINESS	126
RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS	216
CONTINUING CONNECTED TRANSACTIONS	224
DIRECTORS AND SENIOR MANAGEMENT	227
SUBSTANTIAL SHAREHOLDERS	241
SHARE CAPITAL	242
FINANCIAL INFORMATION	245
CORNERSTONE INVESTORS	306
FUTURE PLANS AND USE OF PROCEEDS	310
UNDERWRITING	315
STRUCTURE OF THE GLOBAL OFFERING	326
HOW TO APPLY FOR HONG KONG OFFER SHARES	337
APPENDIX I – ACCOUNTANTS’ REPORT	I-1
APPENDIX II – UNAUDITED PRO FORMA FINANCIAL INFORMATION	II-1
APPENDIX III – PROPERTY VALUATION REPORT	III-1
APPENDIX IV – SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN COMPANIES LAW	IV-1
APPENDIX V – STATUTORY AND GENERAL INFORMATION	V-1
APPENDIX VI – DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION	VI-1

SUMMARY

OVERVIEW

Our Business Model

We manufacture and sell seamless and traditional intimate wear products. We focus on providing one-stop in-house intimate wear manufacturing solutions to our ODM customers, while we also sell our branded intimate wears mainly under our “Bonny” and “U+ Bonny” brands through our retail network in the PRC. We manufacture a wide range of seamless and traditional intimate wears, including bras, underpants, thermal clothes and loungewear, and we also produce functional sportswear. Majority of our seamless products are sold to our ODM customers, while we mainly sell traditional products in our branded sales in the PRC.

The following table sets out the breakdown of our revenue by business segments during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	Revenue	% of	Revenue	% of	Revenue	% of
	RMB'000	revenue %	RMB'000	revenue %	RMB'000	revenue %
ODM sales	217,548	66.7	200,677	63.8	243,505	73.0
– overseas	163,687	50.2	137,403	43.7	149,111	44.7
– PRC	53,861	16.5	63,274	20.1	94,394	28.3
Branded sales ^(Note)	108,987	33.3	113,906	36.2	90,220	27.0
Total	326,535	100.0	314,583	100.0	333,725	100.0

Note: All branded sales are domestic sales.

For our ODM sales, we manufacture seamless intimate wear products for our customers on an ODM basis and sell to over 20 countries including the United States, Germany, the Netherlands and the PRC. All our ODM products are seamless products. According to the Frost & Sullivan Report, we are the third largest seamless intimate wear manufacturer in the PRC with a market share of approximately 1.7% based on the total sales value in 2017. Our major ODM customers include sourcing agents for apparel brands and brand holding companies themselves. As at the Latest Practicable Date, we served over 50 ODM customers including famous apparel and retailer brands. In light of the framework agreements and/or order plans entered into with and/or provided by our ODM customers (“**Planned Purchases**”), it is expected that the demand for our intimate wear products will continue to rise. Leveraging our strong research and development capability and our technical expertise in seamless intimate wear production, we successfully penetrated into the niche segment of nursing bras which require specialized skills in product design and use of materials in 2017. We have become the sole and exclusive ODM supplier of nursing bras for Muxi Clothing, a domestic online maternity products retailer through e-commerce platforms which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, since 2017. Accordingly, our sales of nursing bras increased substantially from approximately RMB83,000 for the year ended 31 December 2016 to approximately RMB26.2

SUMMARY

million for the year ended 31 December 2017, and further to approximately RMB85.6 million for the year ended 31 December 2018. During the Track Record Period, we also supplied to a leading nursing bras seller on Amazon e-commerce platform, and to one of the leading brands for nursing bras based in Canada having extensive retail network in the United States and across Canada.

For our branded sales, we sell products mainly under our “Bonny” brand through an extensive and structured nationwide retail network in the PRC which consists primarily of our self-operated retail outlets as well as franchised retail outlets, and does not involve distributors or multiple layers of franchisees. Under the franchising arrangements with our franchisees, the franchisees enter into standard franchising agreements with us, pursuant to which we provide products for sales at the franchised retail outlets operated by our franchisees on a consignment basis while our franchisees are responsible for store management and operations. We sell mainly traditional intimate wear products in our branded sales. As at the Latest Practicable Date, our retail network comprised 153 self-operated retail outlets and 42 franchised retail outlets in 18 provinces, municipalities and autonomous regions in the PRC.

Our Products

Depending on the production techniques, our products can be divided into seamless and traditional products. Seamless products refer to products manufactured using seamless technology as opposed to traditional products where traditional knitting is used. For further details, please refer to the section headed “Industry Overview – Global and China Intimate Wear Manufacturing Market – Definition and Classification of Seamless Intimate Wear” in this prospectus. In respect of both types of products, we offer a diversified range of intimate wear products, which can be grouped into: (i) intimate wear and other products; and (ii) functional sportswear products. Most of our products are for female consumers but we also sell a small number of male intimate wear products, knitted homeware, undergarments and accessories.

The following table sets forth the revenue breakdown by product type for the years indicated:–

	Year ended 31 December											
	2016				2017				2018			
	Revenue	% of revenue	Sales volume	Average selling price	Revenue	% of revenue	Sales volume	Average selling price	Revenue	% of revenue	Sales volume	Average selling price
RMB'000	%	('000 units)	(RMB per unit)	RMB'000	%	('000 units)	(RMB per unit)	RMB'000	%	('000 units)	(RMB per unit)	
ODM sales												
<i>Seamless products</i>												
Intimate wear and others	165,791	50.8	19,687	8.4	149,670	47.6	16,045	9.3	172,862	51.8	13,345	13.0
– Nursing bras	83	0.1	5	16.6	26,238	8.3	1,280	20.5	85,570	25.6	3,629	23.6
– Other bras	61,902	19.0	5,389	11.5	59,895	19.0	5,090	11.8	47,397	14.2	5,021	9.4
– Underpants	70,455	21.6	11,213	6.3	47,903	15.2	8,357	5.7	29,391	8.8	3,868	7.6
– Others	33,351	10.1	3,080	10.8	15,634	5.1	1,318	11.9	10,504	3.2	827	12.7
Functional sportswear	51,757	15.9	3,660	14.1	51,007	16.2	3,580	14.2	70,643	21.2	4,320	16.4
Subtotal	217,548	66.7	23,347	9.3	200,677	63.8	19,625	10.2	243,505	73.0	17,665	13.8

SUMMARY

	2016				Year ended 31 December 2017				2018			
	Revenue	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)	Revenue	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)	Revenue	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)
	RMB'000	%	units	RMB	RMB'000	%	units	RMB	RMB'000	%	units	RMB
Branded Sales												
<i>Seamless Products</i>												
Intimate wear and others	4,908	1.5	68	72.2	5,411	1.7	89	60.8	7,338	2.2	145	50.6
Functional sportswear	-	-	-	-	47	0.1	2	23.5	82	0.0	5	16.4
<i>Traditional Products</i>												
Intimate wear and others	101,357	31.0	1,412	71.8	105,167	33.4	1,580	66.6	80,614	24.2	1,294	62.3
Functional sportswear	2,722	0.8	51	53.4	3,281	1.0	87	37.7	2,186	0.6	45	48.6
Subtotal	108,987	33.3	1,531	71.2	113,906	36.2	1,758	64.8	90,220	27.0	1,489	60.6
Total	326,535	100.0			314,583	100.0			333,725	100.0		

Note: Intimate wear and others include sales of intimate wear, loungewear, thermal clothes and other products.

For our ODM sales, all our products are seamless products. On the other hand, for our branded sales, our products are mainly traditional products. Our branded products are mainly sold under our “Bonny” brand which we position as an intimate wear brand targeting mid to high-end intimate wear market. According to the Frost & Sullivan Report, products targeting the high-end market such as bras are typically sold at above RMB300 per unit and underwears are typically sold at above RMB100 per unit whereas products for the mass market are sold below these price levels. Since the second half of 2017, we introduced our “U+ Bonny” brand which we position as a brand specializing in knitted homeware and undergarments through selected self-operated retail outlets and franchisees to diversify the target customers of our branded products to the mass market. The intimate wear products we sell in our “U+ Bonny” outlets are different in terms of product diversity, product styles and prices from those we sell in our “Bonny” outlets. In addition to intimate wear products, in our “U+ Bonny” outlets, we also sell other knitted homeware, undergarments and accessories such as socks, bath towels and scarfs. Please refer to “Business – Products” in this prospectus for more information.

Our Customers

Our major ODM customers include sourcing agents for apparel brands and brand holding companies themselves. As at the Latest Practicable Date, we had over 50 overseas ODM customers. All our branded sales are retail sales mainly under our “Bonny” brand and through our extensive and structured nationwide retail network in the PRC. Our top five customers, which are all ODM customers, collectively accounted for approximately 47.6%, 50.1% and 60.9%, respectively, of our total revenue for the years ended 31 December 2016, 2017 and 2018. Our largest customer for each of the same periods accounted for approximately 17.9%, 13.5% and 21.2%, respectively, of our total revenue. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers during the Track Record Period. Please refer to “Business – Customers” in this prospectus for more information.

SUMMARY

In order to make better use of our limited production capacity, we maintain on-going communications with our key customers involving discussion about their business plans and future demand for our products in the coming year(s), which can be reflected in the following framework agreements and/or order plans:

- In July 2018, we directly entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange. Based on its order plans, it is expected that the said clothing retailer will have a purchase amount of US\$1.5 million for the 2018 fall and winter and 2019 spring and summer seasons, and US\$2.4 million for the 2019 fall and winter and 2020 spring and summer seasons, respectively.
- In August 2018, we entered into a long-term supply agreement with a term of 10 years with a sourcing agent based in the U.S. of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. We have commenced communication with the said U.S. sourcing agent in relation to quotation, production capacity and sampling in relation to the product specifications and estimated products quantity provided by it.
- In September 2018, we entered into a legally binding strategic cooperation framework agreement with Muxi Clothing, a domestic online maternity products retailer through e-commerce platforms which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, pursuant to which, Muxi Clothing has committed to purchase a minimum amount of not less than RMB150 million of nursing bras and other products of our Group for 2019 and our Group shall be the exclusive supplier of such products to Muxi Clothing. The corresponding sales volume of the aforesaid committed purchases of Muxi Clothing for 2019 will not be less than 4.5 million units subject to the types of products eventually decided by Muxi Clothing and specified to our Group. We commenced our business relationship with Muxi Clothing in 2017. Our major products sold to Muxi Clothing are nursing products given that we are its sole and exclusive nursing bras supplier. For each of the years ended 31 December 2017 and 2018, nursing bras products accounted for more than 88% of our total sales to Muxi Clothing respectively.
- In November 2018, we received order plans from a sourcing agent incorporated in Israel for a clothing brand based in Canada. Based on its order plans, it is expected that the said Canada-based clothing brand will have an aggregate purchase amount of approximately US\$2.7 million for 2019 spring and fall.

SUMMARY

Our Suppliers and Raw Materials

The principal raw materials we use in our production include yarns, accessory clothing parts, dyes and packaging materials. The yarns we source for intimate wear are mainly made of nylon. We have established stable relationships with our five largest suppliers for a range of approximately four to eight years. For the years ended 31 December 2016, 2017 and 2018, purchases from our five largest suppliers together accounted for approximately 36.8%, 37.3% and 35.1% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 14.2%, 16.4% and 14.2% of our total purchases, respectively. Except for Deshipu New Materials, which was our largest supplier for the years ended 31 December 2016, 2017 and 2018, none of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest suppliers during the Track Record Period and as at the Latest Practicable Date. For further details of the transactions between our Group and Deshipu New Materials, please refer to the section headed “Continuing Connected Transactions” in this prospectus. Please refer to “Business – Suppliers and Raw Materials” in this prospectus for more information.

Our Production Facilities

We have two production bases, namely our Suxi Production Site and our Beiyuan Production Site, both located at Yiwu, Zhejiang Province, the PRC. We currently only operate our Suxi Production Site for production operations, at which we produce most of our seamless products and some of our non-seamless products. Our Beiyuan Production Site is divided into phase I (which has been completed) and phase II (which is under construction). We intend to utilize our Beiyuan Production Site for expansion of our seamless production capacity and relevant research and development purpose. Details of our planned capacity expansion are set out below. Please refer to “Business – Production – Production Sites” in this prospectus for more information.

COMPETITIVE STRENGTHS

We believe the following competitive strengths differentiate us from other industry participants, have contributed to our success and will continue to enable us to increase our market share and capture future growth opportunities:

- We have proven track record in offering integrated in-house intimate wear manufacturing solutions.
- We have developed entrenched relationship with high quality ODM customers with sales to diverse geographical locations.
- Our strong product research and development capability and technical expertise in seamless intimate wear production facilitates our business expansion to new product segment with high growth potential.
- We have stringent and comprehensive quality control over our operations.
- We have an experienced, competent and committed management team.

SUMMARY

BUSINESS STRATEGIES

Our goals are to continue to strengthen our position in seamless intimate wear market and optimize our branded sales in the PRC. We aim to achieve these goals through the following:

- Fortifying our position in the seamless intimate wear market
- Optimizing our sales network in the PRC
- Enhancing product design and research and development capability

SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION

Summary of Consolidated Statements of Profit or Loss and Other Comprehensive Income

The following table sets forth our summary consolidated statements of profit or loss and other comprehensive income for the years indicated.

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	326,535	314,583	333,725
– ODM Sales	217,548	200,677	243,505
– Branded Sales	108,987	113,906	90,220
Gross profit	140,658	139,683	145,440
Profit before tax	21,393	20,849	30,339
Profit for the year	<u>19,296</u>	<u>18,409</u>	<u>26,375</u>

Being a seamless intimate wear manufacturer, our ODM revenue is limited by our production capacity. Our ODM revenue remains relatively stable during the Track Record Period, which was consistent with our stable utilization rate, being 81%, 82% and 82% for the years ended 31 December 2016, 2017 and 2018, respectively.

SUMMARY

Our branded sales revenue was generally in a decreasing trend throughout the Track Record Period, which was mainly due to our strategy to streamline our retail network by closing down self-operated retail outlets with less satisfactory financial or operational performance to ensure cost-effectiveness and optimize our profits. The following table sets forth the breakdown of our revenue of branded sales by sales channel for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-operated stores and counters	84,454	77.5	73,934	64.9	62,751	69.6
Sales of aged stocks	17,173	15.8	29,934	26.3	15,087	16.7
E-commerce platforms	4,828	4.4	5,488	4.8	6,435	7.1
Franchised concession counters	2,532	2.3	4,550	4.0	5,947	6.6
	<u>108,987</u>	<u>100.0</u>	<u>113,906</u>	<u>100.0</u>	<u>90,220</u>	<u>100.0</u>

The fluctuations of our gross profit during the Track Record Period was mainly due to the change in segment mix as different segment may have different gross profit margins, depending on factors such as the cost of materials, production costs, product positioning, pricing and marketing strategies. According to the Frost & Sullivan Report, profit margins for ODMs are usually lower than that of brand owners or retailers. The decrease in gross profit margin in the ODM sales segment from approximately 40.0% for the year ended 31 December 2017 to approximately 38.5% for the year ended 31 December 2018 was mainly due to the higher cost of raw materials, cost of nylon in particular. The following table sets forth our gross profit and gross profit margin by business segments and product categories for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %	Gross profit <i>RMB'000</i>	Gross profit margin %
ODM						
Intimate wear and others	56,710	34.2	59,364	39.7	66,098	38.2
– <i>Nursing bras</i>	41	49.4	8,634	32.9	38,028	44.4
Functional sportswear	21,320	41.2	20,999	41.2	27,704	39.2
	<u>78,030</u>	<u>35.9</u>	<u>80,363</u>	<u>40.0</u>	<u>93,802</u>	<u>38.5</u>
Branded sales						
Intimate wear and others	61,347	57.7	58,408	52.8	51,200	58.2
Functional sportswear	1,281	47.1	912	27.4	438	19.3
	<u>62,628</u>	<u>57.5</u>	<u>59,320</u>	<u>52.1</u>	<u>51,638</u>	<u>57.2</u>
Total gross profit	<u>140,658</u>	<u>43.1</u>	<u>139,683</u>	<u>44.4</u>	<u>145,440</u>	<u>43.6</u>

SUMMARY

Our gross profit for the years ended 31 December 2016, 2017 and 2018 was generally stable.

Please refer to “Financial Information – Year-on-year comparison of results of operation” in this prospectus for more information.

Summary of Consolidated Statement of Financial Position

The following table sets forth a summary of our consolidated statement of financial position as of the dates indicated.

	As at 31 December		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Non-current assets	202,769	197,573	230,009
Current assets	288,659	290,603	306,990
Current liabilities	331,669	510,273	360,469
Net current liabilities	(43,010)	(219,670)	(53,479)
Non-current liabilities	–	–	(5,323)
Net assets/(liabilities)	159,759	(22,097)	171,207

We recorded net current liabilities throughout the Track Record Period, which were primarily attributable to our significant short-term interest-bearing bank borrowings obtained by our Group to (i) meet our funding needs for the acquisition of land located in Yiwu City of Zhejiang Province and the construction fee of our Beiyuan Production Site; and (ii) support our working capital given our relatively long inventory turnover days as a result of our need to store inventory for our retail business to meet our customers needs.

Our net current liabilities position was particularly large as at 31 December 2017 because of (i) amount due to related parties of RMB100.9 million (Bode Holding); (ii) amount due to a director (Mr. Luo Weixing) of RMB2.3 million; and (iii) other payables of RMB50.8 million to Barry Trading and the then 12 Individual Shareholders except for Mr. Luo Weixing arising from the acquisition of Zhejiang Bonny by Bonny HK (the “**Acquisition Payables**”). As part of the Reorganization, Bonny HK, being our wholly owned subsidiary, acquired Zhejiang Bonny, which was previously directly held by Bode Holding and the 12 Individual Shareholders, all of which were also shareholders of our Company, at a total consideration of HK\$184.3 million or RMB155.9 million (based on the exchange rate on the day of transaction). The Acquisition Payables to our shareholders was therefore considered as an equity transaction with our shareholders. As a result, our Group (i) assumed liabilities arising from the Acquisition Payables of approximately RMB154.0 million as at 31 December 2017; (ii) recorded an exchange rate difference of approximately RMB1.9 million in the exchange fluctuation reserve in equity as the payment was made in Hong Kong dollars; and (iii) correspondingly reduced capital reserve in equity by approximately RMB155.9 million as at 31 December 2017. For details, please refer to the section headed “History, Development and Corporate Structure”.

SUMMARY

Our Group was also in a net liabilities position as at 31 December 2017, principally due to (i) the particularly large net current liabilities position as a result of our Reorganisation as mentioned above; and (ii) the slight decrease in our non-current assets by RMB5.2 million mainly as a result of depreciation of property, plant and equipment. Upon settlement of the aforementioned Acquisition Payables in April 2018 by way of cash, our net current liabilities improved significantly from RMB219.7 million as at 31 December 2017 to RMB53.5 million as at 31 December 2018. We also improved from a net liabilities position of RMB22.1 million as at 31 December 2017 to a net assets position of RMB171.2 million as at 31 December 2018.

Notwithstanding our net current liabilities of approximately RMB53.5 million as at 31 December 2018, our Directors are of the view that we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus after considering (i) banks from which we obtained total banking facility of approximately RMB312.3 million as at 31 December 2018 confirmed that, if there is no material adverse change to our Group, it will continue to provide credit support upon the expiry of the banking facility; (ii) unutilized banking facility of approximately RMB67.3 million as at 31 December 2018; (iii) we recorded positive net cash generated from operating activities during the Track Record Period; and (iv) we had no material default in the repayment of bank borrowings and we had not experienced any withdrawal of facilities nor request for early repayment of bank borrowings during the Track Record Period.

Summary of Consolidated Statements of Cash Flow

The following table sets forth a summary of our cash flows for the years indicated.

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	59,717	40,193	33,377
Net cash flows used in investing activities	(6,513)	(32,852)	(28,308)
Net cash flows used in financing activities	(34,702)	(36,933)	(8,434)
Net increase/(decrease) in cash and cash equivalents	18,502	(29,592)	(3,365)
Cash and cash equivalents at beginning of year	39,809	58,386	28,770
Effect of foreign exchange rate changes, net	75	(24)	33
Cash and cash equivalents at end of year	<u>58,386</u>	<u>28,770</u>	<u>25,438</u>

SUMMARY

We recorded positive net cash flows generated from operating activities during the Track Record Period. Our negative net cash flows used in investing activities during Track Record Period were due to the purchases of items of property, plant and equipment and additions to other intangible assets. We recorded negative cash flows used in financing activities during the Track Record Period for the repayment of borrowings, payment of dividends and interest.

KEY FINANCIAL RATIOS

The following table sets forth key financial ratios as of the dates or for the years indicated. For further details of our key financial ratios, please see “Financial Information – Summary of Financial Ratios” in this prospectus.

	As at/For the year ended 31 December		
	2016	2017	2018
Gross profit margin	43.1%	44.4%	43.6%
Net profit margin	5.9%	5.9%	7.9%
Return on equity ^(Note 1)	12.1%	N/A ^(Note 5)	15.4%
Return on assets ^(Note 2)	3.9%	3.8%	4.9%
Interest coverage ^(Note 3)	3.3	2.8	3.4
Gearing ratio ^(Note 4)	140.3%	N/A ^(Note 5)	147.8%

Notes:

1. Return on equity is calculated by dividing net profit by total equity as at the end of the respective year and multiplied by 100%.
2. Return of assets is calculated by dividing net profit by total assets as at the end of the respective year and multiplied by 100%.
3. Interest coverage ratio is calculated by dividing profit before interest and tax by interest expenses for the respective year.
4. Gearing ratio is calculated by dividing total interest-bearing liabilities by total equity as at the end of the respective year and multiplied by 100%.
5. Return on equity and gearing ratio for the year ended 31 December 2017 was not applicable as we recorded a negative equity position as at 31 December 2017 due to the acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization.

OUR CONTROLLING SHAREHOLDERS

Immediately after the completion of the Capitalization Issue and the Global Offering (but without taking into account the Shares to be issued pursuant to the exercise of the Over-allotment Option), Maximax will hold approximately 52.88% of the issued share capital of our Company. Maximax is held as to 100.00% by Mr. Jin, and thus Mr. Jin and Maximax will continue to be our Controlling Shareholders upon Listing. Please refer to “Relationship with our Controlling Shareholders” in this prospectus for more information.

SUMMARY

RECENT DEVELOPMENT

With respect to our ODM sales, we continued to secure orders from our existing and new customers. As at 21 March 2019, we have received orders in an aggregate amount of approximately RMB117.4 million which are expected to be delivered in 2019, accounting for approximately 48.2% of the Group's overall ODM sales for the year ended 31 December 2018 in total. Among others, as at 21 March 2019, we have received the following purchase orders or committed purchases in relation to the Planned Purchases:

- We have received order plans with a total committed purchase amount of approximately RMB20.0 million from Muxi Clothing as part of and pursuant to our legally binding strategic cooperation framework agreement.
- The sourcing agent incorporated in Israel for a clothing brand based in Canada has placed purchase orders for a total amount of approximately US\$1.5 million.
- The renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange has placed purchase orders for a total amount of approximately US\$2.5 million.

For our overseas sales, we categorize our revenue based on the destination of our products as per instructions of our customers. Certain of our products were shipped to the U.S. as instructed by our overseas customers and hence the U.S. is one of the major geographical markets of our ODM business and accounted for approximately 19.5%, 19.3% and 12.0% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively.

In light of the recent threats of Sino-U.S. trade war, our business may be adversely affected by trade restrictions implemented by the U.S. government if any of the trade restrictions to be imposed involves our intimate wear products. In a series of releases, the Office of the U.S. Trade Representative has published a list of products (the “**List**”) to be exported from China that would be subject to additional tariffs. Many of these tariffs went into effect in July and August 2018. The most recent List was finalized on 17 September 2018, and products listed therein became subject to a new tariff of 10% with effect from 24 September 2018, which tariffs may subject to increase to 25%.

Our Directors confirm that as at the Latest Practicable Date, none of our Group's products exported to the United States during the Track Record Period was on the List that would be subject to an additional duty and, to their best knowledge, none of our Group's customers had reduced their orders for our products as a result of the recent Sino-U.S. trade tensions. To the best knowledge of our Directors after making reasonable enquiries, the recent Sino-U.S. trade tensions up to the Latest Practicable Date did not have any material adverse impact on our financial conditions, results of operations and growth prospects because of the following reasons, namely (i) none of our intimate wear products is on the List; (ii) as at the Latest Practicable Date, no trade restriction has been announced by the U.S. government to be imposed on our intimate wear products and none of our customers have cancelled any orders as a result of the Sino-U.S. trade war; and (iii) our Group's ODM business covers diverse geographical locations with over 20 countries around the world including Germany, the Netherlands and the PRC.

SUMMARY

With respect to our branded sales, during 2018, as part of our strategy to optimize cost-effectiveness of our outlets, we continued to streamline our retail network in the PRC. The total number of our retail outlets decreased from 215 as the beginning of 2018 to 195 (comprising 153 self-operated retail outlets and 42 franchised retail outlets) as at the Latest Practicable Date.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, save for the adverse impact from the listing expenses, our Directors confirm that there had not been any material adverse change in our financial, operational or trading position since 31 December 2018 and up to the date of this prospectus.

LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and assuming the Offer Price of HK\$0.53 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the total estimated listing expenses (including the underwriting commission), which are non-recurrent in nature, are estimated to be approximately HK\$42.4 million.

During the Track Record Period, listing expenses of approximately RMB14.3 million (equivalent to HK\$16.8 million) was charged to the consolidated statements of profit or loss and other comprehensive income. For the year ending 31 December 2019, we estimate that listing expenses of HK\$12.4 million will be charged to profit or loss and HK\$13.2 million will be accounted for as a deduction from equity upon successful Listing under relevant accounting standards.

Our Directors would like to emphasize that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be materially and adversely affected by the listing expenses mentioned above.

SUMMARY

OFFERING STATISTICS

The following offer statistics are prepared on the basis of the indicative Offer Prices without taking into account the 1% brokerage, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee, assuming that the Over-allotment Option is not exercised.

	Based on the Offer Price of HK\$0.46 per Offer Share	Based on the Offer Price of HK\$0.60 per Offer Share
Number of Offer Shares	300,000,000	300,000,000
Market capitalization (<i>Note 1</i>)	HK\$552,000,000	HK\$720,000,000
Unaudited pro forma adjusted consolidated net tangible assets per Share (<i>Note 2</i>)	HK\$0.26	HK\$0.29

Notes:

1. The calculation of the market capitalization of the Shares is based on 1,200,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalization Issue.
2. The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company per Share is calculated based on 1,200,000,000 Shares in issue immediately following completion of the Global Offering and the Capitalization Issue.

USE OF PROCEEDS AND REASONS FOR LISTING

Assuming an Offer Price of HK\$0.53 per Offer Share (being the mid-point of the indicative 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 professional fees, underwriting commissions and other fees and expenses payable by us in connection with the Listing and the Global Offering) will be approximately HK\$116.6 million. We intend to apply such net proceeds in the following manner:

- approximately 80%, or approximately HK\$93.2 million, will be used for funding our investment in relation to our Beiyuan Production Site for the expansion of our production capacity of our seamless products, of which:
 - (i) approximately 20%, or approximately HK\$23.2 million, for the construction of phase II of our Beiyuan Production Site; and
 - (ii) approximately 60%, or approximately HK\$70.0 million, for the acquisition and implementation of additional machinery and equipment at our Beiyuan Production Site include, based on the quotations we obtained and/or recent purchase orders we placed with machinery suppliers, comprise approximately RMB74.0 million for acquisition of a total of 200 additional seamless circular

SUMMARY

knitting machines, RMB6.0 million for acquisition of compressors and other ancillary facilities, RMB4.5 million for acquisition of additional sewing machines, and RMB3.0 million for installation expenses;

- approximately 10%, or approximately HK\$11.7 million, will be used for enhancing our product design, research and development capability; and
- approximately 10%, or approximately HK\$11.7 million, will be used for our working capital and general corporate purposes.

We believe that the Listing represents an important step to implement our business strategies. Our utilization rate for seamless intimate wear production has been persistently high and maintained at around 80% during the Track Record Period which has constrained our business development and profitability. Taking into account the limitations in our existing production capacity, our Directors believe that in order to satisfy the growing demand of seamless intimate wear both locally and globally and to sustain our Group's persistent future growth, it is essential to increase our production capacity for production of seamless products through investing in the capacity expansion plan of our Beiyuan Production Site. After taking into account of the framework supply agreements and/or order plans entered into with and/or provided by our ODM customers as mentioned in "Recent Development" above, it is estimated that the ODM sales volume for the year ending 31 December 2019 would consume up to approximately 60% of the estimated additional production capacity at our Beiyuan Production Site for the year ending 31 December 2019, assuming that (i) the utilization rate of our Suxi Production Site remains stable at approximately 80%; and (ii) the 200 seamless circular knitting machines will be installed and commence operation in batches since July 2019 and reach full capacity by November 2019. Such sales volume has not taken into account the demand from the long-term supply agreement with the sourcing agent based in U.S. because no intended volume/amount was specified in the agreement. Therefore, our Directors are of the view that there is sufficient demand for the increase in production capacity at the Beiyuan Production Site in our expansion plan. Through the Listing, we can raise funds from the Global Offering for our capacity expansion plan. Furthermore, through the Listing, we also believe that we will be able to enhance our corporate profile, broaden our shareholder base, enhance liquidity of our Shares and enhance our employee incentive and commitment.

Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for further details relating to the use of proceeds and the reasons and benefits for the Listing.

DIVIDENDS

For the years ended 31 December 2016, 2017 and 2018, our Group declared and paid dividends of nil, RMB50.0 million and nil, respectively. Our Board does not have a pre-determined dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows, financial condition, future prospects, capital expenditure, expansion plans and other factors that our Board may consider relevant. The dividend distribution record in the past may not be used as a reference or basis to

SUMMARY

determine the level of dividends that may be declared or paid by our Company in the future. Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. Please refer to “Financial Information – Dividends” in this prospectus for more information.

RISK FACTORS

There are certain risks involved in our operations and in connection with the Global Offering, many of which are beyond our control. These risks can be categorized into (i) risks relating to our industry and business, (ii) risks relating to conducting business in the PRC, and (iii) risks relating to the Global Offering. Some of the particular risk factors include:

- We rely on few major customers.
- We do not have long-term purchase commitments from most of our ODM customers, which may subject us to uncertainty and revenue volatility from period to period.
- Any disruption of our current production facility could reduce or restrict sales and materially and adversely affect our business.
- We may face labor shortages, increases in labor costs and labor disputes which could adversely affect our growth and results of operations.
- We grant credit terms to our ODM customers and our working capital and cash flow position may be adversely affected if such customers fail to settle or delay in making their payments.
- We had recorded net current liabilities in the past.

Potential investors are advised to read “Risk Factors” in this prospectus carefully before making any investment decision in the Global Offering.

LEGAL COMPLIANCE

Our Directors confirm that our Group has obtained all material licences, permits and approvals required for carrying on our business activities. Save as disclosed in “Business – Compliance – Non-compliance incidents” in this prospectus, our Directors confirm that our Group has complied with all applicable laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

“12 Individual Shareholders”	Mr. Jin Chunlong, Mr. Tao Jianhang, Mr. Gu Guoxin, Ms. Luo Kailang, Mr. Gong Yinghong, Mr. Luo Weixing, Mr. Huang Jing, Mr. Sun Weiming, Mr. Luo Chengming, Mr. Luo Yi, Mr. Yu Xiongjian and Ms. Yang Shiyang, being the ultimate 12 individual shareholders of our Company (other than Mr. Jin), and, save for Mr. Luo Weixing, all of them are Independent Third Parties, save for their shareholding interests on our Company
“Accountants’ Report”	the accountants’ report set out in Appendix I to this prospectus
“affiliate(s)”	any other person(s), directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person(s)
“Application Form(s)”	WHITE Application Form(s), YELLOW Application Form(s) and GREEN Application Form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering
“Application Lists”	the application lists for the Hong Kong Public Offering
“Articles” or “Articles of Association”	the articles of association of our Company, conditionally adopted on 19 March 2019 with effect from the Listing Date and as amended from time to time, a summary of which is set out in “Summary of the Constitution of the Company and Cayman Companies Law – 2. Articles of Association” in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Committee”	the audit committee of the Board
“Barry Trading”	Barry Trading Limited (巴瑞貿易有限公司), a company incorporated in Hong Kong with limited liability on 19 June 2017 and is an Independent Third Party
“Beiyuan Production Site”	our production base located at Beiyuan Street, Yiwu, Zhejiang Province, the PRC

DEFINITIONS

“Board” or “Board of Directors”	the board of directors of our Company
“Bode Holding”	Bode Holding Co., Ltd.* (博德控股集團有限公司), formerly known as Bonny Holding Co., Ltd* (博尼控股集團有限公司), Zhejiang OYI Investment Co., Ltd.* (浙江歐耶投資有限公司) and Zhejiang OYI Real Estate Development Co., Ltd* (浙江歐耶房地產開發有限公司), a company established in the PRC on 21 September 2007, owned as to 75.50% by Mr. Jin and 24.50% by Ms. Gong, and a connected person of our Company
“Bonny HK”	Hongkong Bonny Limited (香港博尼有限公司), a company incorporated in Hong Kong with limited liability on 4 September 2017 and is a wholly-owned subsidiary of our Company
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of the share premium account of our Company as referred to in “Statutory and General Information – A. Further Information about our Company – 3. Resolutions of the Shareholders passed on 19 March 2019” in Appendix V to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (2018 Revision) of the Cayman Islands, Cap. 22 (Law 3 of 1961), 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 Participants”	the person(s) admitted to participate in CCASS as the direct clearing participant(s) or general clearing participant(s)
“CCASS Custodian Participants”	the person admitted to participate in CCASS as the custodian participant(s)

DEFINITIONS

“CCASS Investor Participants”	the person admitted to participate in CCASS as the investor participant(s) who may be an individual or joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include Hong Kong, Macau and Taiwan
“Companies Ordinance” or “Hong Kong 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” or “Companies (WUMP) Ordinance”	Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time
“Company”, “our Company”, “we” or “us”	Bonny International Holding Limited 博尼国际控股有限公司, an exempted company incorporated in the Cayman Islands on 19 July 2017
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and, unless the context otherwise requires, refers to Mr. Jin and company controlled by him, being Maximax
“core connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會)

DEFINITIONS

“Deed of Indemnity”	the deed of indemnity dated 19 March 2019 executed by our Controlling Shareholders with and in favour of our Company (for itself and as trustee for its subsidiaries) with particulars set out in “Statutory and General Information – C. Further Information about the Directors – 6. Indemnity Given by the Controlling Shareholders” in Appendix V to this prospectus
“Deed of Non-competition”	the deed of non-competition dated 19 March 2019 entered into by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries) with particulars set out in “Relationship with Our Controlling Shareholders – Deed of Non-Competition” in this prospectus
“Deshipu New Materials”	Zhejiang Deshipu New Materials Technology Co., Ltd.* (浙江德施普新材料科技有限公司) (formerly known as Zhejiang Shuka Clothing Co. Ltd.* (浙江舒咔服装有限公司) and Zhejiang Bonny Polyamide Technology Co. Ltd.* (浙江博尼锦纶科技有限公司)), a limited liability company established in the PRC on 16 December 2010 and a wholly-owned subsidiary of Bode Holding, and a connected person of our Company
“Deshipu Polyamide”	Zhejiang Deshipu Polyamide Technology Co., Ltd.* (浙江德施普锦纶科技有限公司), a limited liability company established in the PRC on 14 December 2006, a wholly-owned subsidiary of Bode Holding, and a connected person of our Company
“Director(s)”	the director(s) of our Company
“EIT”	the PRC enterprise income tax
“EIT Law”	the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法), as enacted by the National People’s Congress on 16 March 2007 and took effect on 1 January 2008, as amended, supplemented or otherwise modified from time to time
“EU”	European Union
“EUR”	the European currency unit (also referred to as the Euro)

DEFINITIONS

“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an industry research consultant and an Independent Third Party
“Frost & Sullivan Report”	the market research report on intimate wear manufacturing and retail market prepared by Frost & Sullivan and commissioned by us
“GFA”	gross floor area
“Global Offering”	the International Placing and the Hong Kong Public Offering
“ GREEN Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group” or “the Group”	our Company and its subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“HGNH International”	HGNH International Securities Co., Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being one of the Joint Bookrunners and the Joint Lead Managers
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKFRS(s)”	Hong Kong Financial Reporting Standards
“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

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong O’YE”	Hong Kong O’YE International Limited (香港歐耶國際有限公司), a limited company incorporated in Hong Kong on 7 July 2003 and wholly-owned by Maximax and a connected person of our Company
“Hong Kong Offer Shares”	the 30,000,000 Shares being offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in “Structure of the Global Offering” in this prospectus)
“Hong Kong Public Offering”	the conditional offer of the Hong Kong Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in “Structure of the Global Offering” in this prospectus) and on, and subject to, the terms and conditions of this prospectus and the Application Forms
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in “Underwriting – Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the conditional underwriting agreement dated 11 April 2019 relating to the Hong Kong Public Offering and entered into among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters, as further described in “Underwriting – Underwriting arrangements and expenses – Hong Kong Public Offering – Hong Kong Underwriting Agreement”
“independent third party(ies)” or “Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are not connected person(s) of our Company

DEFINITIONS

“Innovax Securities” or “Sole Global Coordinator” or “Stabilizing Manager”	Innovax Securities Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being the Sole Global Coordinator, one of the Joint Bookrunners and the Joint Lead Managers
“International Placing”	the conditional placing of the International Placing Shares for and on behalf of our Company to institutional, professional and other investors outside the United States, as further described in “Structure of the Global Offering” in this prospectus
“International Placing Shares”	270,000,000 Shares being initially offered by us for subscription at the Offer Price pursuant to the International Placing together with, where relevant, any additional Shares which may be issued by our Company pursuant to the exercise of the Over-allotment Option, subject to adjustment as described in “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Placing
“International Underwriting Agreement”	the underwriting agreement relating to the International Placing which is expected to be entered into among our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Sole Global Coordinator and the International Underwriters on or about the Price Determination Date, as further described in “Underwriting – Underwriting arrangements and expenses – International Placing – International Underwriting Agreement” in this prospectus
“Joint Bookrunners”	Innovax Securities, HGNH International, Yue Xiu Securities and Zhongtai International Securities
“Joint Lead Managers”	Innovax Securities, HGNH International, Yue Xiu Securities, Zhongtai International Securities and Pulsar Capital
“Latest Practicable Date”	2 April 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

“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 on which the Shares are listed and from which dealings therein are permitted to take place on the Main Board commence
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the Main Board of the Stock Exchange
“Maximax”	Maximax Holding Corporation, a BVI business company incorporated in the BVI with limited liability on 2 June 2017, wholly owned by Mr. Jin and is one of our Controlling Shareholders
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company (as amended from time to time), adopted on 19 March 2019 (with immediate effect), a summary of which is set out in “Summary of the Constitution of the Company and Cayman Companies Law – 1. Memorandum of Association” in Appendix IV to this prospectus
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Chen”	Mr. Chen Changyu (陳昌玉), the ultimate shareholder of 30% equity interest in Yiwu Bonny, and a connected person of our Company at subsidiary level
“Mr. Jin”	Mr. Jin Guojun (金國軍), the spouse of Ms. Gong, our Controlling Shareholder and an executive Director
“Ms. Gong”	Ms. Gong Lijin (龔麗瑾), the spouse of Mr. Jin and a non-executive Director
“Muxi Clothing”	Muxi Clothing (Shanghai) Company Limited* (慕熙服飾(上海)有限公司), one of our major customers
“Nomination Committee”	the nomination committee of the Board

DEFINITIONS

“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) at which Hong Kong Offer Shares are to be subscribed and International Placing Shares are to be offered, and to be determined in the manner further described in “Structure of the Global Offering – Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares
“Over-allotment Option”	the option expected to be granted by us to the International Underwriters and exercisable by the Sole Global Coordinator (for itself and on behalf of the International Underwriters) under the International Underwriting Agreement, pursuant to which our Company may be required to allot and issue up to an additional aggregate of 45,000,000 Shares (in aggregate representing 15% of the Shares initially being offered under the Global Offering) at the Offer Price, for the sole purpose to cover the over-allocations in the International Placing, if any, details of which are described in “Structure of the Global Offering – Over-allotment Option” in this prospectus
“PRC Company Law”	the Company Law of the PRC (《中華人民共和國公司法》), enacted by the Standing Committee of the Eighth National People’s Congress of the PRC on 29 December 1993 and effective on 1 July 1994, and subsequently amended on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013, as amended, supplemented or otherwise modified from time to time
“PRC GAAP”	the generally accepted accounting principles in the PRC
“PRC Government” or “State”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and its organs or, as the context requires, any of them
“PRC Legal Adviser”	King & Wood Mallesons, a qualified PRC law firm as the PRC legal adviser to our Company for the Listing

DEFINITIONS

“Price Determination Agreement”	the agreement to be entered into by the Sole Global Coordinator (for itself and 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 around 17 April 2019 on which the Offer Price is determined, or such later time as the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company may agree, but in any event no later than 23 April 2019
“Property Valuation Report”	the property valuation report set out in Appendix III to this prospectus
“Pulsar Capital”	Pulsar Capital Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being one of the Joint Lead Managers
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reorganization”	the corporate reorganization of our Group in preparation for the Listing as described in “History, Development and Corporate Structure – Reorganization” in this prospectus
“Repurchase Mandate”	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details are set out in “Statutory and General Information – 6. Repurchase by our Company of its own securities” in Appendix V to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“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

DEFINITIONS

“Shanghai Bonny”	Shanghai Bonny Apparel Co., Ltd.* (上海博尼服裝有限公司), a limited liability company established in the PRC on 29 December 2007 and our wholly owned subsidiary
“Shanghai Zhuoshi”	Shanghai Zhuoshi Apparel Co., Ltd.* (上海卓詩服飾有限公司), a limited liability company established in the PRC with limited liability on 1 June 2011, being wholly owned by Mr. Chen, and directly holds 30% interest of Yiwu Bonny
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 19 March 2019, the principal terms of which are summarised in “Statutory and General Information – D. Share Option Scheme” in Appendix V to this prospectus
“Shareholder(s)”	holder(s) of our Shares
“Shares”	share(s) of US\$0.01 each in the share capital of our Company
“Sole Sponsor”	Innovax Capital Limited, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and acting as the Sole Sponsor for the Global Offering
“sq.m.”	square meters
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between Maximax and the stabilising manager
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto under the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto under the Listing Rules
“Suxi Production Site”	our production base located at Suxi Town, Yiwu, Zhejiang Province, the PRC

DEFINITIONS

“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers and Share Buy-backs, as amended, modified and supplemented from time to time
“Track Record Period”	the period comprising the three financial years ended 31 December 2016, 2017 and 2018
“U.K.” or “United Kingdom”	the United Kingdom of Britain and Northern Ireland
“U.S. Securities Act”	the United States Securities Act of 1933 (as amended from time to time)
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“United States” or “U.S.”	the United States of America
“US\$”, “USD” or “U.S. dollars”	United States dollars, the lawful currency for the time being of the United States
“ WHITE Application Form(s)”	the application form(s) for use by the public who require such Hong Kong Offer Shares to be issued in the applicant’s own name(s)
“ White Form eIPO ”	the application for Hong Kong Offer Shares to be registered in the applicant’s own name by submitting applications online through the designated website of White Form eIPO at www.eipo.com.hk
“ White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“ YELLOW Application Form(s)”	the form(s) of application for the Hong Kong Offer Shares for use by the public who require such Hong Kong Offer Shares to be deposited directly into CCASS
“Yiwu Bonny”	Yiwu Bonny E-Commerce Co., Ltd.* (義烏博尼電子商務有限公司), a limited liability company established in the PRC on 16 May 2016 and our non-wholly owned subsidiary
“Yiwu Fayue”	Yiwu Fayue Apparel Co., Ltd.* (義烏法悅服飾有限公司), a limited liability company established in the PRC on 26 May 2017 and our wholly owned subsidiary

DEFINITIONS

“Yiwu Leyishang”	Yiwu Leyishang Apparel Co., Ltd.* (義烏樂衣尚服飾有限公司), a limited liability company established in the PRC on 10 March 2016 and our non-wholly owned subsidiary
“Yiwu Sportswear”	Yiwu Bonny Sportswear Co., Ltd.* (義烏博尼運動服裝有限公司), a limited liability company established in the PRC on 25 May 2017 and our wholly owned subsidiary
“Yuan Nan Apparel”	Zhejiang Yuan Nan Apparel Co., Ltd.* (浙江遠南服飾有限公司), formerly known as Yiwu Yuan Nan Apparel Co., Ltd.* (義烏市遠南服飾有限公司), a limited liability company established in the PRC on 23 August 1999 and held as to 80.00% by Mr. Jin and 20% by Ms. Gong, and a connected person of our Company
“Yue Xiu Securities”	Yue Xiu Securities Company Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts) and Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities under the SFO, being one of the Joint Bookrunners and the Joint Lead Managers
“Zhejiang Bonny”	Zhejiang Bonny Fashion Holding Group Co., Ltd.* (浙江博尼時尚控股集團有限公司), formerly known as (Zhejiang Bonny Co., Ltd.*) 浙江博尼股份有限公司, Bonny Clothing Co., Ltd.* (博尼服飾有限公司) and Yiwu Boni Dress Co., Ltd.* (義烏博尼服飾有限公司), a limited liability company established in the PRC on 21 August 2001 and our wholly owned subsidiary
“Zhongtai International Securities”	Zhongtai International Securities Limited, a corporation licensed by the SFC to carry on Type 1 (dealing in securities) and Type 4 (advising on securities) regulated activities under the SFO, being one of the Joint Bookrunners and the Joint Lead Managers
“%”	per cent

The English translation of the PRC entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus and marked with “*” is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the PRC entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

GLOSSARY

This glossary contains explanations of terms used in this Prospectus in connection with us and our business. Some of these terms and their meanings may not correspond to standard industry meanings or usage of such terms.

“circular knitting machine”	a specialized knitting machine for production of finished or semi-finished seamless garments based on pre-programmed computer commands
“ERP system”	enterprise resource planning system
“FOB”	freight on board, which means that the seller pays for transportation of the goods to the port of shipment as well as loading costs; the buyer pays cost of marine freight transport, insurance, unloading and transportation from the arrival port to the final destination; and the passing of risks occurs when the goods are loaded on board at the port of shipment
“intimate wear”	the kind of clothing people usually wear in direct contact with the skin or beneath outer clothing which include bras, underpants, intimate sportswear, sleepwear and thermal clothes etc.
“nursing bras”	a specialized brassiere that provides additional support to women who are lactating and permits comfortable breastfeeding without the need to remove the bras
“ODM”	original design manufacturer, being a manufacturer who receives purchase orders from its customers with specifications on production and design and generally does not engage in extensive product design and development on the functions, structures or raw materials but limited design on the product appearance
“OEM”	original equipment manufacturer, being a manufacturer who solely manufacture the products and sell to other companies for rebranding and reselling
“seamless technology”	a knitting technology of producing clothing almost free of seams, sewing or stitches that uses specialized circular looms to develop garments that fit perfectly to the body, and “seamless intimate wear” means the intimate wear manufactured using seamless technology as opposed to traditional intimate wear
“traditional intimate wear”	non-seamless intimate wear manufactured using traditional knitting as opposed to seamless intimate wear

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS

This prospectus contains certain statements that are, or may be deemed to be, “forward-looking statements.” These forward-looking statements may be identified by the use of forward-looking terminology, including the terms “believe(s)”, “aim(s)”, “estimate(s)”, “plan(s)”, “project(s)”, “anticipate(s)”, “expect(s)”, “intend(s)”, “may”, “seek(s)”, “can”, “could”, “ought to”, “potential”, “will” or “should” or similar expressions, or, in each case, their negative or other variations, or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. In particular, references to “estimate(s)” only refer to situations where best estimates have been adopted by the management. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this prospectus and include, but are not limited to, statements regarding our intentions, beliefs or current expectations concerning, among other things, our business, results of operations, financial position, liquidity, prospects, growth, strategies and the industries and markets in which we operate or may operate in the future.

By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Forward-looking statements are not guarantees of future performance or the actual results of our operations, financial position and liquidity. The development of the markets and the industries in which we operate may differ materially from the description or implication suggested by the forward-looking statements contained in this prospectus. In addition, even if our results of operations, financial position and liquidity as well as the development of the markets and the industries in which we operate are consistent with the forward-looking statements contained in this prospectus, those results or developments may not be indicative of results or developments in subsequent periods. A number of risks, uncertainties and other factors could cause results and developments to differ materially from those expressed or implied by the forward-looking statements including, without limitation:

- our operations and business prospects;
- our ability to maintain and enhance our market position;
- the effects of competition in the industries or markets we operate and its potential impact on our business;
- developments in, or changes to, laws, regulations, governmental policies, taxation or accounting standards or practices affecting our operations, especially those related to the intimate wear industry;
- general political and global economic conditions, especially those related to the PRC, and macro-economic measures taken by the PRC Government to manage economic growth;
- our ability to successfully implement any of our business strategies, plans, objectives and goals;

FORWARD-LOOKING STATEMENTS

- our ability to expand and manage our business operations;
- our ability to obtain or extend the terms of the licenses and leases necessary for the operation of our business;
- changes to our expansion plans and estimated capital expenditures;
- adverse changes or developments in the industries in which we or our customers operate;
- fluctuations in inflation, interest rates and exchange rates;
- changes in the availability of, or new requirements, for financing; and
- our success in accurately identifying future risks to our business and managing the risks of the aforementioned factors.

Forward-looking statements may and often do differ materially from actual results. Any forward-looking statements in this prospectus reflect our management's current view with respect to future events and are subject to risks relating to future events and other risks, uncertainties and assumptions. Investors should specifically consider the factors identified in this prospectus, which could cause actual results to differ, before making any investment decision. Subject to the requirements of the Listing Rules and except as may be required by applicable law, we undertake no obligation to revise any forward-looking statements that appear in this prospectus to reflect any change in our expectations, or any events or circumstances, that may occur or arise after the date of this prospectus. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should, before making any investment decision in relation to the Shares, carefully consider all of the information in this prospectus, including the risks and uncertainties in connection with an investment in our Company as described below which may not be typically associated with investing in equity securities of companies from other jurisdictions. Our business, financial condition and results of operations could be materially and adversely affected by the occurrence of any of the following risks and uncertainties. Accordingly, the market prices of our Shares could decrease significantly due to any of such risks or uncertainties not presently known to our Group or which our Group currently deems immaterial but could arise or could become material in the future and could have an adverse effect on the business, financial condition or results of operations of our Group. Possible declination in the trading price of the Shares on account of any of such risks or uncertainties could also cause potential investors to be deprived of part or all of their investments in the Shares.

RISKS RELATING TO OUR INDUSTRY AND BUSINESS

We rely on few major customers.

A majority of our revenue is derived from a limited number of customers. For the years ended 31 December 2016, 2017 and 2018, sales to our largest customer accounted for approximately 17.9%, 13.5% and 21.2% of our total revenue, respectively, while sales to our five largest customers accounted for approximately 47.6%, 50.1% and 60.9% of our total revenue, respectively. Our top five customers during the Track Record Period are all customers of our ODM sales.

Our current concentration on a few significant customers exposes us to the risks of substantial losses if such major customers stop engaging in businesses with us or significantly reduce orders to us. Specifically, any of the following events, among others, may cause material fluctuations or declines in our revenue and have a material and adverse effect on our business, financial condition and results of operations:

- the reduction, delay or cancellation of purchase orders from one or more of our significant customers;
- the reduction in the purchase price of our products;
- the rejection of products manufactured by us for one or more of our significant customers due to manufacturing defects or other reasons;
- the decision by one or more of our significant customers to select one or more of our competitors to supply products;
- the loss of one or more of our significant customers and our failure to identify and obtain additional or replacement customers that can replace the lost sales volume at satisfactory pricing or other terms; or
- the failure or inability of any of our significant customers to make timely payment for our products.

RISK FACTORS

We anticipate that our dependence on a limited number of major ODM customers will continue for the foreseeable future. We cannot assure you that our customer relationships will continue to develop or if these customers will continue to generate significant revenue for us in the future. Any failure to maintain our existing customer relationships or to expand our customer base will materially and adversely affect our results of operations and financial condition.

We do not have long-term purchase commitments from most of our ODM customers, which may subject us to uncertainty and revenue volatility from period to period.

We do not have long-term purchase commitments from most of our ODM customers, save for the committed purchases under the legally binding framework agreement with Muxi Clothing. Our ODM customers' purchases are made on a purchase order basis, and it is difficult to forecast quantities of future purchase orders. Our ODM customers typically place order forecast three to six months in advance. We cannot assure you that the production volume or our ODM customers' purchase orders will be consistent with our expectation when we plan for our expenditures. Cancellations, reductions or postponements of purchase orders by a major customer or by a group of customers could adversely affect our business, financial condition and results of operations.

In addition, we make significant decisions, including determining the levels of business that we will seek and accept, production schedules, raw material procurement commitments, personnel needs and other resource requirements, based on our estimates of customer requirements. The short-term nature of our customers' commitments and the possibility of rapid changes in demand for their products reduce our ability to accurately estimate future customer requirements. On occasion, customers may require rapid increases in production, which can strain our resources. We may not be able to increase our manufacturing capacity at any given time to meet our customers' demands. On the other hand, a reduction in customer demand may negatively impact our gross margin and results of operations.

Any disruption of our current production facility could reduce or restrict sales and materially and adversely affect our business.

As at the Latest Practicable Date, we operated one facility, namely our Suxi Production Site, for our production. We also possess another facility, namely our Beiyuan Production Site, which we intend to use for further expansion of production capacity, details of which are set out in "Business – Production – Capacity Expansion Plan" in this prospectus.

RISK FACTORS

Natural disasters or other unanticipated catastrophic events, including storms, fires, explosions, earthquakes, terrorist attacks and wars, as well as changes in governmental planning for the land underlying our facility, could significantly impair our ability to manufacture our products and operate our business. If we experience any unanticipated situation that forces us to shut down our Suxi Production Site, our production will be severely disrupted, which may in turn materially and adversely affect our business and results of operations. Catastrophic events could also destroy any inventory located in our Suxi Production Site. The occurrence of any catastrophic event could result in the temporary or long-term closure of our Suxi Production Site, severely disrupt our business operations and materially and adversely affect our results of operations and financial condition.

Any downtime for maintenance and repair of our equipment could lead to business interruptions that could be expensive and harmful to our reputation and to our business.

Our machinery and equipment may be subject to breakdowns. Significant downtime associated with the maintenance and repair of equipment used in our manufacturing facilities will result in temporary interruption of our production. Although we have implemented a comprehensive maintenance system for our facilities and equipment, including scheduled downtimes for maintenance and repairs and regular inspections of facilities and equipment, the failure of equipment manufacturers or our team to provide timely repairs on our equipment could interrupt the operation of our production facility for extended periods of time. Such extended downtime could result in lost revenue for us. We may lose customers and may be unable to regain those customers thereafter. As a result, our business and results of operations could be materially and adversely affected.

We may not be able to continue to successfully expand our product offerings.

Since our inception, a significant portion of our revenue has been generated from sales of bras and intimate wear. Backed by our comprehensive research and development capabilities accumulated in the production of intimate wear, we have been able to strategically expand into adjacent product areas including the functional sportswear as well as penetrate into the niche market of nursing bras.

Going forward, to enhance our growth, we plan to continue to expand the range of our product offerings to diversify our product portfolio. Expanding into new product categories requires us to make substantial capital expenditures in new manufacturing facilities and equipment and commit substantial resources to develop new product designs and the technologies required to manufacture new products. Manufacturing new and technologically advanced products is a complex process requiring high levels of innovation and skilled research and development personnel, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop and manufacture new products successfully, if at all, or on a timely basis. We also may not be able to develop the underlying core technologies necessary to manufacture these new products, license these technologies from third parties, or become competitive in the market. In addition, we cannot assure you that the new products will be launched on time, or the developed products will be well received by customers and gain market acceptance. If we fail to successfully develop and sell these new products, our results of operations and prospects could be materially and adversely affected.

RISK FACTORS

We may face labor shortages, increases in labor costs and labor disputes which could adversely affect our growth and results of operations.

Our production activities are dependent on the availability of a large number of labor. For the years ended 31 December 2016, 2017 and 2018, our direct labor costs included in cost of sales amounted to approximately RMB37.9 million, RMB34.9 million and RMB19.5 million, representing approximately 20.4%, 20.0% and 10.3% of our total cost of sales, respectively. Shortage of labor, inefficient labor management or any labor disputes may result in disruption of our business operations, which may in turn have a material and adverse effect on our business, prospects, financial condition and results of operations. In addition, labor costs in China have been increasing in recent years and our labor costs in the PRC may continue to increase as well. If labor costs in the PRC continue to increase, our production costs will increase which may in turn affect the selling prices of our products. We may not be able to pass on these increased costs to consumers by increasing the selling prices of our products in light of competitive pressure in the markets where we operate. In such circumstances, our profit margin may decrease, which could have an adverse effect on our results of operations.

We grant credit terms to our ODM customers and our working capital and cash flow position may be adversely affected if such customers fail to settle or delay in making their payments.

Our financial position and profitability are dependent on the creditworthiness of our customers in respect of our ODM sales. Currently, we grant credit terms to our ODM customers ranging from 30 days to 90 days, depending on the past payment history and the length of business relationship with the relevant customers. For the years ended 31 December 2016, 2017 and 2018, our trade receivables were approximately RMB67.4 million, RMB96.3 million and RMB93.7 million, respectively, while our trade receivable turnover days were approximately 69.8 days, 95.0 days and 103.9 days, respectively. As at 31 December 2016, 2017 and 2018, our total impairment provision of trade receivables amounted to approximately RMB2.8 million, RMB3.6 million and RMB3.6 million, respectively.

We cannot guarantee that we will be able to successfully collect any or all of the debts due. We may encounter doubtful or bad debts due to a slow-down of industry growth, individual customer's deteriorating financial condition or otherwise in the future. Any failure on the part of our customers to settle or settle on time the amounts due may adversely affect our financial condition and operating cash flows, which may have a material adverse effect on our business and results of operations.

We had recorded net current liabilities in the past.

As at 31 December 2016, 2017 and 2018, we had net current liabilities of approximately RMB43.0 million, RMB219.7 million and RMB53.5 million, respectively, as a result of our interest-bearing bank borrowings to (i) meet the funding needs for acquisition of land and construction fee of our Beiyuan Production Site; and (ii) support our working capital given our relatively long inventory turnover days as a result of our need to store inventory for our retail business to meet customers needs. There can be no assurance that we will not experience a net current liabilities position in the future. Having significant net current liabilities could constrain our operational flexibility and adversely affect our planned expansion plan.

RISK FACTORS

We expect to incur additional depreciation expenses from the capacity expansion plan of our Beiyuan Production Site, which may adversely affect our results of operations and financial conditions.

We may be subject to significant depreciation expenses arising from capacity expansion plan of our Beiyuan Production Site when it is ready for use. Our consolidated financial information has been prepared in accordance with HKFRSs. According to HKFRSs, depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Our buildings have estimated useful lives of 30 years, and our machinery and equipment are depreciated with useful lives of 10 years. For details of the depreciation expenses during the Track Record Period, please refer to Note 13 to the Accountant's Report in Appendix I to this prospectus. The capacity expansion plan of our Beiyuan Production Site is under construction and is expected to complete in around November 2019. Our construction in progress representing the construction of the capacity expansion plan of our Beiyuan Production Site is stated at cost less any impairment losses and is not depreciated. We intend to complete installation of 200 additional seamless circular knitting machines and ancillary equipment arriving in batches by October 2019 to accomplish our planned capacity expansion which will be ready for trial production in July 2019 and reach full capacity in November 2019 whereby our production capacity for seamless products is estimated to increase by approximately 80% (as compared to that for the year ended 31 December 2018). We estimate that depreciation expenses associated with the purchase of additional production machinery and equipment for our capacity expansion plan will be substantially increased following the commencement of production from our Beiyuan Production Site. We estimate that the increase in depreciation and amortisation expenses associated with our capacity expansion plan will be not less than RMB4.0 million and RMB10.0 million for the year ending 31 December 2019 and 2020, respectively. Such additional depreciation expenses would have a negative effect on our profitability, results of operations and financial conditions.

We face competition from other seamless intimate wear manufacturers in respect of our ODM sales.

For our ODM sales, we mainly compete with international and domestic seamless intimate wear manufacturers. According to the Frost & Sullivan Report, China accounted for about 27.4% of the global production volume of seamless intimate wear in 2017 with top five manufacturers accounting for about 13.3% of the total sales value of seamless intimate wear manufacturing market in China, and there are more than 100 manufacturers in the seamless undergarments production market in China which explains the highly fragmented and competitive market nature. As the production of seamless garments requires highly sophisticated machines, which are mainly imported, the acquisition and ownership of the seamless machines have become one of the major challenges for new market entrants since the initial capital investment on machinery is highly costly. In order to succeed in the seamless garments production industry, it is vital for market players to hold a significant number of seamless machines to increase production capacity and market share. In addition, despite the rapid growth of the seamless garments industry in China recently, production costs such as

RISK FACTORS

labor and raw material costs, as well as operating costs, have increased in the last few years. This has put a financial burden on all garment manufacturers in China including those for seamless garments. Therefore, manufacturers have to have a certain level of economies of scale in order to survive the rising production costs and price competition in China. In China, the majority of seamless garments are exported to the overseas market as the profit margin and demand for seamless garments are higher. Also, many overseas clothing brands have switched their production to China given the production costs are lower by appointing Chinese OEM or ODMs for the production of their products. Hence, for Chinese manufacturers for seamless products, it is also crucial that PRC manufacturers for seamless products have established good business relationships with overseas fashion brands to secure their customer base and sales channels both within and outside China. If we fail to compete with other seamless intimate wear manufacturers, we may lose our market position and our business and financial performance may be materially and adversely affected.

Our success depends on a stable and adequate supply of quality raw materials which are subject to price volatility and other risks.

For the years ended 31 December 2016, 2017 and 2018, our costs of materials amounted to approximately RMB104.0 million, RMB108.1 million and RMB118.6 million, representing 56.0%, 61.8% and 63.1% of our total cost of sales, respectively. The principal raw materials we use in our production include yarns, accessory clothing parts, dyes and packaging materials. As a result, our production volume and production costs depend on our ability to source quality key raw materials at competitive prices. If we are unable to obtain raw materials in the quantities, of a quality or at a price that we require, our production volume, quality of products and profit margins may be adversely affected. Raw materials used in our production are subject to price volatility caused by external conditions, such as market supply and demand, commodity price fluctuations, currency fluctuations, fluctuations in transportation costs, changes in governmental policies and natural disasters. Therefore, there is no assurance that our raw material cost will not increase significantly in the future. Our ability to pass increased raw material costs along to our customers may be limited by competitive pressure. We experienced an increase in cost of average unit price of nylon, our major raw material, which contributed to approximately 22.2% and 24.8% of cost of materials for the years ended 31 December 2017 and 2018, respectively. Since we could only secure the price of raw materials after a sales order is finalized, we could not timely and fully pass the increased purchase cost of raw materials to our customers when we first provided our sales quotation to our customers, which to a certain extent had contributed to a decrease in the gross profit margin in our ODM sales segment. We cannot assure you that we will be able to raise the prices of our products sufficiently to cover increased costs resulting from increases in the cost of our raw materials or overcome the interruption of sufficient supply of qualified raw materials for our products. As a result, any significant price increase of our raw materials may have an adverse effect on our profitability and results of operations.

RISK FACTORS

Furthermore, we depend on a limited number of key suppliers including Deshipu New Materials, which is a connected person and was our largest supplier during the Track Record Period. For the years ended 31 December 2016, 2017 and 2018, purchases from our five largest suppliers accounted for approximately 36.8%, 37.3% and 35.1% of our total purchases, respectively, while our largest supplier for the same periods accounted for approximately 14.1%, 16.3% and 14.2% of our total purchases, respectively. If our current key suppliers decide to terminate business relationships with us or if the raw materials supplied by our current suppliers fail to meet our standard, or if our current supplies of raw materials are interrupted for any reason, qualified suppliers may not be readily available and we may not be able to easily switch to other suppliers in a timely fashion, which may materially and adversely affect our business and financial results.

We are dependent on our “Bonny” and “U+ Bonny” brands.

During the Track Record Period, we sold our branded products mainly under our “Bonny” brand. Brand image is a key factor in consumer purchase decisions, and determines the success of our domestic branded sales. Our brand image, however, could be jeopardized if we fail to maintain high product quality, keep up with evolving fashion trends and timely fulfill orders for popular items. In addition, any negative publicity or disputes regarding our products, services, or our Group or management could also materially harm our brand image.

Our “Bonny” brand which we position as an intimate wear brand targets mid to high-end intimate wear market. Since the second half of 2017, we introduced our “U+ Bonny” brand which we position as a brand specializing in knitted homeware and undergarments through selected self-operated retail outlets and franchisees which diversify the target customers of our “Bonny” branded products to the mass market. Our brand image could be negatively affected by our possible failure to meet consumer expectations with respect to quality or style, failure to successfully promote and maintain the brand image, or damage to its reputation or loss of consumer confidence for whatever reason. As a result, our results of operations and financial condition may be materially and adversely affected and we may need to incur additional resources to rebuild our reputation.

Failure to maintain optimal inventory levels could increase our inventory holding costs or cause us to lose sales, either of which could have a material adverse effect on our business, financial condition and results of operations.

Maintaining an optimal level of inventory is critical to the success of business. For the years ended 31 December 2016, 2017 and 2018, our inventory turnover days were 290.1, 260.6 and 238.4, respectively. We are exposed to inventory risks as a result of a variety of factors beyond our control, including, changing fashion trends and consumer needs, uncertainty of success of product launches, extreme weather conditions and seasonality. We cannot assure you that there will not be under or over-stocking at our retail outlets. Moreover, we generally estimate demand for our products ahead of production and the actual time of sale. We cannot assure you that we can accurately predict the current trends and possible events to avoid under or over-stocking inventory. A sudden decrease in the market demand for our products and the

RISK FACTORS

corresponding unanticipated drop in the sales of our products could cause our inventory to accumulate, and we may be forced to rely on markdowns or promotional activities to dispose unsold items, sometimes at prices below cost, which in turn may adversely affect our financial condition and results of operations. During the Track Record Period, we recorded reversal of impairment of inventories of approximately RMB0.3 million, RMB2.0 million and RMB1.4 million for the years ended 31 December 2016, 2017 and 2018, respectively. Based on our inventory policy, we perform (i) review on the inventory ageing analysis; and (ii) product-by-product conditions review at the end of each reporting period in order to identify the slow-moving or obsolete inventory items, and will also consider the net realizable value for inventories based on the latest market prices and current market condition, any extra provision will be reversed. For more information on our inventory policy, please refer to the “Financial information – Principal Financial Position Items – Inventories” in this prospectus. On the other hand, in the event of under-stocking inventory, we may lose sales and our results of operations may be adversely affected.

We outsource certain of our production to subcontractors the performance of which we may be unable to monitor.

We from time to time outsource our production to third party subcontracting manufacturers in respect of production of some of our traditional intimate wear products if we do not have sufficient production capacity to meet demands of customers as well as certain manufacturing procedures which do not form key parts of our production process and require specialised equipment such as tie-dyeing. We did not enter into any long-term subcontracting agreement during the Track Record Period, and we engaged subcontractors based on our needs. We negotiate the terms of each subcontracting order with independent subcontractors on a job-by-job basis. For the years ended 31 December 2016, 2017 and 2018, we had engaged 14, 11 and 18 subcontractors for the aforesaid processing procedures and the subcontracting fees paid to such subcontractors amounted to approximately RMB7.4 million, RMB3.1 million and RMB5.7 million, respectively.

There is no assurance that we will be able to monitor the performance of these subcontractors as directly and efficiently as with our own staff. In addition, suitable subcontractors may not always be readily available at reasonable costs when we require their services. Our ability to complete projects could be impaired if we are unable to engage suitable subcontractors and reasonable costs or at all. If a subcontractor fails to provide services as required under a contract, we may need to source these services on a delayed basis or at a higher replacement cost than anticipated, which may have adverse impact on our profitability. If the performance of a subcontractor does not meet our standards, the quality of the project may be affected, which could harm our reputation and expose us to litigation and damage claims from our customers.

RISK FACTORS

We may not continue to receive preferential tax treatment currently available to us, and the increase in enterprise income tax could decrease our net income and materially and adversely affect our financial condition and results of operations.

The rate of income tax assessable on companies in China may vary depending on the availability of preferential tax treatment or subsidies granted to the specific industries or locations. The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of our PRC subsidiaries as determined in accordance with the PRC EIT Law except for Zhejiang Bonny which qualified as a High and New Technology Enterprise (高新技術企業) and was subject to a preferential income tax rate of 15% for the Track Record Period. For the three years ended 31 December 2018, we enjoyed tax savings from preferential income tax rates of approximately RMB2.0 million, RMB2.3 million and RMB3.9 million, and enjoyed tax savings from additional deductible allowance for research and development expenses of approximately RMB1.2 million, RMB1.2 million and RMB1.9 million, respectively. The High and New Technology Enterprise Certificate (高新技術企業證書) was first obtained in 2012 and subsequently renewed on 30 November 2018, which will expire in 2021. In the event that Zhejiang Bonny fails to renew its qualification as a High and New Technology Enterprise, it would not be able to enjoy the relevant preferential tax treatment. The PRC Government or provincial government could also eliminate or reduce the preferential tax treatment in the future, which, would lead to an increase in our effective tax rate. Upon the eventual lapse of any preferential tax treatments, our effective tax rate will also increase in the future. As a result, our financial condition and results of operation could be materially and adversely affected. For details of the income tax expenses during the Track Record Period, please refer to Note 10 to the Accountants' Report in Appendix I to this prospectus.

Our results of operations could be adversely affected if we fail to keep pace with customer demands and consumer preferences for product design, research and development and manufacturing of our products.

As an ODM service provider for our overseas sales as well as an intimate wear brand operator for our domestic sales, our success and continued development is dependent on our ability to develop new products. For the years ended 31 December 2016, 2017 and 2018, our expenses for product design, research and development amounted to approximately RMB16.0 million, RMB16.5 million and RMB17.9 million, respectively.

RISK FACTORS

The intimate wear market is affected by rapid changing fashion trends and consumer preferences as well as changes in consumers' spending patterns, which are often difficult to predict. Consequently, our success depends on our ability to accurately identify these factors and take them into account during our product planning and manufacturing process. This requires a combination of various elements, including, without limitation, accurate analysis and prediction of market trends, timely collection of consumer feedback, strong research and development capability and flexible and cost-effective product production. If we are unable to successfully anticipate, identify or timely react to changing consumer preferences or market trends or if we misjudge the market for our products, the growth and success of our business could be materially and adversely affected, potentially resulting in significant decreases in sales. Specifically, any of the following events, among others, may have a material and adverse effect on our business, financial condition and results of operations:

- failure to remain competitive in our product design, research and development capabilities;
- failure to maintain short cycles for product design, research and development while meeting evolving industry production standards;
- inability to maintain the high-quality of our manufacturing;
- failure to maintain our efficient and cost-effective production operation;
- inability to distribute our products in a timely and efficient manner in response to customer demand; or
- failure to recruit or train sufficient product design, research and development employees.

We may not be able to compete effectively in the highly competitive domestic retail intimate wear industry.

Intimate wear retail market of the PRC is highly competitive and fragmented. We compete with a broad range of intimate wear companies. We face a variety of competitive challenges for our domestic branded sales. Some of our competitors may possess stronger brand recognition, larger consumer bases, or greater financial, marketing and/or other resources than us. Our competitors may be acquired by, receive investment from or enter into strategic relationships with larger, more established and better capitalized companies or investors. Some of our competitors may be able to secure merchandise from suppliers on more favorable terms, devote greater resources to marketing and brand promotion, adopt more aggressive pricing or inventory availability policies, or devote substantially more resources to online portals, e-commerce and system development than us. In particular, although we have established our presence on third party e-commerce platforms to facilitate consumer purchases of our products via the Internet, we may lose sales to competitors that provide more advanced and efficient on-line shopping platforms and door-to-door delivery services than us. Increased competition could result in price reductions, increased marketing expenditures and loss of market share, any of which could have a material adverse effect on our results of operations and financial condition. There can be no assurance that we will be able to address these challenges and compete successfully against current and future competitors, and those competitive pressures may have a material adverse effect on our business, growth prospects, financial condition and results of operations.

RISK FACTORS

Our financial performance may be adversely affected by a decrease in demand for nursing bras as a result of, among others, a decrease in number of middle-class Asian women who are willing to do breastfeeding.

During the Track Record Period, the sales of nursing bras contributed to an increasingly significant portion of our revenue. For the three years ended 31 December 2016, 2017 and 2018, our revenue generated from the sales of nursing bras amounted to approximately RMB83,000, RMB26.2 million and RMB85.6 million, representing approximately 0.1%, 8.3% and 25.6% of our total revenue, respectively. Majority of our nursing bras products are sold in the PRC market to Muxi Clothing, a domestic online maternity products retailer through e-commerce platforms which operates a leading brand for maternity products in China. We expect that sales of nursing bras will continue to be one of the growth drivers of our business. Nursing bras are specialized brassieres that provide additional support to women who are lactating and allow comfortable breastfeeding without the need to remove the bras. We cannot guarantee that the demand for nursing bras, particularly from the middle-class Asian women with relatively high consuming power, will continue to grow. The demand for nursing bras will be affected by, among others, the willingness of women to do breastfeeding as well as spending on nursing bras. In the event that there is a decrease in number of women especially middle-class Asian women who are willing to do breastfeeding, or there is a decrease in the spending on nursing bras due to whatever reasons, sales of our nursing bras may be adversely affected. Since we derive a considerable portion of our revenue from the sales of nursing bras, any reduction in customer demand for our nursing bras may negatively impact our business, results of operations and financial conditions.

We or our franchisees may not be successful in securing prime locations for retail outlets inside department stores or shopping malls.

Currently, we sell almost all of our branded products to consumers through a network of retail outlets either operated by us or by our franchisees. Our performance depends, to a significant extent, on the location of these retail outlets, as we believe securing prime locations is a key to access to our target consumer groups and brand building. Our retail outlets are located within major department stores or shopping malls in major cities in China, as we believe the major department store chains and shopping malls are primary retail channels for lifestyle products marketed to mid-to-high income class consumers in China, who are our primary target consumer groups. We expect major department stores and shopping malls will continue to be our primary venues for establishing retail outlets. Securing prime locations for our retail outlets within the department stores and shopping malls thus becomes a key factor in attracting our targeted consumers to purchase our products. Department stores and shopping malls typically assign and allocate sales areas to concessionaires or lessors based on their sales performance. Our retail outlets have been relocated by the department stores in the past, and we cannot assure you that our retail outlets located in department stores and shopping malls will not be relocated in the future.

RISK FACTORS

The supply of prime locations in a city in the PRC and those in a department store or shopping mall is limited. As a result, the competition to secure these properties or locations is intense. In addition, department stores may increase the concession fees charged on the concession counters or rent charged to the standalone stores operated by us or our franchisees, as a result of which, the operations of these concession counters or stores may not be commercially viable to us or our franchisees. Our competitors may pre-empt us in securing prime locations. We cannot assure you that we or our franchisees will be able to identify, rent and maintain suitable properties or negotiate with, and open or rent charged to the standalone stores in, department stores or shopping malls on terms acceptable to us or our franchisees. In the event that we or our franchisees fail to do so, our sales, business, financial condition and results of operations may be materially and adversely affected.

We are subject to foreign exchange risks.

The functional currency of the subsidiaries established in China is RMB, which is the currency of the primary economic environment in which those entities operate whilst our ODM business transactions are primarily denominated in US\$ and EUR. This exposes us to risks associated with fluctuations in foreign currencies. During the Track Record Period, we recorded exchange gain of approximately RMB0.8 million and RMB0.1 million for the years ended 31 December 2016 and 31 December 2018, respectively, and exchange loss of approximately RMB2.0 million for the year ended 31 December 2017. Currently, we do not have any hedging policy with respect to our foreign exchange exposure. In view of the nature of our business, foreign exchange risks will continue to be an integral part of our risk profile in the future. There is no assurance that the exchange rates of our functional currency will not fluctuate significantly against US\$ and EUR (or any other foreign currencies) and foreign exchange rate fluctuations will continue to have an impact on our results of operations. For further information on our currency risk, please refer to “Financial Information – Key factors affecting our financial conditions and results of operations – Fluctuations in foreign exchange rates” in this prospectus.

We are subject to various regulatory and customer-imposed guidelines and may not be successful in maintaining an effective quality control system.

In addition to PRC laws and regulations, we are subject to a variety of guidelines imposed by our ODM customers relating to production safety, health and environmental conditions, and our customers may require us to implement an internal quality control system to perform various inspections over the course of the entire manufacturing process. In addition, most of our overseas ODM customers require us to comply with specific guidelines based on the U.S., EU and other international product safety and restricted and hazardous materials laws and regulations that are applicable in the jurisdictions into which they sell their products. We cannot assure you that our quality control system will continue to be effective in ensuring full compliance with our customers’ stringent quality control requirements. Any significant failure or deterioration of our quality control system in respect of, among other things, our production process and product inspection, may seriously damage our product quality and have a material adverse effect on our reputation in the market among our existing or prospective customers, which may, in turn, lead to a reduction of orders or loss of customers in the future, harming our business, financial condition and results of operations.

RISK FACTORS

We may be involved in legal or other proceedings arising out of our operations, including product liability claims, from time to time and may face significant liabilities as a result.

We may be involved from time to time in disputes with various parties involved in our business operations, including but not limited to our customers, suppliers, employees, logistics service providers, insurers and banks. These disputes may lead to legal or other proceedings, which may result in damages to our reputation, substantial costs and diversion of our resources and management's attention. In addition, we may encounter additional compliance issues in the course of our operations, which may subject us to administrative proceedings and unfavourable results, and result in liabilities and delays relating to our production or product launch schedules. We cannot assure you as to the outcome of such legal proceedings, and any negative outcome may materially and adversely affect our business, financial condition and results of operations.

We are also exposed to potential product liability claims in the event that there is any damage caused by defective products. A successful product liability claim against us could require us to pay for substantial damages. Product liability claims against us, whether or not successful, are costly and time-consuming to defend, and have a negative impact on our brand image. Though we have never recalled any of our products in the past, in the event that our products prove to be defective, we may be required to redesign or recall such products. We cannot assure you that a product liability claim will not be brought against us in the future. A product liability claim, with or without merit, could result in significant adverse publicity against us, and could have a material adverse effect on the marketability of our products and our reputation, which in turn, could have a material adverse effect on our business, financial condition and results of operations.

Our non-compliances with relevant labor dispatch arrangements, and social insurance and housing provident fund contribution laws and regulations in the PRC could lead to imposition of fines and penalties.

During the Track Record Period, the number of dispatched staff utilized by Zhejiang Bonny through labor dispatch arrangement exceeded 10% of the total number of its workers which is not in full compliance with the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》). During the Track Record Period, Zhejiang Bonny and Shanghai Bonny did not make contribution to the social insurance fund for all of their respective employees in compliance with the provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), and did not fully make housing provident fund contributions for all of their respective employees in compliance with the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》). Please refer to “Business – Compliance – Non-compliance incidents” in this prospectus for further details of our historical non-compliances.

RISK FACTORS

If the relevant authority imposes any fine and/or penalty on us for any of our non-compliance incidents, or demands us to take any remedial steps which may lead to the incurrence of substantial expenses, our financial condition and results may be materially and adversely affected. In addition, in the event that the relevant authority later strengthens the enforcement of the relevant laws and regulations on social insurance and housing provident fund in respect of the enterprises within its jurisdiction and accordingly considers it necessary to make retrospective contribution to social insurance fund and housing provident fund contributions, or if provisions are required to be made, the amount of which may be significant, our business, financial condition and results of operation may be materially and adversely affected. We cannot assure that employees of Zhejiang Bonny and Shanghai Bonny, who have consented not to make contribution to the social insurance fund and/or the housing provident fund, may within the statutory limitation period lodge complaints with the relevant authorities against Zhejiang Bonny and Shanghai Bonny in respect of our failure to make contribution to the social insurance fund and/or the housing provident fund, or initiate a claim against or disputes with Zhejiang Bonny and Shanghai Bonny.

We may be exposed to intellectual property infringement and other claims by third parties.

We may be subject to claims from other parties such as industry participants and competitors alleging our infringement of their patents, trade marks and/or other intellectual property rights in the future. Any legal or administrative proceedings resulting from such allegations is likely subject us to significant liability and even to cause a declaration of invalidity of our existing intellectual property rights. These lawsuits or proceedings would be time-consuming and costly to resolve, and would divert much of our managerial attention and administrative resources. Any lawsuits or proceedings or threat of the same as instituted by other parties could necessitate us to:–

- pay pecuniary damages to the claimant;
- stop selling or distributing products to which the technology or manufacturing processes bearing the allegedly infringing intellectual property apply;
- obtain from the claimant in respect of the relevant intellectual property rights a licence, which may not be available on a commercially acceptable terms or at all; and
- redesign those products that contain the allegedly infringing intellectual property with the replacement of non-infringing intellectual property, which may be technically or commercially impossible.

RISK FACTORS

The outcome of a dispute arising from such kind of infringement allegations may force us to use non-infringing technology or, alternatively, negotiate and enter into royalty or licensing agreements with the owner of the intellectual property which may involve substantial time and costs. Accordingly, our business, profitability and financial prospects may be materially and adversely affected.

Failure to protect the intellectual property rights of our customers could harm our business.

Our success depends on our ability to protect the intellectual property rights of our customers in respect of our ODM sales. 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 those rights. As at the Latest Practicable Date, we were not aware of any incident of failure to protect the intellectual property rights of our customers. In the event that our policies and the precautions we have taken do not adequately safeguard our customers' intellectual property rights, our customers could cease sharing their latest designs of product outlook or other work with us and even reduce or discontinue their purchase orders with us, which would have a material adverse effect on our business, financial condition and results of operations.

If our trademarks, trade names, copyrights, patents and other intellectual property rights do not adequately protect our product design or trade secrets, we may lose market share to our competitors and be unable to operate our business profitably.

We rely on a combination of applicable intellectual property laws as well as confidentiality agreements to protect our trademarks, trade names, copyrights, product designs and other intellectual property rights. Details of our intellectual property rights are set out in "Statutory and General Information – B. Further Information about Our Business – 2. Our Intellectual Property Rights" in Appendix V to this prospectus. Our intellectual property rights may be subject to various forms of infringement. As at the Latest Practicable Date, we were not aware of any material violations or infringements of our trademarks, trade names, copyrights, patents or any other intellectual property rights.

Implementation of PRC intellectual property-related laws has historically been lacking, primarily because of ambiguities in the PRC laws and difficulties in enforcement. Accordingly, intellectual property rights and confidentiality protections in China may not be as effective as those in Hong Kong, the United States or other countries. Policing unauthorized use of proprietary technology is difficult and costly, and we may need to resort to litigation to enforce or defend patents issued to us or to determine the enforceability, scope and validity of our proprietary rights or those of others. Any such litigation may require significant expenditure of financial and managerial resources and could have a material adverse impact on our business, financial condition and results of operations. An adverse determination in any such litigation will impair our intellectual property rights and may harm our business, prospects and reputation. In addition, given that the enforceability and scope of protection of proprietary rights in China are uncertain and still evolving, we may choose not to litigate or spend significant resources in litigation to enforce our intellectual property rights or to defend our patents against unauthorized use by third parties.

RISK FACTORS

The revaluation of investment properties is subject to uncertainties in accounting estimates which may affect our financial performance.

The revaluation of investment properties is subject to uncertainties in accounting estimates due to the application of significant unobservable inputs such as (i) estimated market rent; and (ii) term yield. Any change in the accounting estimates will affect the valuation. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise. If the revaluation of investment properties results in a decrease in value which affect our profit or loss, our financial performance may be adversely affected.

There is no assurance that the implementation of our future plans will be successful.

We have formulated our future plans with the view to increase our market share and sustain business growth. The future plans of our Group as described in “Business – Business Strategies” and “Future Plans and Use of Proceeds” in this prospectus are based on current intentions and assumptions.

Whether our future plans can be implemented successfully may be affected by various factors which are beyond our control, such as construction progress of phase II of our Beiyuan Production Site, implementation progress of additional machinery and equipment, business environment, economic conditions, market demand and regulatory framework, and other contingencies which are beyond are control. Such uncertainties and contingencies may lead to postponement of our future plans or may increase the costs of implementation. There can be no assurance that our future plans will materialise.

Our insurance coverage may not be adequate to cover all the risks related to our business and operations.

Our insurance coverage may not adequately protect us against all risks relating to our business and operations. We do not possess certain types of insurance in relation to our business operations, such as environmental damage insurance. No assurance can be given that our operations will be free of accidents. There is no assurance that we will be able to maintain sufficient insurance coverage in the future. As a result, losses incurred as a result of any defective product claim, business interruption, litigation or natural disaster may have a material adverse effect on our business, financial condition and results of operations.

Loss of service of our chairman and other key personnel or any failure to attract and retain necessary talents may materially and adversely affect our business, prospects, financial condition and results of operations.

The success of our business has been and will continue to depend on the continuing service of our key employees. In particular, Mr. Jin, our founder and chairman, who has over 15 years of experience in the intimate wear manufacturing industry, has been pivotal to our success. We rely on his expertise and experience in developing business strategies, product

RISK FACTORS

development and business operation, as well as, his relationship with customers. If we lose the services of Mr. Jin, we may not be able to find a suitable replacement for him with comparable knowledge and experience, and our business, prospects, financial condition and results of operations may be materially and adversely affected. In addition, members of our senior management team also have extensive industry experience and play a pivotal role in our daily operations and formulating our business strategies. The loss of the services of any of our key executives could have a material and adverse effect on our business and operations.

Our success also depends on our ability to attract and retain talented personnel, in particular, our product design, research and development personnel. We may not be able to attract or retain all the key personnel we need. We may also need to offer better remuneration and other benefits to attract and retain key personnel and therefore cannot assure you that we will have the resources to fully achieve our staffing needs or that our costs and expenses will not increase significantly as a result. Our failure to attract and retain competent personnel, and any increase in staffing costs to retain such personnel may have a negative impact on our ability to maintain our competitive position and to grow our business. If this occurs, our business, financial condition and results of operations may be materially and adversely affected.

We may require additional funding to finance our operations, which may not be available on terms acceptable to us or at all, and if we are able to raise funds, the value of your investment in us may be negatively impacted.

We believe that our current cash and cash equivalents and the anticipated cash flows from operations will be sufficient to meet our anticipated cash needs for the next 12 months. We may, however, require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. To the extent that our funding requirements exceed our financial resources, we will be required to seek additional financing or to defer planned expenditures. There can be no assurance that we can obtain additional funds on terms acceptable to us, or at all. In addition, our ability to raise additional funds in the future is subject to a variety of uncertainties, including, but not limited to:

- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising and debt financing activities; and
- economic, political and other conditions in China and elsewhere.

Furthermore, if we raise additional funds through equity or equity-linked financings, your equity interest in our Company may be diluted. Alternatively, if we raise additional funds by incurring debt obligations, we may be subject to various covenants under the relevant debt instruments that may, among other things, restrict our ability to pay dividends or obtain additional financing. Servicing such debt obligations could also be burdensome to our operations. If we fail to service such debt obligations or are unable to comply with any of these covenants, we could be in default under such debt obligations and our liquidity and financial condition could be materially and adversely affected.

RISK FACTORS

Our business relies on the proper operation of our information technology infrastructure.

We depend on our information technology systems to conduct our manufacturing and warehousing activities, manage risks, implement our internal control systems as well as oversee our business operations. Our ERP system enables us to monitor and exchange information on, among other aspects, our supply chain and retail network, from and among various enterprise departments. We rely on third-party information technology service providers to install, maintain and upgrade our systems, and we have contracted certain information technology companies to strengthen our standing information technology framework. Any malfunctioning or breakdown of our information technology systems for an extended period of time may result in network disruption. Even worse, a serious dispute with our information technology service provider or termination of the service contract with such provider may materially and adversely affect our ability to give effect to a prompt and cost-effective maintenance and/or upgrade of our information technology infrastructure. We may also experience interruptions to our operations during regular upgrades or in the course of integration of new components with our existing network systems. Should any of the foregoing situation occur, our business, results of operations and growth prospects would likely be impacted to a material extent.

Past dividend records should not be treated as indicative of future dividend payments.

No dividend was declared and paid by our Company since its incorporation. A dividend of RMB50 million was declared and paid by Zhejiang Bonny to the then shareholders for the year ended 31 December 2017.

Our Board does not have a pre-determined dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows, financial condition, future prospects, capital expenditure, expansion plans and other factors that our Board may consider relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

We are subject to seasonal fluctuation in revenue.

Seasonal fluctuation exists in our operations. Our operating results vary due to the seasonality of ODM sales and are historically stronger in the second half of the year. This variation primarily results from higher demands of our customers toward the year-end festive season, and stronger demands for thermal wear products during autumn/winter season. These seasonality fluctuations may affect our sales revenue and the utilization rate of our manufacturing facilities. In addition, prospective investors should note that the results of our Group for the peak months of each calendar year may not be taken as an indication of our performance for the entire calendar year.

RISK FACTORS

Trade restrictions could materially and adversely affect our business, financial condition and results of operations.

For our overseas sales, we categorize our revenue based on the destination of our products as per instructions of our customers. During the Track Record Period, certain of our products were shipped to the U.S. as instructed by our overseas customers and hence the U.S. was one of the major geographical markets of our ODM business and accounted for approximately 19.5%, 19.4% and 12.0% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively. In light of the recent threats of Sino-U.S. trade war, our business may be adversely affected by trade restrictions implemented by the U.S. In a series of releases, the Office of the U.S. Trade Representative has published a list of products (the “**List**”) to be exported from China that would be subject to additional tariffs. Many of these tariffs went into effect in July and August 2018. The most recent List was finalized on 17 September 2018, and products listed therein became subject to a new tariff of 10% with effect from 24 September 2018, which tariffs may be subject to increase to 25%. To the best knowledge of our Directors after making reasonable enquiries, the recent Sino-U.S. trade tensions up to the Latest Practicable Date did not have any material adverse impact on our financial conditions, results of operations and growth prospects because of the following reasons, namely (i) none of our intimate wear products is on the List; (ii) as at the Latest Practicable Date, no trade restriction has been announced by the U.S. government to be imposed on our intimate wear products and none of our customers have cancelled any orders as a result of the Sino-U.S. trade war; and (iii) our Group’s ODM business covers diverse geographical locations with over 20 countries around the world including Germany, the Netherlands and the PRC. However, if the trade war intensifies and the trade restrictions were further extended to involve our intimate wear products, some of our customers and/or apparel brands may shift to source intimate wear products outside the PRC instead. The uncertainty on the trade restriction policies resulting from the Sino-U.S. trade war may cause difficulties for our customers and the apparel brands to project their purchasing plans and may cause them to reduce their orders from us, which could materially and adversely affect our financial position, business or results of operations.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Our results of operations and financial condition are highly susceptible to changes in political and social conditions as well as government policies of the PRC.

Substantially all of our assets and operations are located in the PRC. Furthermore, our domestic sales accounted for approximately 49.8%, 56.3% and 55.3% of our total revenue for the years ended 31 December 2016, 2017 and 2018, respectively. As a result, our business and profitability are, to a significant extent, dependent on the economic, political and legal developments in the PRC. The economy of the PRC differs from those of most-developed countries in many respects, including the degree of government involvement, overall level of development, growth rate, control of foreign exchange and capital payment, and allocation of resources. Prior to the adoption of its reform and open-door policies in 1978, the PRC was primarily a planned economy, and since then the PRC Government has been reforming its economic system as well as government structure. Such reforms have indeed resulted in

RISK FACTORS

significant economic growth and social advancement for the past four decades as well as achievement of transformation of a planned economy into a more market-oriented economy with socialist characteristics. In recent times, the PRC Government has commenced its implementation of measures which emphasise on market forces for economic reform, the reduction of State ownership of productive assets, as well as, the establishment of sound corporate governance in business enterprises. Nonetheless, economic reform measures may be subject to continuing adjustment, refinement or inconsistent application from industry to industry and across various regions of the country for the purpose of optimization of the economic system. On the aforesaid basis, although we believe that these reforms will have a positive effect on our overall and long-term development, we cannot assure you that the PRC economy will continue to grow or that, if there is growth, such growth will be uniform or that, if there is a slowdown, such slowdown will not have a material adverse impact on our business, financial condition and results of operations.

Demand for our products and our business, financial conditions and results of operation may be materially and adversely affected by either one or a combination of the following factors which is attributable to a number of variables commonly beyond our control:–

- Political instability or changes in social conditions in the PRC;
- Changes in laws, rules, regulations and administrative directives;
- Changes in the rate, method and/or applicability of taxation regime;
- Measures introduced to combat against inflation, deflation or stagflation; and
- Reduction in tariff protection coupled with other import and/or export restrictions.

Moreover, our ability to expand our business is dependent on a number of factors, including but not limited to general economic and capital market conditions and credit availability from banks or other lenders. Stricter lending policies may, among other things, affect our and our customers' ability to obtain financing which may in turn adversely affect our growth and financial performance. We cannot assure you that further measures to control growth in lending will not be implemented by the PRC Government in a manner that may adversely affect our growth and profitability over time.

Adverse changes in the PRC economic condition may reduce the demand for our products and have a material adverse effect on our business, financial condition, results of operations and prospects.

The PRC Government continues to play a significant role in the regulation of industrial development and also exercises significant control over the country's economic growth through the resources allocation, control over payment of foreign currency-denominated obligations, implementation of monetary policy and offering of preferential treatment to particular industries or companies. Over the past couple of years, the PRC Government has implemented

RISK FACTORS

various types of measures, including but not limited to changes in the statutory deposit reserve ratio and benchmark interest rates of the People's Bank of China and the imposition of commercial bank lending guidelines. We cannot assure you of the extent of impact of such measures on, among others, our ability to obtain external financing which may reduce our ability to implement our expansion strategies or future plans, and the consumption capacity and habit of our consumers in the PRC in general. It also remains unclear as to whether the PRC economic policies will be effective in stimulating growth or whether the PRC Government will be effective in launching optimal policies to ensure stable economic growth or achievement of a specified economic target in the future.

Furthermore, like other major economies of the world, the PRC economy may be adversely impacted should there be an occurrence of a global financial crisis or scalable economic recession. Any slowdown in the economic growth of the PRC, and accordingly the decrease in the consumption power of members of the general public, could possibly lead to reduced demand of our intimate wear products, which could in turn materially and adversely affect our business, financial conditions, results of operations and possibility of future expansion.

Tightness in control of PRC Government over currency conversion may limit our ability to remit dividends.

Given our business operations are mainly undertaken by our operating subsidiaries established in the PRC, and that a substantial portion of our revenues and expenditures are denominated in RMB, of which the convertibility into foreign currencies or even remittance out of the PRC is heavily restricted and regulated, conversion and remittance of foreign currencies are subject to PRC foreign exchange regulations, including but not limited to the Regulations of the Foreign Exchange of the PRC (《中華人民共和國外匯管理條例》) and the Regulations on the Foreign Exchange Settlement, Sale and Payments (《結匯、售匯及付匯管理規定》).

Under the current PRC foreign exchange control system, foreign exchange transactions under the current account do not require advance approval from SAFE or its local branches, yet we are required to present relevant documentary evidence of such transactions and conduct such transactions at designated foreign exchange banks within the PRC that are licensed to carry out foreign exchange business. Foreign exchange transactions under the capital account, however, must be approved by or registered with SAFE or its local branches or their authorized banks. Any failure to convert RMB into foreign exchange prior to the remittance of profits or dividends in foreign currencies overseas or repatriation of such profits or dividends may further restrict the ability of our subsidiaries to obtain sufficient foreign exchange for dividend payments or satisfy any other foreign exchange requirements. There is also no assurance that we could obtain approval from SAFE or its local branches or their authorized banks to convert our foreign exchange into RMB for investment purposes such as the use of proceeds in the Global Offering. As our business continues to develop, our exposure to foreign currency risks may increase. Any significant fluctuations among those currencies may adversely affect our potential offshore capital expenditure plans, and even our business, financial conditions and results of operation.

RISK FACTORS

We rely on dividends paid by our PRC subsidiaries.

We are a holding company with core businesses operating through our subsidiaries in the PRC, and is accordingly financially dependent on distributions of dividends from such onshore operating subsidiaries when it comes to the payment of dividends to our Shareholders. If our subsidiaries incur debts or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us, thereby delaying or even restricting the availability of our funds for the purpose of dividend payment. The applicable PRC laws, rules and regulations require that dividends be paid only of the net profit calculated according to the PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including the HKFRS and the IFRS. The applicable PRC laws, rules and regulations also require foreign-invested enterprises to set aside part of their net profit as statutory reserves. These statutory reserves are not available for distribution as cash dividends. In addition, restrictive covenants in bank credit facilities or other agreements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to provide capital or declare dividends to us and our ability to receive distributions. Accordingly, such restrictions on the availability coupled with usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

PRC regulations on investment and loans by offshore holding companies to PRC entities may delay or limit our ability to use the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.

Any loans or additional capital contributions that our Company, as an offshore entity, make to our PRC subsidiaries, including from the proceeds of the Global Offering, are subject to PRC regulations and approvals. For instance, the total of any offshore loans to our PRC subsidiaries cannot exceed the difference between the registered capital and total investment of our PRC subsidiaries that are approved to make under the relevant PRC laws, and such loans must be registered with the SAFE or its local counterpart. There is no assurance that we will be able to obtain these registrations on a timely basis, or at all, with respect to future loans or capital contributions by us to our subsidiaries or any of their respective subsidiaries. If we fail to obtain such registrations, our ability to capitalize our PRC operations or to utilize the proceeds of this Global Offering in the manner as prescribed under “Future Plans and Use of Proceeds” in this prospectus may be adversely affected, which could harm the liquidity of our PRC subsidiaries and their ability to fund working capital and expansion projects, as well as to meet other obligations and commitments.

Possible classification of us as an “resident enterprise” under the EIT Law and other PRC tax laws may increase our tax burden.

We are incorporated under the laws of the Cayman Islands and directly hold interests in our PRC operating subsidiaries. According to EIT Law, an enterprise established outside of the PRC with “*de facto management bodies*” within the PRC is considered a “resident enterprise”, meaning that it can be treated as a Chinese enterprise for PRC enterprise income tax purposes. The implementation rules of the EIT Law define “*de facto management bodies*” as “substantial

RISK FACTORS

and overall management and control over the production and operations, personnel, accounting, and properties” of the enterprise. Pursuant to the Notice on Determination of Tax Resident Enterprises of Chinese-controlled Offshore Incorporated Enterprises in Accordance with Their De Facto Management Bodies (《國家稅務總局關於境外註冊中資控股企業依據實際管理機構標準認定為居民企業有關問題的通知》), which was promulgated by the State Administration of Taxation (國家稅務總局) (the “SAT”) on 22 April 2009, an enterprise controlled by PRC enterprises or enterprise groups and registered outside of the PRC will be regarded as PRC resident enterprises with “*de facto management bodies*” located in the PRC (hereinafter referred to as an offshore-registered resident enterprise), provided that all of the following criteria are satisfied:

- (i) the senior management personnel responsible for the execution of the daily management and operation of business of the enterprise and the relevant senior personnel departments performing such duties are mainly located within the PRC;
- (ii) the decisions of the enterprise in terms of finance (e.g. borrowing, lending, financing, financial risk controls, etc.) and personnel (e.g. appointment, dismissal and remuneration, etc.) matters are made by or subject to the approval of organisation or individual domiciled in the PRC;
- (iii) the main properties, accounting books and ledgers, corporate seal, minutes of board meetings and shareholders’ meetings etc. of the enterprise are located or kept in the PRC; and
- (iv) 50% or more of directors with voting rights or senior management personnel of the enterprise ordinarily reside in the PRC.

Pursuant to the aforementioned laws and regulations, there is uncertainty as to whether we will be deemed as an “resident enterprise” for the purpose of the EIT Law. If we are deemed as an “resident enterprise”, we would be subject to enterprise income tax at a rate of 25% on our worldwide taxable income as well as PRC enterprise income tax reporting obligations. In contrast, there is no taxation on such income in the Cayman Islands. Moreover, the EIT Law provides that (i) if the enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realised from transferring equity interest of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the EIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we are treated as a PRC enterprise under PRC laws, our foreign corporate Shareholders may be subject to PRC income tax on the capital gains realised from the sale of our Shares, and dividends paid to non-PRC residents with respect to our Shares may also be subject to PRC withholding tax since such income may be regarded as income from “sources within the PRC”. In each case, our foreign corporate Shareholders may be subject to PRC withholding tax at a rate of up to 10% under the EIT Law, unless any such foreign corporate shareholder is qualified for a preferential tax rate or a different withholding tax arrangement under an applicable tax treaty.

RISK FACTORS

Whether or not a Chinese-controlled offshore enterprise is to be treated as an offshore-registered resident enterprise is subject to preliminary review by the local tax bureau where the “*de facto management body*” of the Chinese-controlled offshore enterprise or its controlling entity is based, and is likewise subject to the final confirmation by the SAT. Given that there have no official implementation rules regarding the determination of the “*de facto management bodies*” for foreign enterprises or enterprise groups which are not controlled by PRC enterprises (including companies like ourselves), it remains unclear as to how the tax authorities will treat a case such as ours. We cannot assure you that we will not be considered a PRC enterprise for PRC enterprise income tax purposes and accordingly be subject to the uniform 25% enterprise income tax on our worldwide incomes. In addition, although the EIT Law provides that dividend payments between qualified PRC resident enterprises are exempted from enterprise income tax, in view of the short history of implementation of the EIT Law, it remains uncertain as to the detailed qualification requirements even if we are considered a PRC resident enterprise for tax purposes.

Our PRC resident shareholders are subject to potential exposure to personal liability as a result of the establishment of, control over or investment in offshore special purpose companies.

The SAFE promulgated the Circular of the SAFE on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 37**”), on 4 July 2014, which replaced the former circular commonly known as “SAFE Circular 75” promulgated by the SAFE on 21 October 2005. SAFE Circular 37 requires PRC residents to register with local branches of the SAFE in connection with their direct establishment or indirect control of an offshore entity, for the purpose of overseas investment and financing, with such PRC residents’ legally owned assets or equity interests in domestic enterprises or offshore assets or interests, referred to in SAFE Circular 37 as a “special purpose vehicle.” Pursuant to SAFE Circular 37, “control” refers to the act through which a PRC resident obtains the right to carry out business operation of, to gain proceeds from or to make decisions on a special purpose vehicle by means of, among others, shareholding entrustment arrangement. SAFE Circular 37 further requires amendment to the registration in the event of any significant changes with respect to the special purpose vehicle, such as change of shareholders of the special purpose vehicle, increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In the event that a PRC shareholder holding interests in a special purpose vehicle fails to fulfill the required SAFE registration, the PRC subsidiaries of that special purpose vehicle may be prohibited from making profit distributions to the offshore parent and from carrying out subsequent cross-border foreign exchange activities, and the special purpose vehicle may be restricted in its ability to contribute additional capital into its PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of foreign exchange controls. According to the Notice 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直接投資外匯管理政策的通知》) released

RISK FACTORS

on 13 February 2015 by the SAFE, local banks will examine and handle foreign exchange registration for overseas direct investment, including the initial foreign exchange registration and amendment registration, under SAFE Circular 37 from 1 June 2015.

As advised by our PRC Legal Adviser, our ultimate Controlling Shareholder (namely Mr. Jin) as well as other the other ultimate individual shareholders of our Company (namely Mr. Jin Chunlong, Mr. Tao Jianhang, Mr. Gu Guoxin, Ms. Luo Kailang, Mr. Gong Yinghong, Mr. Luo Weixing, Mr. Huang Jing, Mr. Sun Weimin, Mr. Luo Chengming, Mr. Luo Yi, Mr. Yu Xiongjian and Ms. Yang Shiyong), all of whom are PRC residents, have completed their respective registrations with the local SAFE branch as required under the SAFE Circular 37. Nonetheless, there can be no assurance that the SAFE or its local counterparts will not change its interpretation regarding filing of the SAFE registration or the PRC regulatory authorities will not issue new SAFE regulations. Also, failure of the aforementioned beneficial owners to amend their SAFE registrations, if required, in a timely manner pursuant to the SAFE Circular 37 or the failure of future beneficial owners of our Company, who are PRC residents to comply with the registration procedures set forth under the SAFE Circular 37, may subject such beneficial owners to fines or legal sanctions. As a result, our ownership structure, acquisition strategy, business operations and ability to make dividend payments to our Shareholders may be affected.

Any requirement to obtain a prior approval from the CSRC or other relevant PRC Government authorities could delay the Global Offering, and a failure to obtain such approval, if required, could have a material adverse effect on our business and result of operations.

According to the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “**Circular 10**”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the State Administration of Industry and Commerce and SAFE on 8 August 2006 and effective as of 8 September 2006 and amended in 22 June 2009, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and where a domestic company or natural person holds an equity interest in a domestic company through an offshore special purpose company, any overseas listing of that special purpose company shall be subject to approval by the CSRC.

As confirmed by our Directors, (i) our Company is an offshore incorporated company, and (ii) Zhejiang Bonny was converted into a sino-foreign equity joint venture in September 2017 prior to the acquisition by Bonny HK. Therefore, the acquisition of the equity interests in Zhejiang Bonny by Bonny HK did not constitute a “takeover of a domestic enterprise by a foreign investor” as defined in Circular 10 and shall be subject to Provisions for the Alteration of Investor’s Equities in Foreign-funded Enterprises (《外商投資企業投資者股權變更的若干規定》). Our PRC Legal Advisers are of the opinion that, (i) the Reorganization and all the share transfers and increases in registered capital in respect of the PRC companies in our Group

RISK FACTORS

as described above have obtained all relevant approvals and permits and the procedures involved comply with PRC laws and regulations; and (ii) unless as required by subsequent requests by the CSRC or MOFCOM, it is not necessary for our Company to obtain approval from the CSRC or MOFCOM for the Listing.

However, we cannot rule out the possibility that CSRC or other relevant PRC Government authorities may have a different interpretation of Circular 10 and may determine that its approval is required with respect to the Global Offering. If the CSRC or other relevant PRC Government authorities subsequently determine that such approvals were required, it is uncertain whether we would be able to, and how long it would take us to, obtain these approvals. Furthermore, our failure to obtain or delay in obtaining the approvals would subject us to regulatory actions or other sanctions from the regulatory authorities. For example, they could impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, delay or restrict the repatriation of the proceeds from the Global Offering into the PRC, restrain our ability to pay dividends outside of the PRC or take other actions that could have a material adverse effect on our business, as well as the trading price of our securities. The regulatory authorities could also require us, or make it advisable for us, to delay or terminate the Global Offering before settlement and delivery of the securities offered by this prospectus.

Enforcement of the Labor Contract Law and other labor-related regulations in the PRC may cause our labor costs to increase.

In June 2007, the PRC National People's Congress enacted the Labor Contract Law (《中華人民共和國勞動合同法》), which became effective on 1 January 2008. Compared to the Labor Law (《中華人民共和國勞動法》), the Labor Contract Law establishes more restrictions and increases costs for employers to dismiss employees, including specific provisions related to fixed-term employment contracts, temporary employment, probation, consultation with the labor union and employee assembly, employment without a contract, dismissal of employees, compensation upon termination and overtime work, and collective bargaining. According to the Labor Contract Law, an employer is obliged to enter into labor contract with unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts subject to certain conditions or after that particular employee has worked for the employer for ten consecutive years. The employer also has to pay compensation to an employee if the employer terminates an unlimited-term labor contract. Such compensation is likewise required in case where the employer refuses to renew a labor contract that has expired, unless it is the employee who refuses to extend the expired contract.

Moreover, under the Regulations on Paid Annual Leave for Employees (《職工帶薪年假條例》), which became effective in January 2008 and the Implementation Rules on Paid Annual Leave for Employees (《企業職工帶薪年休假實施辦法》), which became effective in September 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days, depending on their length of service. Employees who are deprived of such vacation time by employers shall be compensated with three times their regular salaries for each of such vacation days, unless it is the employees who waive such vacation days in writing. Since our success largely depends on our qualified employees, many of whom have been serving us for a prolonged period, the implementation of the Labor

RISK FACTORS

Contract Law may significantly increase our operating expenses, in particular our personnel expenses. In the event that we decide to lay off a large number of employees or otherwise change our employment or labor practices, the Labor Contract Law may also limit our ability to effect these changes in a manner that we believe to be cost-effective or desirable, which could adversely affect our business and results of operations.

There are inherent uncertainties associated with the evolving legal system of the PRC.

Our business and operations in the PRC are governed by the legal system which is a civil law system based on written statutes as well as the interpretations thereof by the Supreme People's Court. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC Government has promulgated laws and regulations dealing with such economic matters as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, as these laws and regulations are relatively new and subject to continuing evolution, interpretation and enforcement of these laws and regulations involve significant uncertainties and certain degrees of inconsistencies. Some of the laws and regulations are still at the developing stage and may therefore be modified for policy considerations. Many laws, regulations, policies and legal requirements have only been recently promulgated by the PRC central or local government agencies that may not sufficiently cover all aspects of the country's economic activity. Their implementation, interpretation and enforcement may involve certain degree of uncertainty owing to the lack of an established practice available for reference. 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. We cannot predict the effect of future legal developments in the PRC, including the promulgation of new laws, changes to existing laws or the implementation or enforcement thereof, or the pre-emption of local regulations by national law. As a result, there is substantial uncertainty as to the legal protection available to us and investors in our Shares.

Furthermore, due to the limited volume of published cases and the non-binding nature of prior court decisions, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions, given the PRC administrative and court authorities have significant discretion in interpreting statutory and contractual terms. As such, it may be more difficult to anticipate the outcome of administrative and court proceedings and, more importantly, the level of legal protection available to us as we may enjoy in other more developed legal systems. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in the PRC may be protracted and result in substantial costs and diversion of our resources and management attention, which could in turn adversely affect our business, results of operations and financial performance.

RISK FACTORS

There may be difficulty in the effecting of service of process upon, or the enforcement of judgment obtained outside of the PRC against, our Company, our Directors or senior management members residing in the PRC.

Whilst we are incorporated in the Cayman Islands, almost all of our assets and those of our subsidiaries are located in the PRC. In addition, a significant number of our Directors and substantially all of our officers reside within the PRC, and substantially most assets of our Directors and officers are also located within the PRC. As a result, it may be difficult for investors to effect service of process outside of the PRC upon most of our Directors and officers, including matters arising under applicable securities laws. Moreover, a judgment of a court of another jurisdiction may only be reciprocally recognised or enforced if that jurisdiction has maintained a treaty relationship with the PRC, or if judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requirements. Nonetheless, the PRC has not passed any treaties that provide for the reciprocal enforcement of judgments of courts with the Cayman Islands, Japan, the United Kingdom, the United States as well as most other western countries. As a result, the recognition and enforcement in the PRC of judgments of a court in any of the aforementioned jurisdictions in relation any matter not subject to a binding arbitration provision may be difficult or even impossible. On 14 July 2006, Hong Kong and the PRC entered into the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements Between Parties Concerned (《關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排》), the “**Reciprocal Arrangement**”), pursuant to which a party with a final court judgment rendered by a Hong Kong court requiring payment of money in a civil and commercial case according to a choice of court agreement in writing may apply for recognition and enforcement of the judgment in the PRC. Similarly, a party with a final judgment rendered by a PRC court requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing may apply for recognition and enforcement of such judgment in Hong Kong. A choice of court agreement in writing is defined as any agreement in writing entered into between the parties after the effective date of the Reciprocal Arrangement in which a Hong Kong court or a PRC court is expressly designated as the court having sole jurisdiction for the dispute. On the foregoing basis, it may not be possible to enforce a judgment rendered by a Hong Kong court in the PRC in case where the parties in the dispute concerned do not agree to enter into a choice of court agreement in writing. It may therefore be difficult or impossible for investors to effect service of process against our assets or Directors in the PRC for the purpose of seeking recognition and enforcement of foreign judgments in the PRC.

RISK FACTORS

The PRC is one of the signatories to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”), which renders the enforcement of arbitral awards given by the arbitration bodies of other New York Convention signatories possible. There is also reciprocal arrangement on enforcement of arbitral awards between Hong Kong and the PRC under a memorandum of understanding which was signed on 21 June 1999, approved by the Supreme People’s Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000 (the “**Memorandum of Understanding**”). However, it may be difficult to seek recognition and/or enforcement of arbitral awards in the PRC if such awards were granted by arbitral bodies that are not signatories to the New York Convention or do not have in place any arrangements with the PRC similar to the Memorandum of Understanding.

Inflation in the PRC may lead to possible impact of on our profitability and business growth.

Economic growth in the PRC has, during certain periods, experienced high inflation, against which the PRC Government has tried to combat through implementation of various policies from time to time. For instance, the PRC Government introduced measures in certain sectors to control liquidity supply as well as growth in lending, including but not limited to, increasing interest rates and capital reserve thresholds applicable to the commercial banks in the PRC. The effects of the stimulus measures implemented by the PRC Government since the global economic crisis in 2008 coupled with the continued growth in the overall economy since then have resulted in escalating inflationary pressures. Should such pressures continue and not be mitigated by the policies of the PRC Government, our cost of sales will likely increase with a corresponding material reduction in our profitability given that there is no assurance that we will be able to pass any increase in our operating costs onto our customers. Measures adopted by the PRC Government to combat against inflationary pressures may also hamper the country’s economic prosperity, reduce the consumers’ demand for our products and accordingly materially affect our results of operations as well as financial prospects.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior market for our Shares.

Prior to the completion of the Global Offering, there has been no public market for our Shares. The initial offer price range for our Shares was the result of, and the Offer Price will be the result of, negotiations among us and the Sole Global Coordinator (on behalf of the Underwriters). The Offer Price may thus not be indicative of the price at which our Shares will be traded following the completion of the Global Offering.

We have applied to list and deal in our Shares on the Stock Exchange. However, even if approved, there can be no assurance that (i) an active trading market for our Shares will develop, or (ii) if it does develop, that it will be sustained following the completion of the Global Offering or that the market price and liquidity of our Shares will not be adversely affected.

RISK FACTORS

Liquidity, market price and trading volume of the Shares may be volatile.

The market price and trading volume of our Shares is likely to be volatile and subject to wide fluctuations in response to one or more of the following factors, over some of which we have no control:–

- Regulatory and legal developments in our target markets affecting us, our clients or our competitors;
- Announcements of market studies or reports relating to the quality of our intimate wear products or those of our competitors;
- Changes in the financial performance or market valuations of other companies that provide intimate wear products in the form and of the scale comparable to ours;
- Actual or anticipated fluctuations in our financial and/or operating results, as well as changes or revisions of our expected results;
- Actual or anticipated fluctuations in our cash flow;
- Changes in the securities research analysts' estimates or general market perceptions of the financial estimates of us and our competitors;
- Variations in market sentiments driven by economic or political considerations in Hong Kong, the PRC and elsewhere in the world that could affect the contemporary as well as prospective competitive landscape of the intimate wear industry;
- Announcements by us or our competitors of the launch of new products and services, changes in pricing or promotion policies, execution of business restructuring (including but not limited to significant acquisitions and dispositions) and other forms of capital commitment plans, establishment of strategic alliances or joint ventures etc.;
- Recruitment or loss of key personnel by us or our competitors;
- Fluctuations in the trading volumes or the release and/or expiration of lock-up or other share transfer restrictions on our outstanding Shares or sales of additional Shares by us;
- Sales or perceived potential sales of our Shares in the market;
- Ability to safeguard our intellectual property rights against infringement and to keep up-to-date with the latest technologies and research methodologies with respect to the development of intimate wear products; and
- Valuation of publicly-traded companies that are engaged in business activities similar to ours.

RISK FACTORS

We cannot give assurance as to Shareholders' ability to sell their Shares or to achieve their desired price for, or any profit on, such Shares. Shareholders may not be able to sell their Shares at prices equal to or greater than the price paid for their Shares in the Global Offering. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced in the past significant volatility in the share price and trading volume. Common to the shares of other listed companies, it is possible that our Shares may equally be subject to changes in price for reasons which are beyond our Group's control and are unrelated or disproportionate to our operational performance.

Shareholders' equity interests may be diluted.

We may need to raise additional funds in the future to finance, inter alia, expansion or new developments relating to its existing operations. If additional funds are raised through the issue of new equity and equity-linked securities of our Company other than on a pro-rata basis to the existing Shareholders, the percentage ownership of the Shareholders in our Company may be reduced and Shareholders may experience dilution in their percentage shareholdings in our Company. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

Investors of the Shares may experience dilution in the net tangible asset book value per Share of the Shares they invested if our Company issues additional Shares in the future at a price which is lower than the net tangible asset book value per Share.

Future sale of Shares by existing Shareholders could materially and adversely affect the prevailing market price of the Shares.

The Shares beneficially owned by our Controlling Shareholders and certain existing Shareholders are subject to certain lock-up periods under the Listing Rules. There are no assurances that these Shareholders will not dispose of the Shares held by them following the expiration of the lock-up periods, or any Shares they may come to own in the future. Our Group cannot predict the effect, if any, of any future sales of the Shares by any existing Shareholder on the market price of the Shares. Sale of a substantial amount of Shares by any of them or the issue of a substantial amount of new Shares, or the market perception that such sale or issue may occur, could materially and adversely affect the prevailing market price of the Shares.

There may be a possible fall in price of Offer Shares below the Offer Price when trading commences due to the gap of several days between pricing and trading of our Offer Shares.

The Offer Price of our Shares is expected to be determined on the Price Determination Date. However, our Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be a short period after the date of pricing. As a result, investors may not be able to sell or deal in our Shares during that period. In view of adverse market conditions or other adverse developments, if any, that could occur between the time of sale and time at which trading begins, holders of our Shares are accordingly subject to the risk that the price of our Shares could fall below the Offer Price when the trading commences.

RISK FACTORS

There is no assurance on the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other independent third party sources, including the industry report, contained in this prospectus.

Certain facts, forecasts, indicators and other statistics contained in this prospectus relating to the PRC and other countries and regions, the PRC economy and the intimate wear industry have been derived from various official government publications, market data providers and other independent third party sources, including Frost & Sullivan, an independent industry expert, and generally are believed to be reliable. However, we cannot assure you, or make any representation, as to the accuracy, completeness, quality or reliability of such information. These facts, forecasts, indicators and other statistics have not been prepared or independently verified by our Company, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers or any of the Underwriters or any of our respective directors, affiliates or advisors or any other parties involved in the Global Offering and, therefore, none of them make any representation as to the accuracy, completeness, quality or reliability of such facts, forecasts, indicators and other statistics, which may not be consistent with other information compiled within or outside of the PRC.

We have, however, taken reasonable care in the production or extraction of the official government publications for the purpose of disclosure in this prospectus. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, these facts, forecasts, indicators and other statistics in this prospectus may be inaccurate or may not be comparable to other facts, forecasts, indicators and other statistics compiled. Further, there is no assurance that they are stated or compiled on the same basis or with the same degree of accuracy as the case may be in other jurisdictions. In all cases, you should give careful consideration as to how much weight or importance you should attach to or place on such facts, forecasts, indicators and other statistics relating to the economy and the industry. For the aforesaid reasons, you should not place undue reliance on such information as a basis for making your assessment in our Shares.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering.

Our Directors wish to emphasise to potential investors that they do not accept any responsibility for the accuracy or completeness of the information contained in any press articles or other media and those information was not sourced from or authorized by us. We make no representation as to appropriateness, accuracy, completeness or reliability of any information contained by press articles or other media. To the extent that any of such information is inconsistent or in contradiction with the information contained in this prospectus, the Directors disclaim it. Accordingly, prospective investors should not place reliance on any of the information in the press articles or other media channels.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules and the Companies (WUMP) Ordinance:

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Hong Kong Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong.

Since the headquarters, management and business operations of our Company are currently located, managed and conducted in China, there is no business need to appoint any executive Director in Hong Kong. All of the executive Directors and senior management members of our Group are, and will continue to be, based in China. As at the Latest Practicable Date, all of our Group's assets were based outside of Hong Kong. Our Company does not, and in the foreseeable future will not have a management presence in Hong Kong for the purpose of satisfying the requirements under Rule 8.12 of the Listing Rules.

An application for a waiver from strict compliance with the requirement to have a sufficient management presence in Hong Kong under Rule 8.12 of the Listing Rules has been made to the Stock Exchange and such waiver has been granted by the Hong Kong Stock Exchange subject to the following arrangements.

The arrangements proposed by our Company for maintaining at all times regular, adequate and effective communication with the Stock Exchange are as follows:

- (a) our Company has appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules who will jointly and severally act as our Company's principal channel of communication with the Stock Exchange. The two authorized representatives proposed to be appointed are Mr. Jin (an executive Director and the chief executive officer of our Company) and Ms. Chen Chun (a joint company secretary of our Company). Ms. Chen Chun is ordinarily resident in Hong Kong. The authorized representatives, will have the means to contact all our Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matter. They have provided their usual contact details to the Stock Exchange and will be readily contactable by the Stock Exchange if necessary to deal with enquiries from the Stock Exchange from time to time. Each of the two authorized representatives is authorized to communicate on behalf of our Company with the Stock Exchange. Our Company will inform the Stock Exchange promptly if there is any change in our authorized representatives or the contact details of any of them;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (b) Ms. Chen Chun, our joint company secretary, ordinarily resides in Hong Kong and will be readily contactable by the Stock Exchange at all times for any matters. All of the Directors who are not ordinarily resident in Hong Kong have confirmed that they have possessed or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time upon prior notice from the Stock Exchange, if required;
- (c) our Company has appointed Innovax Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as an additional channel of contact between our Company and the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing Date. Our Company will inform the Stock Exchange promptly of any change of its compliance adviser; and
- (d) each of our Directors has provided his or her respective mobile phone number, office phone number, e-mail address and fax number to the Stock Exchange. In the event that a Director expects to travel outside, he or she shall provide to the authorized representatives the phone numbers of the place of his or her accommodations.

JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, our Company must appoint a company secretary an individual who satisfies Listing Rule 3.28. Listing Rule 3.28 provides that an issuer must appoint as its company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary. The Stock Exchange considers (i) a member of The Hong Kong Institute of Chartered Secretaries; (ii) a solicitor or barrister (as defined in the Legal Practitioners Ordinance (Chapter 159 of the Laws of Hong Kong)); and (iii) a certified public accountant (as defined in the Professional Accountants Ordinance (Chapter 50 of the Laws of Hong Kong) to be acceptable academic or professional qualifications. In assessing “relevant experience”, the Stock Exchange will consider the individual’s (i) length of employment with the issuer and other issuers and the roles he played; (ii) familiarity with the Listing Rules and other relevant law and regulations including the SFO, the Companies Ordinance, and the Takeovers Code; (iii) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and (iv) professional qualifications in other jurisdictions.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

We have appointed Mr. Zhang Wenhua as one of our joint company secretaries. Mr. Zhang joined our Group in October 2017 and has since acted as the deputy general manager and director of securities affairs of Zhejiang Bonny. He is in charge of the capital market investment and financing and the investment relationship for our Group and has substantial involvement in the financial matters of our Group and therefore has a thorough understanding of the operation of our Company and our Board. Mr. Zhang has over ten years of experience in the management of corporate securities affairs and has previously worked in two publicly listed companies, being Wuhan Huazhong CNC Co., Ltd.* (武漢華中數控股份有限公司) (SZ stock code: 300161), which is listed on the Shenzhen Stock Exchange, and Cosmo Lady (China) Holdings Company Limited (都市麗人(中國)控股有限公司) (stock code: 2298), which is listed on the Main Board of the Stock Exchange. He was mainly responsible for securities affairs in such companies. However, Mr. Zhang does not possess the relevant qualifications as stipulated in Rule 3.28 of the Listing Rules and may not be able to solely fulfill the requirements of the Listing Rules. As such, our Company has appointed Ms. Chen Chun, who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Zhang in the discharge of his duties as a joint company secretary for an initial period of three years commencing from the Listing Date (the “**Initial Period**”) to enable Mr. Zhang to acquire the “relevant experience” (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as a joint company secretary.

Mr. Zhang will be assisted by the compliance adviser and the Hong Kong legal advisers engaged by our Company, particularly in relation to Hong Kong corporate governance practices and ongoing compliance with the Listing Rules and the applicable laws and regulation.

Mr. Zhang will endeavour to attend relevant training courses, including a training seminar for the Directors and senior management of our Company in relation to their respective responsibilities under the Listing Rules and other applicable Hong Kong legal and regulatory requirements organised by our Company’s Hong Kong legal advisers.

Upon the expiry of the Initial Period, the qualifications and experience of Mr. Zhang and the need for on-going assistance of Ms. Chen will be evaluated by our Company, and our Company will then endeavour to demonstrate to the Stock Exchange’s satisfaction that Mr. Zhang, having had the benefit of Ms. Chen’s assistance for the Initial Period and having carried out the requisite training in compliance with Listing Rule 3.29, has acquired “relevant experience” within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the requirements of Rules 3.28 and 8.17 of the Listing Rules. The waiver is valid for the Initial Period. Upon expiry of the Initial Period, the qualifications of Mr. Zhang will be re-evaluated to determine whether the requirements as stipulated in Note 2 to Rule 3.28 of the Listing Rules can be satisfied. In the event that Mr. Zhang has obtained the “relevant experience” under Note 2 to Rule 3.28 of the Listing Rules at the end of the Initial Period, or alternatively our Company will appoint a person as the company secretary who fully meets the requirements under Rule 8.17 of the Listing Rules, a further waiver would no longer be necessary.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have entered into certain transactions and expect to continue such transactions after the Listing, which would constitute non-exempt continuing connected transactions under the Listing Rules after the Listing. Pursuant to Rule 14A.105 of the Listing Rules, we have applied to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted us, a waiver from strict compliance with the rules regarding the announcement, circular and independent Shareholders' requirements under Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions. Please refer to "Continuing Connected Transactions" in this prospectus for further details of such non-exempt continuing connected transactions and the waiver.

WAIVER IN RELATION TO THE PUBLICATION OF ANNUAL REPORT AND RELEASE OF ANNUAL FINANCIAL RESULTS

Rule 13.46(2) of the Listing Rules requires an issuer to send a copy of its annual report including its annual accounts or summary financial report to its shareholders within four months after its financial year-end. Rule 13.49(1) of the Listing Rules requires an issuer to publish its annual results no later than three months after its financial year-end.

As our Company will include in this prospectus the financial information in respect of the year ended 31 December 2018, our Directors believe that strict compliance with the requirements of Rules 13.46(2) and 13.49(1) of the Listing Rules would not provide our Shareholders and potential investors with further material information of our Company and would incur unnecessary administrative cost and be unduly burdensome for our Company.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rules 13.46(2) and 13.49(1) of the Listing Rules in respect of the publication of annual results announcement and the issue of an annual report for the year ended 31 December 2018. Our Company will not be in breach of the Articles or the laws and regulations of the Cayman Islands or other regulatory requirements regarding its obligation to our publish annual results announcement and annual report.

In addition, our Company has included in this prospectus a statement as to whether we intend to comply with the provisions in the Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Listing Rules upon the Listing. Please see "Directors and Senior Management – Corporate Governance Code".

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information to the public with regard to us. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement herein or this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE GLOBAL OFFERING

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus and the Application Forms and on the terms and subject to the conditions set out herein and therein. No person is 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, our Controlling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers or the Underwriters, any of our or their respective directors, officers, agents, employees or advisers or any other party involved in the Global Offering.

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

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

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

UNDERWRITING

The Listing is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and is subject to agreement on the Offer Price between our Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters). The International Placing is expected to be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Global Offering is coordinated by the Sole Global Coordinator. For further information about the Underwriters and the underwriting arrangements, please see “Underwriting” in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into 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 Wednesday, 17 April 2019, and in any event, not later than Tuesday, 23 April 2019. If, for whatever reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON OFFER AND SALE OF THE OFFER 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 the offer and sale of the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any 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 offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold, and will not be offered or sold, directly or indirectly in the U.S., except in compliance with the relevant laws and regulations of such jurisdiction.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Our Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Capitalization Issue, the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

may fall to be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme. No part of the Shares or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

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 HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for our Shares to be admitted into CCASS. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect their rights, interest and liabilities.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Shares. It is emphasized that none of us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our/their respective affiliates, directors, supervisors, employees, agents or advisers or any other party involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of the Shares resulting from the subscription for, purchasing, holding, disposing of or dealing in the Shares.

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

Our Company's principal register of members will be maintained by our principal share registrar, Harneys Fiduciary (Cayman) Limited, in the Cayman Islands and our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

All Offer Shares will be registered on the Hong Kong register of members of our Company in Hong Kong, and only securities registered on the Hong Kong register of members may be traded on the Stock Exchange unless the Stock Exchange otherwise agrees. Dealings in the Shares registered on our Hong Kong register of members will be subject to Hong Kong stamp duty. For further details of Hong Kong stamp duty, please seek professional tax advice. Unless our Company determines otherwise, dividends payable in HK\$ in respect of the Shares will be paid by cheque, which will be sent by ordinary post at the Shareholder's risk to each Shareholder's registered address, or in the case of joint holders, the first-named holder.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for the Hong Kong Offer Shares is set out in “How to Apply for Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

OVER-ALLOTMENT OPTION AND STABILIZATION

Details of the arrangements relating to the Over-allotment Option and the related stabilization exercise are set out in “Structure of the Global Offering” in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

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

STOCK BORROWING ARRANGEMENT

Details of the stock borrowing arrangement are set out in the subsection headed “Stock Borrowing Arrangement” under “Structure of the Global Offering” in this prospectus.

EXCHANGE RATE CONVERSION

Unless otherwise specified, this prospectus contains translations for the convenience purposes at the following rate: Renminbi into Hong Kong dollars at the rate of HK\$1.00 to RMB0.85. The RMB to HK\$ exchange rate is quoted by the PBOC for foreign exchange transactions prevailing on the Latest Practicable Date. No representation is made that any amounts in HK\$ and RMB can be or could have been converted at the relevant dates at the above rates or any other rates at all.

LANGUAGE

If there is any inconsistency between the English version of this prospectus and the Chinese translation of this prospectus, the English version of this prospectus should prevail. However, the translated English names for the PRC nationals, entities, departments, facilities, certificates, titles, laws, regulations and the like included in this prospectus and for which no official English translation exists are unofficial translations for identification purposes only. In case of inconsistency in such case, the Chinese name shall prevail.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

ROUNDING

Amounts and percentage figures, including share ownership and operating data in this prospectus, may have been subject to rounding adjustments. In this prospectus, where information is presented in hundreds, thousands, ten thousands, millions, hundred millions or billions, certain amounts of less than one hundred, one thousand, ten thousand, one million, a hundred million or a billion, as the case may be, have been rounded to the nearest hundred, thousand, ten thousand, million, hundred million or billion, respectively. Amounts presented as percentages have been rounded to the nearest tenth of a percent, unless otherwise indicated or the context requires otherwise. Any discrepancies in any table or chart between totals and sums of amounts listed therein are due to rounding.

WEBSITE

The contents of any website mentioned in this prospectus do not form a part of this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential address	Nationality
<i>Executive Directors</i>		
Mr. Jin Guojun (金國軍)	Unit 1, No. 50 Building Guojicun District, Xuefengxi Road Siji Community, Beiyuan Street Yiwu City, Jinhua City Zhejiang Province PRC	Chinese
Mr. Zhao Hui (趙輝)	Room 802, Unit 4, Building 4 Zhongdu Yujin Community Haopai Road Youbeitang Xingzheng Village Yiwu City, Jinhua City Zhejiang Province PRC	Chinese
<i>Non-executive Directors</i>		
Ms. Gong Lijin (龔麗瑾)	Unit 1, No. 50 Building Guojicun District, Xuefengxi Road Siji Community, Beiyuan Street Yiwu City, Jinhua City Zhejiang Province PRC	Chinese
Mr. Luo Weixing (駱衛星)	No. 51, Zijinbei Road Xialuozhai Choucheng Road Yiwu City, Jinhua City Zhejiang Province PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential address	Nationality
<i>Independent non-executive Directors</i>		
Mr. Li Youxing (李有星)	Room 1206, No. 1 High-rise Building Qiushi Village, Xihu District Hangzhou Zhejiang Province PRC	Chinese
Mr. Wang Jian (王健)	Room 1701, Building 26, Zijinwenyuan Gudun Road, Sandun Town Xihu District, Hangzhou Zhejiang Province PRC	Chinese
Mr. Zhang Senquan (張森泉)	Flat G, 15/F The Barion, Block 2 DD 352 Lot 385 Chianti Discovery Bay, Lantau Island Hong Kong	Chinese

For further details of our Directors, please refer to “Directors and Senior Management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Sponsor

Innovax Capital Limited
Room 2002, 20/F
Chinachem Century Tower
178 Gloucester Road
Wanchai
Hong Kong

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

Sole Global Coordinator

Innovax Securities Limited
Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wanchai
Hong Kong

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

Joint Bookrunners

Innovax Securities Limited
Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

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

**HGNH International Securities
Co., Limited**

9/F, 16/F & 21/F, Ka Wah Bank Centre
232 Des Voeux Central
Hong Kong

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

Yue Xiu Securities Company Limited

13/F, Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

A corporation licensed by the SFC to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities under the SFO

Zhongtai International Securities Limited

19/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

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

Joint Lead Managers

Innovax Securities Limited

Unit A-C, 20/F
Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

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

**HGNH International Securities
Co., Limited**

9/F, 16/F & 21/F, Ka Wah Bank Centre
232 Des Voeux Central
Hong Kong

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

Yue Xiu Securities Company Limited

13/F, Yue Xiu Building
160 Lockhart Road
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A corporation licensed by the SFC to carry on type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) and type 5 (advising on futures contracts) regulated activities under the SFO

Zhongtai International Securities Limited

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Pulsar Capital Limited

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

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*A corporation licensed to carry out type 1
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Legal Advisers to our Company

As to Hong Kong law:

Loeb & Loeb LLP
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As to PRC law:

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Legal Advisers to the Sole Sponsor and Underwriters

As to Hong Kong law:

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DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Auditors and Reporting Accountants

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Certified Public Accountants
22nd Floor, CITIC Tower
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Property Valuer

AVISTA Valuation Advisory Limited
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Industry Consultant

**Frost & Sullivan (Beijing) Inc.,
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Compliance Adviser

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activities under the SFO*

Receiving Bank

Bank of China (Hong Kong) Limited
1 Garden Road
Hong Kong

CORPORATE INFORMATION

Registered Office	4th Floor Harbour Place 103 South Church Street P.O. Box 10240 Grand Cayman KY1-1002 Cayman Islands
Principal Place of Business and Head Office in the PRC	Yiwu Industrial Park No. 86, Changfu Road Yiwu City, Zhejiang Province PRC
Principal Place of Business in Hong Kong	40th Floor, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong
Company's Website	http://www.bonnychina.com <i>(the information contained on this website does not form part of this prospectus)</i>
Joint Company Secretaries	Mr. Zhang Wenhua (張文華) Flat 201, Unit 1, Block 3 Yiwu City Industrial Park No. 86, Changfu Road Yiwu City, Zhejiang Province PRC Ms. Chen Chun (陳淳) 40th Floor, Sunlight Tower 248 Queen's Road East Wanchai Hong Kong <i>(an associate member of The Hong Kong Institute of Chartered Secretaries and of The Institute of Chartered Secretaries and Administrators)</i>

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Ms. Chen Chun (陳淳)
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Audit Committee

Mr. Zhang Senquan (張森泉) (*Chairman*)
Mr. Wang Jian (王健)
Mr. Li Youxing (李有星)

Remuneration Committee

Mr. Wang Jian (王健) (*Chairman*)
Mr. Jin Guojun (金國軍)
Mr. Zhang Senquan (張森泉)

Nomination Committee

Mr. Jin Guojun (金國軍) (*Chairman*)
Mr. Zhang Senquan (張森泉)
Mr. Wang Jian (王健)

**The Cayman Islands Principal Share
Registrar and Transfer Office**

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4th Floor
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Hong Kong Share Registrar

**Computershare Hong Kong Investor
Services Limited**
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Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

CORPORATE INFORMATION

Principal Bankers

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PRC

Industrial and Commercial Bank of
China Limited (Yiwu Branch)
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Yiwu City, Zhejiang Province
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China Zheshang Bank Co., Ltd (Yiwu Branch)
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Yiwu City, Zhejiang Province
PRC

INDUSTRY OVERVIEW

The information that appears in this section has been prepared by Frost & Sullivan 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 Frost & Sullivan should not be considered as the opinion of Frost & Sullivan 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 section are appropriate sources for such information and have taken reasonable care in extracting and 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 Frost & Sullivan and set out in this section has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Underwriters or any other party involved in the Global Offering and neither they nor Frost & Sullivan give any representations as to its accuracy or correctness and accordingly it should not be relied upon in making, or refraining from making, any investment decision.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan to provide industry information on China intimate wear production and retail industry. We have agreed to pay a fee of HK\$780,000 to Frost & Sullivan for the report. Our Directors are of the view that the payment does not affect the fairness of the views and conclusions presented in the Frost & Sullivan Report.

In compiling and preparing the research report, Frost & Sullivan conducted primary research including telephone and face-to-face interviews with industry participants. Also, secondary research, which involved reviewing industry publications, annual reports and data based on its own database, was conducted. Frost & Sullivan presented the figures for various market size projections from historical data analysis plotted against macroeconomic data, as well as data with respect to the related industry drivers and integration of expert opinions. Frost & Sullivan assumed that (i) the social, economic and political environment is expected to remain stable and (ii) key industry drivers are likely to continue to affect the market over the forecast period from 2018 to 2022.

ABOUT FROST & SULLIVAN

Frost & Sullivan is an independent global consulting firm founded in 1961. It offers industry research, market strategies and provides growth consulting and corporate training. Its industry coverage includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom. The Frost & Sullivan Report includes information on data for China intimate wear production and retail industry.

INDUSTRY OVERVIEW

GLOBAL AND CHINA INTIMATE WEAR MANUFACTURING MARKET

Intimate wear, refers to the kind of clothing people usually wear in direct contact with the skin or beneath outer clothing. It is generally made out of materials such as polyester, cotton, viscose staple fibre, acrylic, spandex fibre, nylon etc. They can be divided into categories including bras, underpants, intimate sportswear, sleepwear and thermal clothes etc.

Categories of Intimate Wear	Definition
Bra	Bra commonly consists of two cups, a chest band and shoulder straps. It comes in different sizes to support a woman's breasts and is usually made of lace, embroidery and other fabric. A bra gives shapes of the breasts, brings comfort and confidence through protecting, shielding, modifying and beautifying breasts' shape.
Panties and Underpants	Underpants refer to intimate wears that protect and shield private parts from the waist or hips to the top of the thighs or knees. They can be divided into panties and men's underpants, and the style of underpants usually includes briefs, boxers, T-backs etc.
Sleepwear and Loungewear	This category includes all the clothing products that are designed to be worn in a home environment. This includes sleepwear designed to be worn while sleeping, loungewear for meeting visitors and leisure wears for activities in neighbourhood.
Thermal Clothes	Thermal clothes refer to inside wears and clothing beneath your outer wear that have functions of preventing heat dissipation and keeping human body warm. The products include both long & short-sleeves tops, waistcoats, pants etc.
Others	Apart from the above four basic categories, there are other types of intimate wears, including but not limited to vests, hosiery, leggings, tights, socks etc.

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Types of Manufacturing Models

Original Equipment Manufacturer (OEM) refers to manufacturers that solely manufacture the products and sell to other companies for rebranding and reselling.

Original Design Manufacturer (ODM) receives purchase orders from their customers with specifications on production and design. Generally, they do not engage in extensive product design and development on the functions, structures or raw materials but limited design on the product appearance.

Integrated Device Manufacturers (IDM) refers to companies that involve in the entire production progress from design, procurement of raw material, production as well as sales and marketing for their own brand.

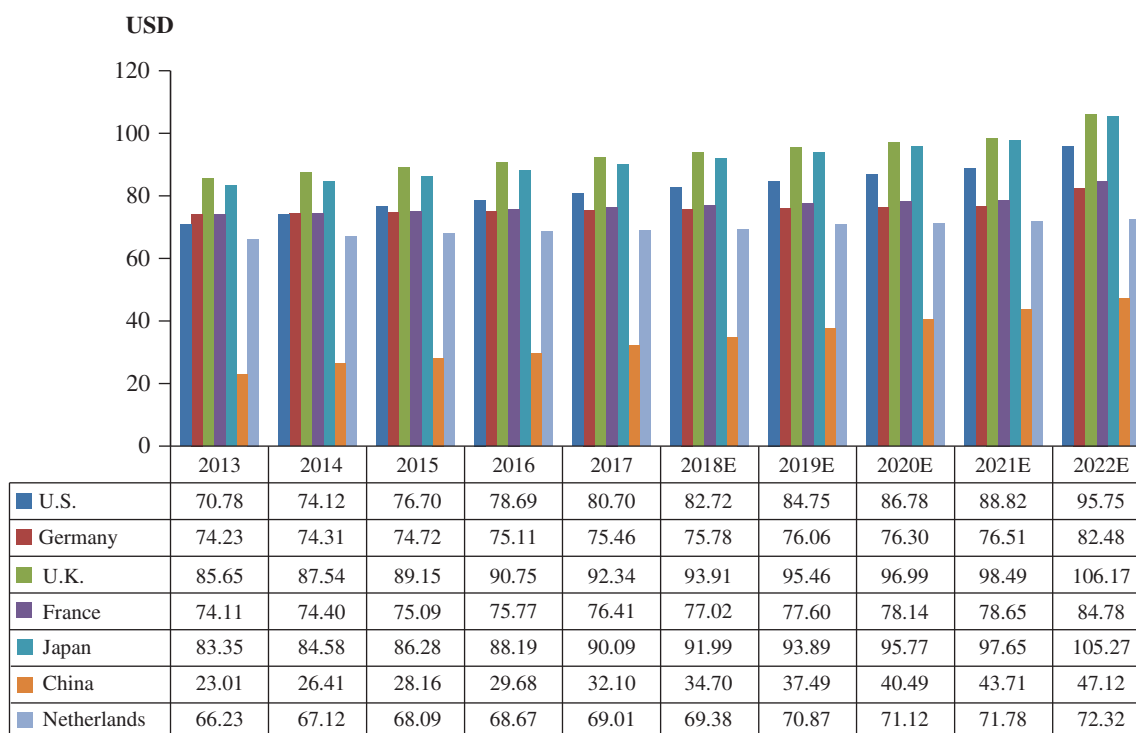
The more value-added services provided by the manufacturer, the higher the profit margin it earns. Therefore, ODMs have higher profit margins than OEMs as they provide some design services whereas OEMs do not.

Per Capita Spending on Intimate Wear

Consumers living in developed countries tend to have a higher expenditure on personal clothing than consumers in developing countries. During 2013 to 2017, the per capita spending on intimate wear in U.S., Germany, U.K., France, Japan and Netherlands is significantly higher than that in China but with a lower growth, recording a CAGR of 3.3%, 0.41%, 1.90%, 0.77%, 1.96% and 1.03% respectively. The growing economy and increasing disposable income in China contributed to the increase in per capita spending on intimate wear from USD23.01 in 2013 to USD32.10 in 2017, representing a CAGR of 8.68%. With the demand for intimate wear from Chinese consumers are expected to increase, the per capita spending in China is projected to grow in the next five years and reach USD47.12 by the end of 2022, representing a CAGR of 7.95%.

INDUSTRY OVERVIEW

**Chart 1.5 Per Capita Spending on Intimate Wear
(U.S., Germany, U.K., France, Japan, China and Netherlands), 2013-2022E**



CAGR

2013-2017

2018E-2022E

U.S.	3.33%	3.72%
Germany	0.41%	2.14%
U.K.	1.90%	3.12%
France	0.77%	2.43%
Japan	1.96%	3.43%
China	8.68%	7.95%
Netherlands	1.03%	1.04%

Source: Frost & Sullivan

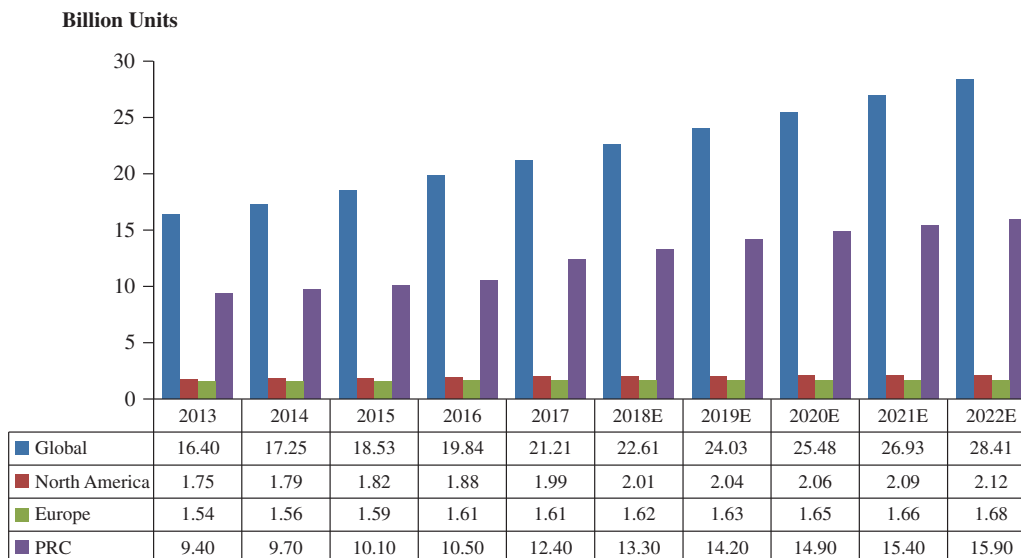
Global and Regional Production Volume of Intimate Wear

With the increasing demand from consumers in intimate wear, the global intimate wear production volume has been rising since 2013, growing from 16.4 billion units to 21.2 billion units in 2017, representing a CAGR of 6.6%. It is estimated that the global production volume of intimate wear will continue to rise in the next five years, reaching 28.4 billion units by the end of 2022.

PRC's attraction as a global manufacturing base has stood strong, being known for its low labor costs and skilled labor as well as its focus on mass production and exporting to overseas markets. In 2017, the PRC was the largest intimate wear production country, with a total production volume of approximately 10.7 billion. Supported by the country's large production capacity, it is projected that production volume of intimate wear in China will reach 11.7 billion units by the end of 2022.

INDUSTRY OVERVIEW

Production Volume of Intimate Wear Market (Global, North America, Europe, PRC), 2013-2022E



Source: Frost & Sullivan

Definition and Classification of Seamless Intimate Wear

The seamless technology is a knitting technology of producing clothing almost free of seams, sewing or stitches that uses specialized circular looms to develop garments that fit perfectly to the body. The process for making seamless garments requires the use of circular knitting machines, mostly made in Italy by a few worldwide leaders such as Santoni who produces the machines for seamless garments. The seamless intimate wear production market is a newly emerging sub segment of the overall intimate wear production market. Over the past five years, the global production of seamless intimate wear has slowly relocated to China, accelerating the development of the production market in China with positive prospects.

Seamless technology is widely used in underwear, sportswear and shapewear as highly elastic micro-fibres provide extra comfort and softness for wearers.

Key Benefits of Seamless Intimate Wear

For manufacturers:

- *Fewer sewing and finishing costs as seamless garments take 30%-40% less time than a cut-and-sew version*
- *Reduced labor costs as seamless technology minimizes traditional labor intensive step of cutting and sewing*

For end-users:

- *Breathability and comfort (known as the “second human skin”)*
- *Different elasticity in different parts of the garments to fit the body i.e. flexibility*

INDUSTRY OVERVIEW

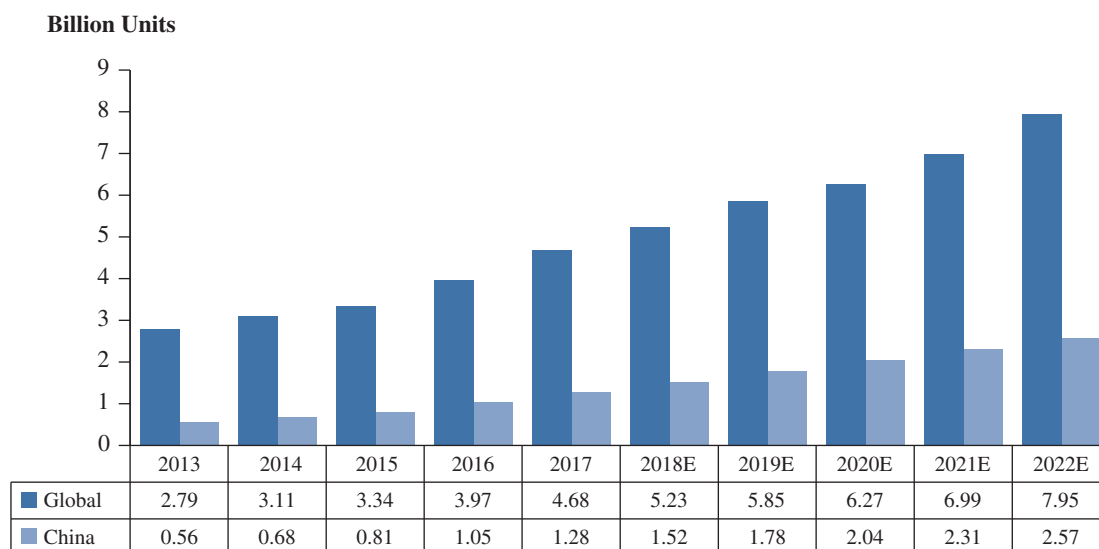
- *Ability to transition from one yarn type to another without seaming*
- *Quicker samples*
- *Fewer machines involved in the production*
- *Different layers with specific design, properties and styling*
- *Durability*
- *“Wellness” applications and support*

Production Volume and Value of Seamless Intimate Wear Market in China

Given its lower production costs in general, China has witnessed tremendous growth in the production of seamless intimate wear, mainly driven by international brands outsourcing their production process by hiring Chinese OEMs and ODMs. From 2013 to 2017, production volume has surged from 561.0 million units to 1,281.6 million units, growing at a CAGR of 22.9%, whereas production value of seamless intimate wear in China recorded sales of RMB11.5 billion in 2017.

In 2017, China accounted for about 27.4% of the global production volume of seamless intimate wear. In 2013, 6% of the production of intimate wear in China was seamless products. Due to a rise in the popularity of seamless intimate wear, seamless intimate wear has slowly been taking over traditional intimate wear. In 2017, approximately 12% of intimate wear was seamless products in terms of production. In 2022, this proportion will reach about 22%.

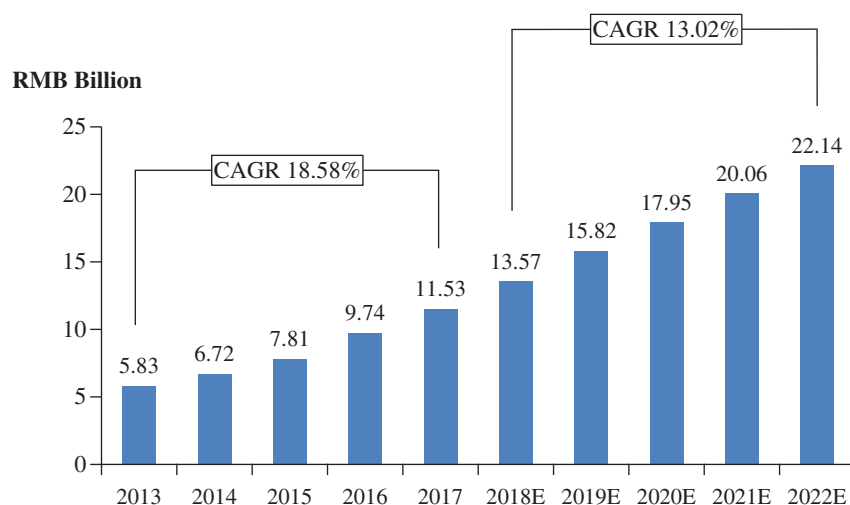
Production Volume of Seamless Intimate Wear, Global & China, 2013-2022E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Production Value of Seamless Intimate Wear Market in China, 2013-2022E



Source: Frost & Sullivan

Market Drivers and Trends for the Seamless Intimate Wear Manufacturing Industry in China

Accelerating Investment and Market Growth

As the entry barrier to the clothing industry is relatively low, there are a large number of incumbent market players competing on price where there is excessive production capacity for low-skilled products. Hence, many manufacturers are increasing their investment on more profitable segments such as the seamless clothing segment where selling price and profit margin are higher. Driven by the continued market growth in the seamless clothing market, it is seen that many small and medium-sized enterprises have increased their investment on seamless technology.

Product Diversification

Seamless technology is increasingly used in intimate wear products to provide better comfort and fit to wearers. Not only can seamless technology be used in intimate wear, there are unlimited market potentials in this technology both locally and internationally. For example, it can be applied to all types of clothing for different purposes such as swimwear, active wear, sleepwear and even protective wear providing safety and support for workers carrying out risky tasks. In the near future, the seamless technology will continue to diversify in its applications in different product segments.

Competitive Landscape of the Seamless Intimate Wear Production Market in China

Santoni was born in 1919 as the first Italian socks machine manufacturer and entered the LONATI group in 1988, becoming the worldwide leader in the production of electronic machines for garments without seams. At present, Santoni meets over 90% of the worldwide demand for seamless machines.

INDUSTRY OVERVIEW

In 2017, there are approximately 25,000-30,000 seamless machines in the world, where China accounted for about 12% of the global supply of the machines and the major production base is highly concentrated in Yi Wu, Zhejiang. It is estimated that Yi Wu accounted for more than 70% of the country's supply of seamless machines and around 10% of the global supply. It is seen that there are more than 100 manufacturers in the seamless intimate wear production market in China, which explains the highly fragmented and competitive market nature. In China, manufacturers of seamless intimate wear are mainly ODM/OEMs for foreign retail brands, given that the current market penetration is still low in China and exporting seamless intimate wear to Europe and America yields a higher profit margin. The market is expected to see more intense competition as there will be more lingerie manufacturers trying to enter the seamless intimate wear market given its higher profit margin and growth potential and prospect. On the other hand, China is also expected to become one of the major production bases in the world with the largest growth potential, based on the rapid growing investment on seamless equipment by Chinese manufacturers.

In 2017, our Group accounted for about 1.7% of the total sale value of seamless intimate wear manufacturing market in China and is the third largest manufacturer in China, following Company A and Company B.

Market Share of Top 5 ODM/OEM by Sales Value, for the year ended 31 December 2017

	Listed (Y/N)	Estimated Number of Santoni Seamless Machines	Estimated Sales value (RMB million)	Market share
Company A	N	480	620	5.4%
Company B	Y	370	422	3.7%
The Group	N	259	199	1.7%
Company C	Y	300	169	1.5%
Company D	N	300	127	1.1%
		Top 5 Total	1,537	13.3%
		Total in China	11,530	100%

Source: Frost & Sullivan

INDUSTRY OVERVIEW

Entry Barriers of the Seamless Intimate Wear Manufacturing Industry in China

Production Capacity and Facilities

The production of seamless garments requires a highly sophisticated machine which is costly for new market entrants. Also, it is vital for market entrants to acquire a significant number of seamless machines to cope with market demand and manage their production capacity.

Customer Base and Sales Channels

In China, the majority of seamless garments are exported to overseas markets as the profit margin and demand for seamless garments are higher. Hence, it is crucial that Chinese OEMs and ODMs establish good business relationship with overseas fashion brands to secure sales channels and network.

Threats and Challenges for the Seamless Intimate Wear Manufacturing Industry in China

Fierce Competition

After witnessing a great success in the seamless intimate wear market, more and more lingerie companies are entering this market. Intimate wear companies are expanding their product lines by investing on the production technologies of seamless garments and more functional product lines. Also, they compete to become OEMs/ODMs for popular foreign lingerie/sport brands to gain market recognition and share, leading to fierce market competition in the seamless intimate wear production market in China.

Production and Operating costs

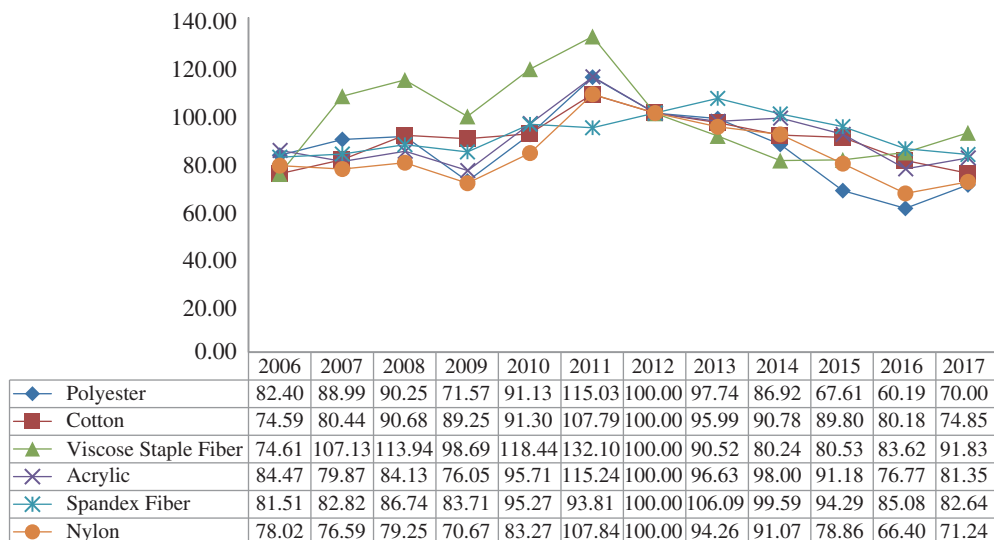
Despite the rapid growth of the seamless garments industry in China recently, production costs such as labor and raw material costs, as well as operating costs have increased in the last few years. This has put financial burden on all garment manufacturers in China including those for seamless garments. Therefore, manufacturers have to have a certain level of economies of scale in order to survive the rising production costs and price competition in China.

Costs of Major Raw Materials for Intimate Wear Manufacturing Industry in China

The main materials of intimate wear include polyester, cotton, viscose staple fibre, acrylic, spandex fibre and nylon. The continued decline in raw material prices will benefit intimate wear manufacturers in lowering parts of its production cost. Going forward, the price of raw materials will be stabilized in the next few years.

INDUSTRY OVERVIEW

Price Index of Major Raw Materials in China, 2006-2017



Note: 2012 is the base year.

Source: Frost and Sullivan

GLOBAL AND CHINA INTIMATE WEAR RETAIL MARKET

Global Per Capita Spending on Intimate Wear

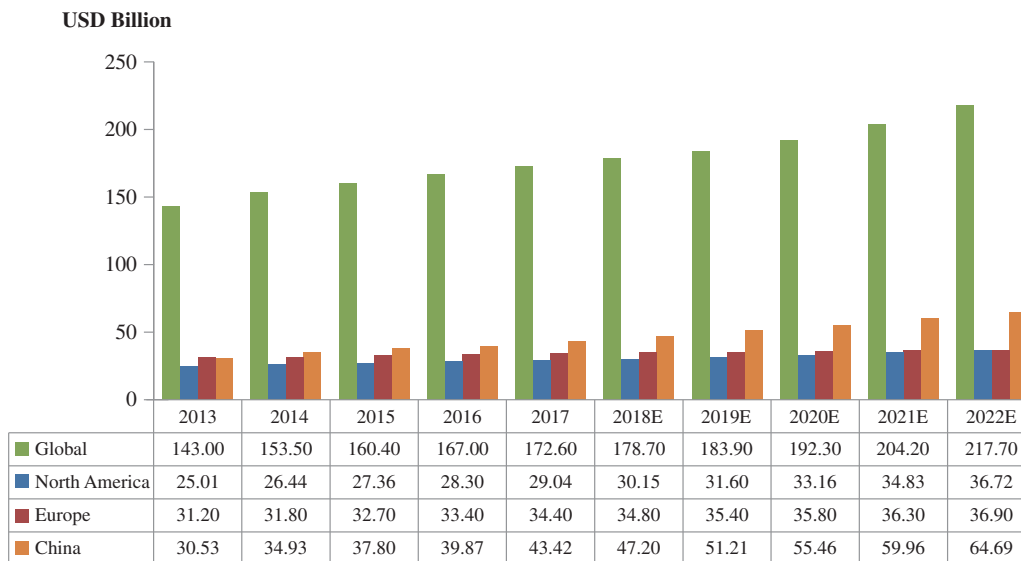
Consumers living in developed countries tend to have a higher expenditure on personal clothing than consumers in developing countries. During 2013 to 2017, the per capita spending on intimate wear in U.S., Germany, U.K., France, Japan and Netherlands is significantly higher than that in China but with a lower growth, recording a CAGR of 3.3%, 0.4%, 1.9%, 0.8%, 2.0% and 1.0%, respectively. The growing economy and increasing disposable income in China contributed to the increase of per capita spending on intimate wear from USD23.0 in 2013 to USD32.1 in 2017, representing a CAGR of 8.7%. With the demand for intimate wear by Chinese consumers are expected to increase, the per capita spending in China is projected to grow in the next five years and reach USD47.1 by the end of 2022, representing a CAGR of 8.0%.

Global Retail Sales of Intimate Wear by Region

The global retail sales of intimate wear in major countries continued to grow from 2013 to 2017 at a CAGR of 4.8%. It is projected to reach USD217.7 billion by the end of 2021. During 2013 to 2017, the intimate wear market in China reached RMB275.7 billion in 2017, driven by the improved disposable income of Chinese consumers over the last few years.

INDUSTRY OVERVIEW

Global Retail Sales of Intimate Wear, 2013-2022E

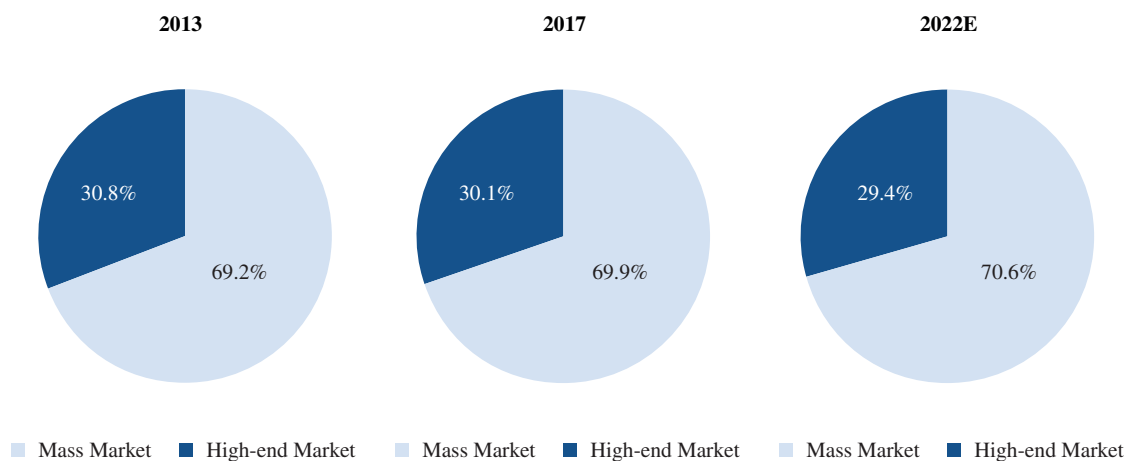


Source: Frost and Sullivan

Retail Sales of Intimate Wear in China by Consumer Group

Products targeting the high-end market such as bras are typically sold at above RMB300 and underwears are sold at above RMB100 whereas products for the mass market are sold below that price level. Mass market accounted for 69.9% of the overall market in 2017 whereas high-end market accounted for 30.1%. With the increased awareness of the benefits of different intimate wear products, the consumers are more willing to spend more on designs and extra functions for a reasonable price and this trend is expected to continue in the future.

Retail Sales of Intimate Wear in China by Consumer Group, 2013, 2017, 2022E



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Retail Sales of Intimate Wear in China by Sales Channel

In China, standalone specialist stores and department store or shopping mall contribute over 95% of the intimate wear sales. Nevertheless, with rapid penetration of internet in China, e-commerce has increased its share from 2.4% in 2013 to 4.8% in 2017, slowly eating away sales from brick-and-mortar stores.

Sales Contributions of Major Sales Channel, 2013-2022E

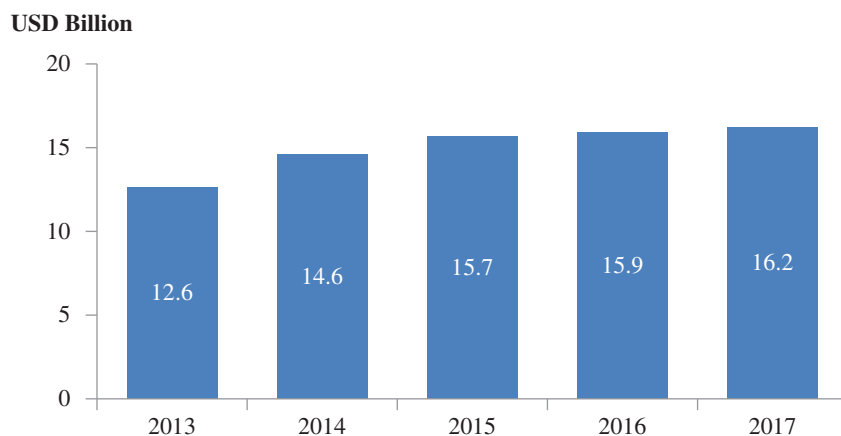
Sales Channel	2013	2017	2022E	2013-2017 CAGR	2018-2022E CAGR
Standalone Specialist Store	51.4%	51.1%	48.2%	9.1%	6.6%
E-Commerce	2.4%	4.8%	8.8%	32.6%	29.2%
Department Store/ Shopping Mall	46.2%	44.1%	43.0%	8.1%	8.2%

Source: Frost & Sullivan

Import and Export of Intimate Wear products in China

Being the world's largest manufacturing and exporter hub, China imported approximately USD0.2 billion of intimate wear in 2017, while exporting USD16.2 billion in 2017.

Export Value of Intimate Wear in China, 2013-2017



Note: Export value of intimate wear is a compilation of data provided by the China Customs. Intimate wear products included female lingerie, underwear, loungewear, sleepwear, thermal wear and socks.

Source: International Trade Centre

INDUSTRY OVERVIEW

Market Drivers and Trends for the Intimate Wear Retail Market

Increasing Spending on Intimate Wear

Apart from the local intimate wear brands in China, international intimate wear brands such as Victoria Secret are also penetrating into the Chinese market, gaining significant exposure and awareness among the Chinese consumers through promotions and advertisements. This has driven the growth of the Chinese intimate wear retail market.

Increasing Demand for High Quality Intimate Wear

With the growing size of the middle class in China, Chinese consumers are pursuing for better and higher quality of intimate wear products with their rising disposable income. High-end intimate wear brands are becoming more popular among consumers due to the brands' reputation and its high quality product, thus favouring the local intimate wear market.

Competitive Landscape of the Intimate Wear Retail Market in China

The intimate wear market in China is a moderately fragmented market with over 3,000 market players. In 2017, the top five players in the intimate wear industry accounted for a total of 5.6% of the whole intimate wear market in China.

Top 5 Intimate Wear Brands in China by Sales Revenue, 2017

		2017
	Retail Sales	Market Share
	<i>(Billions RMB)</i>	
Company A	7.8	2.84%
Company B	2.1	0.77%
Company C	2.1	0.76%
Company D	1.9	0.70%
Company E	1.6	0.56%
Top 5 Players' Market Share Total	15.5	5.6%
Total Retail Sales Revenue in China	275.7	

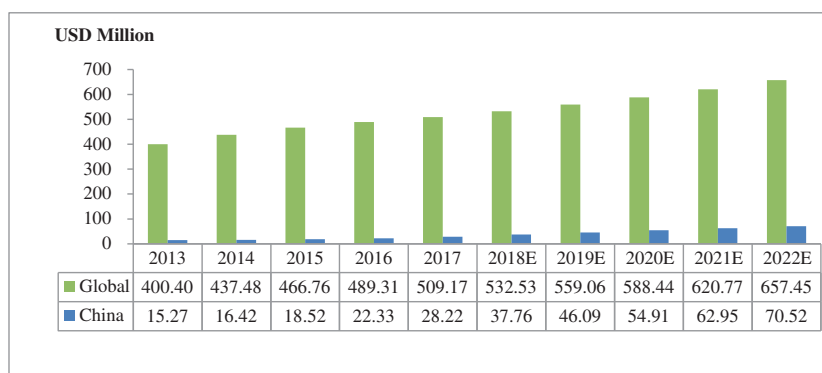
Source: Frost & Sullivan

INDUSTRY OVERVIEW

Global and China Nursing Bra Market

The global retail sales of nursing bra recorded a steady growth from USD400.40 million in 2013 to USD509.17 million in 2017, representing a CAGR of 6.19%. In China, high birth rates, the “two-child” policy and the growing popularity of e-retailing have been driving the growth of the nursing bra market. Premium brands are now making their products available on various online shopping portals. Over the past five years, Chinese consumers are becoming aware of the function and benefit of nursing bra, along with the booming of the e-commerce market have driven the growth of the retail sales of nursing bra in China from USD15.27 million in 2013 to USD28.22 million in 2017, representing a CAGR of 16.61%. As user rate of nursing bra is still low in China, growth rate of the nursing bra market in China is expected to grow faster than the global market, given that nursing bra is originated from western countries. In the coming years, the growth of China’s nursing bra retail sales market is anticipated to continue growing at CAGR of 16.90% and reach USD70.52 million by the end of 2022 while the global nursing bra retail market is expected to grow steadily at a CAGR of 5.41% and reach USD657.45 million.

7.1 Global and China Retail Sales of Nursing Bra, 2013-2022E



CAGR	Global	China
2013-2017	6.19%	16.61%
2018E-2022E	5.41%	16.90%

Source: Frost & Sullivan

REGULATORY OVERVIEW

REGULATION

Set out below are summaries of certain aspects of the PRC laws and regulations which are relevant to the operation and business of our Company.

Laws and Regulations in Relation to Foreign Investment in the PRC

Pursuant to the Provisions on Guiding the Orientation of Foreign Investment (《指導外商投資方向規定》) promulgated by the State Council on 11 February 2002 and became effective on 1 April 2002, the Guidance Catalogue for Foreign Investment (外商投資產業指導目錄) is the basis of the application of relevant policies in examining and approving foreign investment projects and foreign-invested enterprises. The Foreign Investment Industrial Guidance Catalogue sets out “encouraged”, “permitted”, “restricted”, and “prohibited” categories for all foreign investment projects in the PRC. For the projects which do not fall into the categories of encouraged, restricted or prohibited projects shall be deemed as the permitted foreign investment projects. The permitted foreign investment projects are not listed in the Foreign Investment Industrial Guidance Catalogue. Pursuant to the Guidance Catalogue for Foreign Investment (2017 Revision) (《外商投資產業指導目錄(2017修訂)》), which was jointly issued by the NDRC and the MOFCOM on 28 June 2017 and became effective on 28 July 2017, our PRC subsidiaries do not engage in any restricted industries or prohibited industries for foreign investment.

The Provisions on the Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》), promulgated by six PRC ministries including the MOFCOM, the State Assets Supervision and Administration Commission, the SAT, the State Administration for Industry and Commerce, China Securities Regulatory Commission and SAFE, became effective on 8 September 2006 and amended on 22 June 2009, provides the rules with which foreign investors shall comply if they seek to purchase the equities of a domestic non-foreign-funded enterprise or to subscribe the increased capital of a domestic non-foreign-funded enterprise, which will subsequently change the domestic non-foreign-funded enterprise into a foreign-funded enterprise. According to the Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), the merger and acquisition of domestic non-foreign-invested enterprises by foreign investors shall, if not involving special access administrative measures and affiliated mergers and acquisitions, be subject to the record filing measures.

The Interim Measures for Record-filing Administration of the Establishment and Change of Foreign-invested Enterprises (《外商投資企業設立及變更備案管理暫行辦法》), which was promulgated by the MOFCOM on 8 October 2016 and subsequently amended on 30 July 2017 and 29 June 2018, stipulates that the record filing formality, instead of approving formality, shall apply to the establishment and change of foreign invested enterprises which are not subject to special administrative measures stipulated by the State. The foreign-invested enterprises shall fill out and submit online application for record-filing of the changes of foreign-invested enterprises and other relevant documents through the comprehensive management system within 30 days after the change occurs. For the establishment of a

REGULATORY OVERVIEW

foreign-invested enterprise, the foreign investors shall, before the issuance of the business license, or the foreign-invested enterprises shall, within 30 days after the issuance of the business license, fill out and submit online application and other relevant documents through the system.

Laws and Regulations Relating to Retailing

The Administrative Measures for Fair Transactions between Retailers and Suppliers (《零售商供應商公平交易管理辦法》) were promulgated by the MOFCOM on 13 October 2006 and came into effect with the approval of the NDRC, the Public Security Bureau (公安部), the SAT and the State Administration of Industry and Commerce (國家工商行政管理總局) of the People's Republic of China on 15 November 2006. Such measures promote the protection of a fair marketplace and the lawful rights of consumers by regulating trading activities between retailers and suppliers. The departments of commerce, price, tax and administrations for industry and commerce shall supervise and administer the activities stipulated in these measures within their respective jurisdictions. With regard to the activities possibly deemed as crime, they shall report to public security authorities to handle under law. The commercial authorities above county level shall dynamically supervise the fair dealing of retailers and suppliers with other relevant departments at the same level, make risk warning and timely make countermeasures. Any unit or individual is entitled to report the activities violating the stipulation of these measures to the aforementioned departments. The relevant departments shall investigate and prosecute according to law after receiving the report. Retailers or suppliers violating the provisions of these measures shall be punished according to the provisions of the laws and regulations; if there are not such provisions, otherwise, they shall be ordered to correct their behaviors; in case there is illegal income, they may be fined with below three times of illegal income but not more than RMB30,000; in case there is no illegal income, they may be fined with below RMB10,000 and publicised to the public. If local commercial, price, tax, administration for industry and commerce departments above county level find the retailer suspicious of being involved in obtaining the suppliers' payment for commodities by deception, they shall transmit the clue of suspected crime to the local public security authorities. The public security authorities shall timely conduct investigation. In case of suspected crime, the case shall be filed and investigation shall be conducted.

The Administrative Measures for the Sales Promotion Acts of Retailers (《零售商促銷行為管理辦法》) were promulgated by the MOFCOM on 12 September 2006 and came into effect with the approval of the NDRC, the Public Security Bureau, the SAT and the State Administration of Industry and Commerce of the People's Republic of China on 15 October 2006. Such measures promote a fair and competitive marketplace and the protection of the lawful rights of consumers by regulating and standardizing promotional and sales activities amongst retailers.

REGULATORY OVERVIEW

Laws and Regulations Relating to Anti-Unfair Competition

The principal legal provisions governing market competition are set out in the Anti-Unfair Competition Law of the PRC (《中華人民共和國反不正當競爭法》), which was promulgated on 2 September 1993 and came into effect on 1 December 1993, and was amended on 4 November 2017 and came into force on 1 January 2018.

Pursuant to the guidelines, a business shall not commit the following acts of confusion to mislead a person into believing that a commodity is one of another person or has a particular connection with another person: (1) Using without permission a label identical or similar to the name, packaging or decoration, among others, of another person's commodity with certain influence. (2) Using without permission another person's name with certain influence, such as the name (including abbreviations and trade names) of an enterprise, the name (including abbreviations) of a social organization, or the name (including pseudonyms, stage names and name translations) of an individual. (3) Using without permission the principal part of a domain name, the name of a website, or a web page with certain influence, among others, of another person. (4) Other acts of confusion sufficient to mislead a person into believing that a commodity is one of another person or has a particular connection with another person.

Operators shall not practice bribery by using money, valuables or other means to sell or buy goods except by paying a kickback entered in the book factually. Where operators give a discount to the other party or pay a commission to the middlemen, it must enter the items in the book factually. The party accepting a discount or commission must enter it in the book factually as well. Operators shall not use advertisement or other means to give false, misleading information on the quality, composition, performance, use, manufacturer, useful life, origin, etc. of the goods.

Any operator who commits any of the illegitimate acts listed in the Anti-unfair Competition Law shall be ordered to desist from the illegal act, dispel the bad influence or compensate for the damages of the injured party, his illegal gains shall be confiscated and he may also be fined; if the circumstances are serious, his business license shall be revoked or even he shall be prosecuted for his criminal responsibility.

Laws and Regulations Relating to Product Quality and Consumer Protection

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》), which was promulgated on 22 February 1993, became effective on 1 September 1993, and was subsequently amended on 8 July 2000, and was amended again on 27 August 2009, producers are liable for the quality of the products they produce. Where anyone produces or sells products that do not comply with the relevant national or industrial standards safeguarding the health and safety of persons and property, the relevant authority will order such person to suspend the production or sales, confiscate the products, impose a fine of an amount higher than the value of the products and less than three times of the value of the products, confiscate illegal gains (if any) as well as revoke the business license in severe cases. Where the activities constitute a crime, the offender will be prosecuted.

REGULATORY OVERVIEW

Under the General Principles of the Civil Laws of the PRC (《中華人民共和國民法通則》), which became effective on 1 January 1987, and was amended on 27 August 2009, and the Law on the Protection of Consumer Rights and Interests of the PRC (《中華人民共和國消費者權益保護法》), which was promulgated on 31 October 1993, became effective on 1 January 1994 and was amended on 27 August 1999 and 25 October 2013, the manufacturers and distributors will be held liable for losses and damages suffered by consumers caused by the defective products manufactured or distributed by them.

Under the above-mentioned laws and regulations, it is required to ensure that the products which we produce and sell meet the requirements for safeguarding human health and ensuring human and property safety. Failing to do so will lead to a series of penalties, including the suspension of production and sale, confiscation of the products and earnings, imposition of fines, revocation of business licenses, and/or even criminal liabilities. In addition, if the products cause personal injuries or other form of torts, lawsuits and liabilities in tort would be brought in.

Laws and Regulations Relating to Commercial Franchise

The Regulations for the Administration of Commercial Franchises (《商業特許經營管理條例》) (the “**Franchise Regulations**”) were promulgated by the State Council on 6 February 2007 and became effective on 1 May 2007. In addition to the Franchise Regulations, the Ministry of Commerce has promulgated two implementing regulations, the Administrative Measures for Archival Filing of Commercial Franchises (《商業特許經營備案管理辦法》) (the “**Archival Filing Measures**”) and the Administrative Measures on Information Disclosure Requirements for Commercial Franchises (《商業特許經營信息披露管理辦法》) (the “**Disclosure Measures**”), which are also effective from 1 May 2007 and later were separately amended on 12 December 2011 and 23 February 2012, effective from 1 February 2012 and 1 April 2012. The Franchise Regulations, Archival Filing Measures and Disclosure Measures form the basic legal framework for the regulation of PRC franchise operations, and address the requirements, fees, qualifications, administrative reporting and compliance procedures and other issues related to franchising.

The MOFCOM shall be responsible for supervising and managing commercial franchises across the country in accordance with these regulations. The departments in charge of commerce of the provinces, autonomous regions, or municipalities directly under the central government and the departments in charge of commerce of the people’s government of the cities with district division shall be responsible for supervising and managing the commercial franchises within their respective jurisdiction pursuant to these regulations.

Laws and Regulations Relating to Environmental Protection

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》), which was promulgated and became effective on 26 December 1989, and was amended on 24 April 2014 and came into force on 1 January 2015, entities that cause environmental pollution and other public hazards must incorporate environmental protection work into their

REGULATORY OVERVIEW

plans, establish an environmental protection responsibility system, and adopt effective measures to prevent and control pollution and other environmental harms caused by waste gases, wastewater, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of the production, construction or other activities. In addition, entities that discharge pollutants must register with the relevant environmental protection authorities.

On 29 November 1998, the State Council promulgated the Regulations on the Administration of Environmental Protection of Construction Project (《建設項目環境保護管理條例》), which was amended on 16 July 2017 and came into force on 1 October 2017. On 28 October 2002, the Standing Committee approved the Law on Appraising of Environment Impact of the PRC (《中華人民共和國環境影響評價法》), which became effective on 1 September 2003 and was amended on 2 July 2016 and 29 December 2018. According to the aforesaid laws, the construction units responsible for the construction projects must submit corresponding environmental impact appraisal documents to the relevant administrative departments of environmental protection for examination and approval and obtain approvals from such administrative departments of environmental protection before they commence construction. Environmental protection facilities shall be designed, built and commissioned together with the whole construction project. No permission shall be given for a construction project to be commissioned until its environmental protection facilities have been examined and assessed and determined to be up to standard by the relevant department of the environmental protection administration that is responsible for examining and approving the environmental impact statement of the applicant.

Laws and Regulations Relating to Property

The Land Administration Law of the PRC (《中華人民共和國土地管理法》) was promulgated by the Standing Committee on 25 June 1986, became effective on 1 January 1987 and was amended on 29 December 1988, 29 August 1998 and 28 August 2004. The Regulations for the Implementation of the Land Administration Law of the PRC (《中華人民共和國土地管理法實施條例》) were promulgated by the State Council on 27 December 1998 and became effective on 1 January 1999, and were amended on 8 January 2011 and 29 July 2014 (collectively, the “**Land Administration Law**”). Under the Land Administration Law, the national government implements a land registration and certification system. Lawfully registered land ownership and land use rights are protected by law and may not be infringed upon by any units or individuals.

Employment Laws

Pursuant to the Labor Law of the PRC (《中華人民共和國勞動法》), which was promulgated on 5 July 1994 and became effective on 1 January 1995, and was amended on 27 August 2009 and 29 December 2018, and the Labor Contract Law of the PRC (《中華人民共和國勞動合同法》), which became effective on 1 January 2008 and was amended on 28 December 2012, labor contracts shall be concluded in writing if labor relationships are to be or have been established between enterprises or entities on one hand and the laborers on the other hand.

REGULATORY OVERVIEW

Pursuant to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) which come into force on March 1, 2014, and the Labor Contract Law of the PRC, an employer shall strictly control the number of dispatched staff employed which shall not exceed 10% of the total number of its workers. And any labor dispatch entity or employer that violates any provision of this law on labor dispatch shall be ordered by the labor administrative department to make corrections within a prescribed time limit; and if the entity or employer fails to do so within the prescribed time limit, it shall be fined 5,000 yuan up to 10,000 yuan per employee, and for a labor dispatch entity, its license for engaging in the labor dispatch business shall be revoked. Where the employer causes any damage to the dispatched staff, the labor dispatch entity and the employer shall assume joint and several liabilities.

Employee Benefits as required under the Regulation of Insurance for Labor Injury (《工傷保險條例》), implemented on 1 January 2004 and amended on 20 December 2010, the Provisional Measures for Maternity Insurance of Employees of Corporations (《企業職工生育保險試行辦法》), implemented on 1 January 1995, the Decisions on the Establishment of a Unified Program for Old-Aged Pension Insurance of the State Council (《國務院關於建立統一的企業職工基本養老保險制度的決定》), issued on 16 July 1997, the Decisions on the Establishment of the Medical Insurance Program for Urban Workers of the State Council (《國務院關於建立城鎮職工基本醫療保險制度的決定》), promulgated on 14 December 1998, the Unemployment Insurance Measures (《失業保險條例》), promulgated on 22 January 1999, and the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), implemented on 1 July 2011 and was amended on 28 December 2018, enterprises are obliged to provide their employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, labor injury insurance and medical insurance. Enterprises must apply for social insurance registration with local social insurance agencies and pay premiums for their employees. If an enterprise fails to pay the required premiums on time or in full amount, the authorities in charge will demand the enterprise to settle the overdue amount within a stipulated time period and impose a 0.05% overdue fine. If the overdue amount is still not settled within the stipulated time period, an additional fine with an amount of three to five times of the overdue amount will be imposed.

According to the Regulation on Management of Housing Fund (《住房公積金管理條例》), which was promulgated by the State Council on 3 April 1999, became effective on the same day and was amended on 24 March 2002, enterprises must register with the competent managing center for housing funds and, upon the examination by such managing center of housing fund, complete procedures for opening an account at the relevant bank for the deposit of employees' housing funds. Employers are required to contribute, on behalf of their employees, to housing funds. The payment is required to be made to local administrative authorities. Any employer who fails to contribute may be fined and ordered to make good the deficit within a stipulated time limit.

Where an entity violates the present regulation by failing to make deposit registration of the housing accumulation fund or failing to open a housing accumulation fund account for its employees, it shall be ordered by the housing accumulation fund management center to make up the procedures within a time limit; if it fails to make up the procedures within the time limit, it shall be given a fine of RMB10,000 to RMB50,000. Where an entity violates the present regulation by failing to deposit the housing accumulation fund within the time limit or by under-depositing the fund, it shall be ordered by the housing accumulation fund management center to deposit the fund within a time limit; if it fails to deposit the fund within the time limit, it may apply to the people's court for enforcement.

REGULATORY OVERVIEW

Laws and Regulations Relating to Occupation Safety

The Production Safety Law of the PRC (《中華人民共和國安全生產法》), which was promulgated by the Standing Committee on 29 June 2002, became effective on 1 November 2002 and amended on 27 August 2009 and 31 August 2014, requires production entities to meet the relevant legal requirements, such as providing their staff with training and handbooks on production safety, and providing safe working conditions in compliance with relevant laws, rules and regulations.

Trademark

The Trademark Law of the PRC (《中華人民共和國商標法》) was promulgated on 23 August 1982 and came into effect on 1 March 1983 and was subsequently amended on 22 February 1993, 27 October 2001 and 30 August 2013 respectively. The latest amendments to the Trademark Law of the PRC came into effect on 1 May 2014.

Pursuant to the Trademark Law of the PRC, the right to exclusive use of a registered trademark shall be limited to the trademark which has been registered and to commodities on which the use of a trademark has been approved. The period of validity of a registered trademark shall be ten years commencing from the day the registration is approved. If a registrant needs to continue to use the registered trademark after the period of validity, an application for renewal of registration shall be made within twelve months before the expiration. The period of validity for each renewal of registration shall be ten years.

Any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: (a) using a trademark which is identical with a registered trademark on the same kind of commodities without a license from the registrant of the registered trademark; (b) using a trademark which is similar to a registered trademark on the same kind of commodities, or using a trademark that is identical with or similar to the registered trademark on similar goods without a license from the registrant of the registered trademark, which is likely to cause confusion; (c) selling commodities that infringe upon the right to exclusive use of a registered trademark; (d) counterfeit or unauthorized production of the label of another's registered trademark, or sale of any such label that is counterfeited or produced without authorization; (e) changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of the registered trademark; (f) providing, intentionally, convenience for activities infringing upon others' exclusive right of trademark use, and facilitating others to commit infringement on the exclusive right of trademark use; or (g) causing other damage to the right to exclusive use of a holder of a registered trademark.

Where a dispute arises from infringing upon the exclusive rights of the registrant of a registered trademark, the parties involved shall settle the dispute through negotiation. If any party refuses to negotiate or the negotiation has failed, the registrant of the registered trademark or the interested parties may bring a suit before a people's court or request the Administration for Industry and Commerce to handle the issue. The registrant of a registered

REGULATORY OVERVIEW

trademark may license others to use its registered trademark through the trademark license agreement. The licensor shall supervise the quality of the goods in respect of which the licensee uses his registered trademark, and the licensee shall assure the quality of the goods in respect of which he uses the registered trademark. Where the registered trademark is licensed, the name of the licensee and manufacturing location shall be indicated on the product with the licensed registered trademark. The trademark license agreement shall be filed with the State Trademark Office for record.

Patent

Pursuant to the Patent Law of the PRC (《中華人民共和國專利法》), which was promulgated on 12 March 1984 and came into effect on 1 April 1985 and was subsequently amended on 4 September 1992, 25 August 2000 and 27 December 2008, respectively, patent protection is divided into three categories: Invention patent, utility model patent and design patent. According to the Patent Law of the PRC, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorization of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. After a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

Domain Name

Pursuant to the Implementing Rules on Registration of Domain Names (《域名註冊實施細則》) which was promulgated on 28 May 2012 by China Internet Network Information Center (中國互聯網絡信息中心) (the “CINIC”) and became effective on 29 May 2012, and the Administrative Rules on China Internet Domain Names (《中國互聯網絡域名管理辦法》), which was promulgated by the Ministry of Information Industry on 5 November 2004 and became effective on 20 December 2004, after the domain name expired, it automatically heads into renewal confirmation period. Domain name holders shall confirm whether to renew the relevant domain name within 30 days after the domain name expired. The domain name registration provider shall have the right to cancel the domain name if the domain name holder confirms that the domain name holder will not renew the domain name with written notice. If the domain name holder does not confirm the renewal with written notice or renew, the domain name service provider shall have the right to cancel the domain name after 30 days.

REGULATORY OVERVIEW

Laws and Regulations on Tax Matters

Enterprise Income Tax (the “EIT”)

Pursuant to the EIT Law, which was promulgated by the NPCSC on 16 March 2007 and became effective on 1 January 2008 and subsequently amended on 24 February 2017 and 29 December 2018, and its implementation rules, which was promulgated by the State Council on 6 December 2007, the tax rate for both domestic enterprises and foreign-invested enterprises is 25%, and high-technology enterprises receiving key support from the State enjoy a reduced EIT rate of 15%.

Under the EIT Law and its implementation rules, enterprises are classified as either “resident enterprises” or “non-resident enterprises”. Enterprises outside the PRC whose “de facto management bodies” are located in the PRC are considered “resident enterprises” and subject to the uniform 25% EIT rate for their global income. According to the implementation rules of the EIT Law, “de facto management body” refers to a managing body that exercises, in substance, overall management and control over the manufacture and business, personnel, accounting and assets of an enterprise. Dividends from resident enterprises to their investors, which are treated as resident enterprises, are exempted from withholding tax.

The EIT Law provides that a non-resident enterprise refers to an entity established under foreign law whose “de facto management bodies” are not within the PRC but which have an establishment or place of business in the PRC. The implementation rules of the EIT Law provide that after 1 January 2008, an income tax rate of 10% will normally be applicable to dividends declared to non-resident enterprise investors which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends are derived from sources within the PRC. The income tax on the dividends may be reduced pursuant to a tax treaty between the PRC and the jurisdictions in which the non-resident enterprise investors located. In addition, any gain realized on the transfer of shares by non-resident enterprise investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC.

Pursuant to the EIT Law, the expenses of an enterprise for the research and development of new technologies, new products and new process may be additionally calculated and deducted when calculating the taxable amount of incomes. Pursuant to the implementation rules of the EIT Law, the term “additional deduction of research and development expenses” refers to an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new process on the basis of the actual deductions where the enterprise when no intangible asset has been formed and calculated into the current gains and losses. If intangible assets have been formed, they shall be amortized at 150% of the cost of the intangible assets.

REGULATORY OVERVIEW

Pursuant to the Notice on Increasing the Ratio of the Additional Deduction of Research and Development Expenses (《關於提高研究開發費用稅前加計扣除比例的通知》), which was promulgated by the Ministry of Finance of the Peoples Republic of China, the SAT and the Ministry of Science and Technology of the Peoples Republic of China on 20 September 2018 and became effective on the same day, from 1 January 2018 to 31 December 2020, an additional 75% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new process on the basis of the actual deductions where the enterprise when no intangible asset has been formed and calculated into the current gains and losses. If intangible assets have been formed, they shall be amortized at 175% of the cost of the intangible assets during the above period.

Value Added Tax (the “VAT”)

The Provisional Regulations of the PRC on Value-added Tax (《中華人民共和國增值稅暫行條例》) were promulgated by the State Council on 13 December 1993 and came into effect on 1 January 1994 which were subsequently amended from time to time. The Detailed Rules for the Implementation of the Provisional Regulations of the PRC on Value-added Tax (Revised in 2011) (《中華人民共和國增值稅暫行條例實施細則(2011年修訂)》) was promulgated by the Ministry of Finance and the SAT on 25 December 1993 and subsequently amended on 15 December 2008 and 28 October 2011, or collectively, VAT Law. On 19 November 2017, the State Council promulgated the Decisions on Abolishing the Provisional Regulations of the PRC on Business Tax and Amending the Provisional Regulations of the PRC on Value-added Tax (《國務院關於廢止《中華人民共和國營業稅暫行條例》和修改《中華人民共和國增值稅暫行條例》的決定》) (the “**Order 691**”). According to the VAT Law and the Order 691, all enterprises and individuals engaged in the sale of goods, the provision of processing, repair and replacement services, sales of services, intangible assets, real property and the importation of goods within the territory of the PRC are the taxpayers of VAT.

Pursuant to the Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting Value-added Tax Rates (《財政部、稅務總局關於調整增值稅稅率的通知》) implemented by the Ministry of Finance and the SAT, the tax rates of 17% and 11% applicable to any taxpayer’s VAT taxable sale or import of goods shall be adjusted to 16% and 10%, respectively. As for exported goods to which the tax rate of 17% applies and whose export tax refund rate is 17%, the export tax refund rate shall be adjusted to 16%. As for exported goods and cross-border taxable acts to which the tax rate of 11% applies and whose export tax refund rate is 11%, the export tax refund rate shall be adjusted to 10%.

Business Tax

The Provisional Regulations of PRC Concerning Business Tax (《中華人民共和國營業稅暫行條例》) (the “**Business Tax Regulations**”) was promulgated by the State Council on 13 December 1993 and amended on 5 November 2008 and came into effect on 1 January 2009. Under the Business Tax Regulations, enterprises that provide services (including entertainment business), assign intangible assets or sell immovable property are liable to business tax at a rate ranging from 3.0% to 20.0%, of the charges of the services provided, intangible assets assigned or immovable property sold, as the case maybe. The formula for calculation of the amount of tax payable is set forth below: Amount of tax payable = business × income tax rate. The business income shall be calculated in RMB. Taxpayers that settle their amounts of business income in currency other than RMB shall convert the amounts into RMB.

REGULATORY OVERVIEW

Pursuant to the Notice of the State Council on Effectively and Comprehensively Promoting the Pilot Program of Replacing Business Tax with Value-Added Tax (《國務院關於做好全面推開營改增試點工作的通知》), which was promulgated by the State Council on 29 April 2016 and became effective on the same day, all sectors, which paid business tax previously, shall pay the value added tax rather than the business tax since 1 May 2016.

Pursuant to the Arrangement between Mainland China and Hong Kong for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》), which was promulgated by the SAT and the Hong Kong government on 21 August 2006, a PRC company shall pay income tax on the dividends paid to a Hong Kong resident according to the PRC law. However, provided that the recipient is a company that holds at least 25% of the capital of the PRC company, no more than the 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident. In other circumstances, the 10% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong resident.

Dividend Tax

Pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements (《國家稅務總局關於執行稅收協議股息條款有關問題的通知》), which was promulgated by the SAT and became effective on 20 February 2009, all of the following requirements shall be satisfied in order to enjoy the preferential tax rates provided under the tax agreements: (i) the tax resident that receives dividends should be a company as provided in the tax agreement; (ii) the equity interests and voting shares of the PRC resident company directly owned by the tax resident reaches the percentages specified in the tax agreement; and (iii) the equity interests of the Chinese resident company directly owned by such tax resident at any time during the twelve months prior to receiving the dividends reach a percentage specified in the tax agreement.

According to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial) (《非居民享受稅收協議待遇管理辦法(試行)》), which came into force on 1 October 2009, if a non-resident enterprise (as defined under the PRC tax laws) that receives dividends from a PRC resident enterprise wishes to enjoy the preferential tax treatments under the tax agreements, it shall submit an application for approval to the competent tax authority.

Laws and Regulations Relating to Foreign Exchange

Under the Foreign Currency Administration Rules of the PRC (《中華人民共和國外匯管理條例》) which was promulgated in 1996 and amended in 1997 and 2008, and various regulations issued by the SAFE, RMB may be converted into foreign currencies without approval for the purpose of current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions. Conversion of RMB into other currencies for capital account items, such as direct investments, loans, security investments and repatriation of investment, however, is still subject to the approval of or

REGULATORY OVERVIEW

registration with SAFE or its competent local branches or their authorized banks. Pursuant to Foreign Currency Administration Rules of the PRC, enterprises may only buy, sell or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and relevant supporting documents and, in the case of capital account item transactions, obtaining approval of or registration with SAFE or its competent local branches or their authorized banks. Capital investments by enterprises outside of the PRC are also subject to limitations, which include approvals by MOFCOM, SAFE and NDRC, or their respective competent local branches.

In terms of the Notice on the Relevant Issues about Foreign Exchange Administration of the Financing and Return Investment of Domestic Residents through Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “**SAFE Circular 75**”) promulgated by the SAFE on 21 October 2005 and came into force on 1 November 2005, (i) before establishing or controlling special-purpose vehicles (the “**SPVs**”) for financing for overseas equity, PRC residents shall register with the local branch of the SAFE; (ii) if the PRC resident injects the assets or equity of domestic enterprises it possesses to the SPVs, or financing for overseas equity after the injection, the said PRC resident shall change registration of foreign exchange concerning equity of net assets and its changes of SPVs with the local branch of the SAFE; (iii) if any significant asset change (such as change of share capital or M&A) occurs in overseas SPVs outside the PRC, PRC residents shall register relevant changes with the local branch of the SAFE within 30 days after occurrence of the said change. The SAFE Circular 75 has been repealed by the Circular on Relevant Issues Concerning Foreign Exchange Administration of Overseas Investment and Financing and Return Investments Conducted by Domestic Residents Through Overseas Special Purpose Vehicles (the “**SAFE Circular 37**”) on 14 July 2014.

On 4 July 2014, the SAFE promulgated the SAFE Circular 37, according to which, (i) “**SPVs**” is defined as “offshore enterprise directly established or indirectly controlled by domestic residents (including domestic institution and individual resident) with their legally owned assets or equity of domestic enterprises, or legally owned offshore assets or equity, for the purpose of offshore investment and financing; (ii) a domestic resident must register with the SAFE before he or she contributes assets or equity interests to SPVs; (iii) 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, registered capital, share transfer or swap, merger or division, or similar development, shall be report to the SAFE for registration in time, and failing to comply with the registration procedures as set out in the SAFE Circular 37 may result in penalties.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

OUR HISTORY

Overview

Our business was co-founded in 2001 by Mr. Jin and Ms. Gong, with their own financial resources when our first operating subsidiary, Zhejiang Bonny, was established. Initially, we principally engaged in manufacturing intimate wear products on an OEM basis for overseas apparel companies. In 2003, we began our seamless intimate wear production. With the continuous accumulation of production experience and development of in-house product design, research and development, we gradually and strategically shifted our business focus from an OEM model to an ODM model. In 2008, leveraging on our experience in the intimate wear industry and our production capacity, we made our strategic move to tap into the domestic branded intimate wear market and introduced our own “Bonny” brand. We provide one-stop in-house intimate wear manufacturing solutions to our ODM customers, while we also sell intimate wears mainly under our “Bonny” brand through our retail network in the PRC. Under the leadership of Mr. Jin and after years of development, we became the third largest seamless intimate wear manufacturer in the PRC in terms of the total sales value in the PRC in 2017.

Business Milestones

The following events are the key business and corporate development milestones of our Group:

Year	Event
2001	We established Zhejiang Bonny and commenced our manufacturing business in Yiwu City, Zhejiang Province, the PRC.
2002	Zhejiang Bonny was accredited as one of the “Yiwu Top 100 Enterprises for the Year of 2002* (2002年度義烏市百強企業)”.
2003	We commenced to develop our overseas market under the ODM business model which was supported by new seamless garment technology integrated in our manufacturing process.
2007	Our new factory with a total gross floor area of approximately 56,759.50 sq.m. in Yiwu City, Zhejiang Province was put into operation.
2008	We commenced sale of our self-branded products in the domestic PRC market.

The brand “Bonny” was introduced into the domestic PRC market.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Year	Event
2009	“Bonny” was accredited as “Well-known Trade Name of Zhejiang Province* (浙江省著名商號)” by Zhejiang Provincial Administration of Industry and Commerce (浙江省工商行政管理局).
2013	Zhejiang Bonny was awarded the Provincial High-Tech Enterprise Research and Development Centre in Zhejiang Province (浙江省級高新技術企業研究開發中心) by the Science Technology Department of Zhejiang Province (浙江省科學技術廳).
2016	We successfully developed and launched our manufacturing business of seamless sportswear.
2017	<p>“Bonny” was awarded National Benchmark of Bra Quality for the Year of 2017* (2017年度全國文胸質量標桿) by China Knitting Industry Association* (中國針織工業協會).</p> <p>We commenced and developed the “U+ Bonny (Bonny 生活家)” brand and established retail network in seven cities in the PRC.</p>
2018	<p>We were awarded Gold Certificate of Compliance by the World Responsible Accredited Production.</p> <p>We were awarded the Oeko-Tex® Standard 100 certification (product class II) by HONENSTEIN Textile Testing Institute GmbH & Co. KG.</p>

OUR CORPORATE DEVELOPMENT

Our Group comprises our Company, Bonny HK, Zhejiang Bonny, Shanghai Bonny, Yiwu Bonny, Yiwu Leiyishang, Yiwu Sportswear and Yiwu Fayue. We underwent the Reorganization in contemplation of the Global Offering, further details of which are set out in the paragraph headed “Reorganization” below.

Our Group

The table below sets out some brief details of our Company and its subsidiaries as at the Latest Practicable Date:

Entity	Date of incorporation/ establishment	Date of commencement of business	Place of incorporation	Principal activities
Our Company	19 July 2017	N/A	Cayman Islands	Investment holding
Bonny HK	4 September 2017	4 September 2017	Hong Kong	Investment holding
Zhejiang Bonny	21 August 2001	21 August 2001	PRC	Production of seamless and traditional intimate wear products

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Entity	Date of incorporation/ establishment	Date of commencement of business	Place of incorporation	Principal activities
Shanghai Bonny	29 December 2007	29 December 2007	PRC	Sales of seamless and traditional intimate wear products
Yiwu Bonny	16 May 2016	16 May 2016	PRC	Online sales of seamless and traditional intimate wear products
Yiwu Leyishang	10 March 2016	10 March 2016	PRC	Online sales of seamless and traditional intimate wear products
Yiwu Fayue	26 May 2017	26 May 2017	PRC	Sales of seamless and traditional intimate wear products
Yiwu Sportswear	25 May 2017	25 May 2017	PRC	Sales of seamless and traditional intimate wear products

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2017. At the time of its incorporation, the initial authorized share capital of our Company was US\$50,000 divided into 5,000,000 Shares of US\$0.01 each. As at the Latest Practicable Date, the authorized share capital of our Company was US\$30,000,000 divided into 3,000,000,000 Shares of US\$0.01 each. Details of our Company's share capital are set out in "Statutory and General Information – A. Further information about the Company – 2. Changes in the registered capital of our Company" under Appendix V to this prospectus.

Bonny HK

Bonny HK is an investment holding company which was incorporated in Hong Kong on 4 September 2017. The initial authorized share capital of Bonny HK was HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, 10,000 shares in Bonny HK were allotted and issued to our Company at a total subscription price of HK\$10,000. As a result, Bonny HK became a direct wholly owned subsidiary of our Company.

Zhejiang Bonny

Zhejiang Bonny is our primary operating subsidiary in the PRC and the holding company of Yiwu Bonny, Shanghai Bonny, Yiwu Leyishang, Yiwu Sportswear and Yiwu Fayue. On 21 August 2001, Zhejiang Bonny was established as a limited liability company in the PRC under its former name Yiwu Boni Dress Co., Ltd (義烏博尼服飾有限公司) ("Yiwu Bonny Apparel") with an initial registered capital of US\$350,000, among which, (i) US\$210,000 was contributed by Yuan Nan Apparel in cash; and (ii) US\$140,000 was contributed by Mr. Mohamed Abdulla

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Majed Abddula Algemzi (“**Mr. Mohamed**”), who is an Independent Third Party, in cash. The capital contribution had been fully made by their respective own personal financial resources by 8 October 2001. As a result, at its establishment, Zhejiang Bonny was owned as to 60.00% by Yuan Nan Apparel and 40.00% by Mr. Mohamed, respectively.

On 28 June 2004, each of Yuan Nan Apparel and Mr. Mohamed transferred 60.00% and 40.00% of equity interest in Zhejiang Bonny to Hong Kong O’YE at the consideration of US\$210,000 and US\$140,000, respectively, equivalent to the amount of the corresponding registered capital contribution. Upon completion of such transfers, Zhejiang Bonny became wholly owned by Hong Kong O’YE.

On the same day, a resolution was passed by the board of directors of Zhejiang Bonny, pursuant to which the registered capital of Zhejiang Bonny increased from US\$350,000 to US\$10,500,000 and Hong Kong O’YE agreed to subscribe for the increased capital of US\$10,150,000 in cash. The increased capital was fully paid up by Hong Kong O’YE with its own financial resources by 14 July 2005.

On 12 October 2005, Zhejiang Bonny was renamed as Bonny Garments Co., Ltd (博尼服飾有限公司).

On 20 November 2009, Hong Kong O’YE transferred 60.00% of the equity interest in Zhejiang Bonny to Bode Holding at the consideration of US\$6,363,000, equaling 1.01 times of the corresponding registered capital contribution. Upon completion of such transfer, Zhejiang Bonny was owned as to 40.00% by Hong Kong O’YE and 60.00% by Bode Holding.

On 26 December 2011, Hong Kong O’YE transferred 10.00% and 30.00% of the equity interest in Zhejiang Bonny to Bode Holding and Mr. Jin at the consideration of US\$1,375,500 and US\$4,126,500, respectively, both equaling 1.31 times of corresponding registered capital contribution. Upon completion of such transfers, Zhejiang Bonny was owned as to 70.00% by Bode Holding and 30.00% by Mr. Jin.

On the same day, a resolution was passed by the shareholders of Zhejiang Bonny, pursuant to which the currency for the registered capital of Zhejiang Bonny was converted from US\$ to RMB and the registered capital of Zhejiang Bonny was converted from US\$10,500,000 to RMB86,900,723, which was calculated based on the exchange rates announced by the People’s Bank of China (中國人民銀行) on the payment dates of the registered capital contribution of Zhejiang Bonny. Such conversion was completed on 16 March 2012.

On 26 April 2013, Bode Holding transferred 7.00%, 5.50%, 3.50%, 1.50%, 2.00%, 1.00%, 1.00% and 1.00% of the equity interest in Zhejiang Bonny to Mr. Jin Chunlong (金春龍), Mr. Tao Jianhang (陶劍航), Ms. Luo Kailang (駱開朗), Mr. Luo Weixing (駱衛星), Mr. Gong Yinghong (龔英紅), Mr. Cheng Jianqiang (程堅強), Mr. Luo Chengming (駱承明) and Mr. Huang Jing (黃競) for the consideration of RMB14,599,321.46, RMB11,470,895.44, RMB7,299,660.73, RMB3,128,426.03, RMB4,171,234.70, RMB2,085,617.35, RMB2,085,617.35 and RMB2,085,617.35, respectively, equivalent to 2.40 times of the corresponding registered capital contribution.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Upon completion of such transfers, the shareholding of Zhejiang Bonny was as follows:

	Amount of registered capital (RMB)	Shareholding percentage (%)
Bode Holding	41,277,843.43	47.50
Mr. Jin	26,070,216.09	30.00
Mr. Jin Chunlong	6,083,050.61	7.00
Mr. Tao Jianhang	4,779,540.77	5.50
Ms. Luo Kailang	3,041,525.31	3.50
Mr. Gong Yinghong	1,738,015.46	2.00
Mr. Luo Weixing	1,303,510.85	1.50
Mr. Huang Jing	869,007.23	1.00
Mr. Cheng Jianqiang	869,007.23	1.00
Mr. Luo Chengming	869,007.23	1.00
Total:	86,900,723.00	100.00

Pursuant to the shareholders resolution of Zhejiang Bonny dated 10 July 2013, the shareholders of Zhejiang Bonny agreed to convert Zhejiang Bonny into a joint stock limited company in the PRC with a registered share capital of RMB90,000,000 divided into 90,000,000 shares of par value of RMB1.00 each. On 25 November 2013, a shareholders' meeting was convened and resolved that the amount of shares to be converted and held by such promoters upon the incorporation of our Company shall be determined in accordance with the audited carrying amount of net assets as of 31 July 2013 of RMB114,144,260.23. On 26 December 2013, such conversion was completed and Zhejiang Bonny was recognized as Zhejiang Bonny Joint Stock Company* (浙江博尼股份有限公司).

Upon completion of such conversion, the shareholding of Zhejiang Bonny was as follows:

Name of shareholder	Number of shares	Shareholding percentage (%)
Bode Holding	42,750,000	47.50
Mr. Jin	27,000,000	30.00
Mr. Jin Chunlong	6,300,000	7.00
Mr. Tao Jianhang	4,950,000	5.50
Ms. Luo Kailang	3,150,000	3.50
Mr. Gong Yinghong	1,800,000	2.00
Mr. Luo Weixing	1,350,000	1.50
Mr. Huang Jing	900,000	1.00
Mr. Cheng Jianqiang	900,000	1.00
Mr. Luo Chengming	900,000	1.00
Total:	90,000,000	100.00

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On 6 July 2015, Bode Holding transferred (i) 900,000 shares of Zhejiang Bonny, representing 1.00% of the then issued share capital of Zhejiang Bonny, to Mr. Yu Xiongjian (虞雄健) at the consideration of RMB3,150,000; (ii) 900,000 shares of Zhejiang Bonny, representing 1.00% of the then issued share capital of Zhejiang Bonny, to Mr. Luo Yi (駱軼) at the consideration of RMB3,150,000; and (iii) 3,600,000 shares of Zhejiang Bonny, representing 4.00% of the then issued share capital of Zhejiang Bonny, to Mr. Gu Guoxin (顧國鑫) at the consideration of RMB12,600,000. Such considerations were calculated based on RMB3.50 per share.

On 12 May 2016, Mr. Cheng Jianqiang transferred 900,000 shares of Zhejiang Bonny, representing approximately 1.00% of the then issued share capital of Zhejiang Bonny, to Mr. Sun Weimin (孫偉民) at a consideration of RMB3,420,000. The consideration was calculated based on RMB3.80 per share.

Following the completion of above transfers and prior to the Reorganization, the shareholding structure of Zhejiang Bonny was as follows:

Name of shareholder	Number of shares	Shareholding percentage (%)
Bode Holding	37,350,000	41.50
Mr. Jin	27,000,000	30.00
Mr. Jin Chunlong	6,300,000	7.00
Mr. Tao Jianhang	4,950,000	5.50
Mr. Gu Guoxin	3,600,000	4.00
Ms. Luo Kailang	3,150,000	3.50
Mr. Gong Yinghong	1,800,000	2.00
Mr. Luo Weixing	1,350,000	1.50
Mr. Huang Jing	900,000	1.00
Mr. Luo Chengming	900,000	1.00
Mr. Luo Yi	900,000	1.00
Mr. Yu Xiongjian	900,000	1.00
Mr. Sun Weimin	900,000	1.00
Total:	90,000,000	100.00

Subsequent transfers of shares in Zhejiang Bonny are disclosed in the paragraph under “Reorganization” below.

Shanghai Bonny

Shanghai Bonny was established in the PRC on 29 December 2007 as a limited liability company under its former name Shanghai Bonny Textile Co., Ltd.* (上海博尼紡織品有限公司) with a registered capital of RMB1,000,000. Since its establishment and up to the Latest Practicable Date, Shanghai Bonny had been owned as to 100.00% by Zhejiang Bonny.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

On 4 June 2013, Shanghai Bonny changed its name from Shanghai Bonny Textile Co., Ltd.* (上海博尼紡織品有限公司) to Shanghai Bonny Apparel Co., Ltd.* (上海博尼服裝有限公司).

Yiwu Bonny

Yiwu Bonny was established in the PRC on 16 May 2016 as a limited liability company with a registered capital of RMB12,000,000. Since its establishment and up to the Latest Practicable Date, Yiwu Bonny had been owned as to 70.00% by Zhejiang Bonny and 30.00% by Shanghai Zhuoshi, which was wholly owned by Mr. Chen.

Yiwu Leyishang

Yiwu Leyishang was established in the PRC on 10 March 2016 as a limited liability company with a registered capital of RMB6,000,000 which was contributed by Zhejiang Bonny. On 6 February 2018, as incentives, Zhejiang Bonny transferred 40% of equity interest in Yiwu Leyishang to Mr. Zhu Zhengxi (朱正喜), a member of the senior management team of our Group, at the consideration of RMB20,000.

Yiwu Sportswear

Yiwu Sportswear was established in the PRC on 25 May 2017 as a limited liability company with a registered capital of RMB1,000,000. Since its establishment and up to the Latest Practicable Date, Yiwu Sportswear had been owned as to 100.00% by Zhejiang Bonny.

Yiwu Fayue

Yiwu Fayue was established in the PRC on 26 May 2017 as a limited liability company with a registered capital of RMB1,000,000. Since its establishment and up to the Latest Practicable Date, Yiwu Fayue had been owned as to 100.00% by Zhejiang Bonny.

EXCLUDED BUSINESS

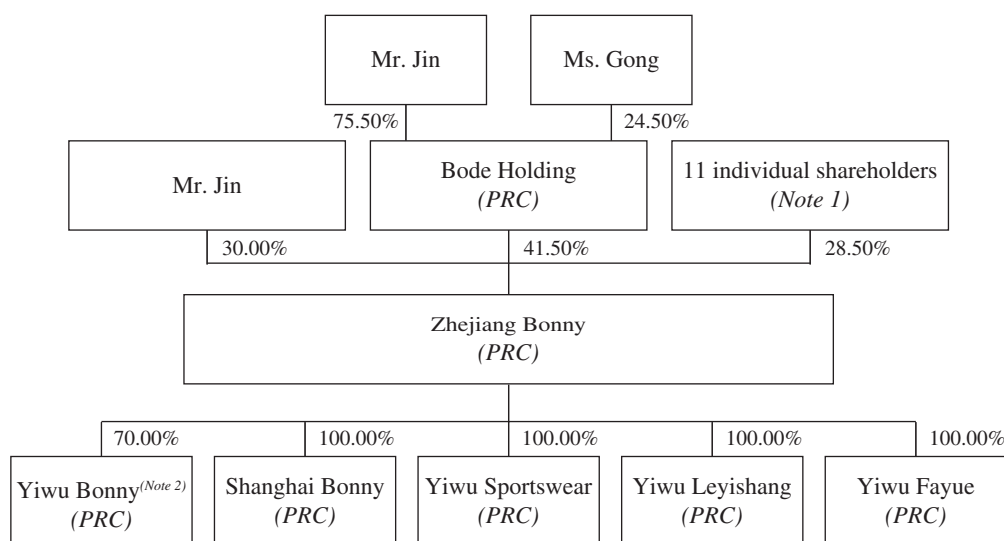
As at the Latest Practicable Date, our Controlling Shareholders and their close associates held and controlled two companies, namely Deshipu New Materials and Deshipu Polyamide, which were engaged in the research and development, production and sales of polyamide and had been supplying polyamide to our Group during the Track Record Period and Deshipu New Materials will continue to supply polyamide to our Group after the Listing. Besides our Group, Deshipu New Materials and Deshipu Polyamide also supply polyamide to other third parties. Based on the unaudited management accounts of Deshipu New Materials, the sales to our Group by Deshipu New Materials only accounted for approximately 4.3%, 3.1%, and 3.6% of its total sales for the three years ended 31 December 2018, respectively. On the other hand, based on the unaudited management accounts of Deshipu Polyamide, sales to our Group by Deshipu Polyamide only accounted for nil, approximately 5.1% and nil of its total sales for the three years ended 31 December 2018, respectively. In order to focus on the business of our Group, being the production, sales and research and development of seamless intimate wear, such polyamide manufacturing business will not form part of our Group after the Listing. The

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

exclusion is due to differences in the nature of business and customer focus. For the year ended 31 December 2016, Deshipu New Materials was loss making. For the year ended 31 December 2017 and 2018, Deshipu New Materials was profit making. Throughout the Track Record Period, Deshipu Polyamide was profit making. For further details, please refer to “Relationship with our Controlling Shareholders – Excluded business of our Controlling Shareholders” in this prospectus.

REORGANIZATION

As part of our restructuring in contemplation of the Listing, we have implemented the Reorganization. The shareholding and group structure of our Group prior to the Reorganization were as follows:



Notes:

1. Before the Reorganization, the remaining shareholding of Zhejiang Bonny was held as to 7% by Mr. Jin Chunlong, 5.5% by Mr. Tao Jianhang, 4% by Mr. Gu Guoxin, 3.5% by Ms. Luo Kailang, 2% by Mr. Gong Yinghong, 1.5% by Mr. Luo Weixing, 1% by Mr. Huang Jing, 1% by Mr. Luo Chengming, 1% by Mr. Luo Yi, 1% by Mr. Yu Xiongjian and 1% by Mr. Sun Weimin.
2. As at the Latest Practicable Date, Yiwu Bonny was held as to 30% by Shanghai Zhuoshi, which was wholly-owned by Mr. Chen.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

1. Incorporation of the BVI Holding Companies

On 2 June 2017, Mr. Jin and the 12 Individual Shareholders each incorporated a wholly-owned investment holding company in the BVI, details of which are set forth in the table below:

Company name	Shareholder	Entity interest
Maximax	Mr. Jin	100.00%
Jin Chunlong Holding Limited	Mr. Jin Chunlong	100.00%
Tao Jianhang Holding Limited	Mr. Tao Jianhang	100.00%
Gu Guoxin Holding Limited	Mr. Gu Guoxin	100.00%
Luo Kailang Holding Limited	Ms. Luo Kailang	100.00%
Gong Yinghong Holding Limited	Mr. Gong Yinghong	100.00%
Luo Weixing Holding Limited	Mr. Luo Weixing	100.00%
Huang Jing Holding Limited	Mr. Huang Jing	100.00%
Sun Weimin Holding Limited	Mr. Sun Weiming	100.00%
Luo Chengming Holding Limited	Mr. Luo Chengming	100.00%
Luo Yi Holding Limited	Mr. Luo Yi	100.00%
Yu Xiongjian Holding Limited	Mr. Yu Xiongjian	100.00%
Yang Shiyong Holding Limited	Ms. Yang Shiyong	100.00%

2. Incorporation of our Company

On 19 July 2017, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorized share capital of US\$50,000, divided into 5,000,000 shares of a par value of US\$0.01 each. On the same day, one Share was allotted and issued for cash at par to the initial subscriber, an Independent Third Party and was subsequently transferred to Jin Chunlong Holding Limited. On the same day, 3,525,000, 349,999, 275,000, 200,000, 175,000, 100,000, 75,000, 50,000, 50,000, 50,000, 50,000, 50,000 and 50,000 Shares were allotted and issued to Maximax, Jin Chunlong Holding Limited, Tao Jianhang Holding Limited, Gu Guoxin Holding Limited, Luo Kailang Holding Limited, Gong Yinghong Holding Limited, Luo Weixing Holding Limited, Huang Jing Holding Limited, Sun Weimin Holding Limited, Luo Chengming Holding Limited, Luo Yi Holding Limited, Yu Xiongjian Holding Limited and Yang Shiyong Holding Limited, respectively. As a result, since its incorporation and up to the Latest Practicable Date, the shareholding of our Company are set forth in the table below:

Name of Shareholder	Total number of Shares	Shareholding percentage (%)
Maximax	3,525,000	70.50
Jin Chunlong Holding Limited	350,000	7.00
Tao Jianhang Holding Limited	275,000	5.50
Gu Guoxin Holding Limited	200,000	4.00
Luo Kailang Holding Limited	175,000	3.50

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Name of Shareholder	Total number of Shares	Shareholding percentage (%)
Gong Yinghong Holding Limited	100,000	2.00
Luo Weixing Holding Limited	75,000	1.50
Huang Jing Holding Limited	50,000	1.00
Sun Weimin Holding Limited	50,000	1.00
Luo Chengming Holding Limited	50,000	1.00
Luo Yi Holding Limited	50,000	1.00
Yu Xiongjian Holding Limited	50,000	1.00
Yang Shiyong Holding Limited	50,000	1.00
Total	5,000,000	100.00

3. Incorporation of Bonny HK

On 4 September 2017, Bonny HK was incorporated in Hong Kong. Upon incorporation, 10,000 shares in Bonny HK were allotted and issued to our Company at a total subscription price of HK\$10,000. As a result, Bonny HK has become wholly owned by our Company.

4. Conversion of Zhejiang Bonny

On 21 June 2017, a resolution was passed by the shareholders' meeting of Zhejiang Bonny, pursuant to which Zhejiang Bonny was converted into a limited liability company. Such conversion was completed on 11 July 2017 and the name of Zhejiang Bonny was changed into Zhejiang Bonny Fashion Holding Group Co. Ltd.* (浙江博尼時尚控股集團有限公司).

5. Restructuring of the shareholding of Zhejiang Bonny

Pursuant to a series of equity transfer agreements entered into on 30 August 2017, (1) Mr. Jin transferred 30.00% equity interest in Zhejiang Bonny to Bode Holding at a consideration of RMB27.00 million, equaling to the corresponding registered capital contribution, for the purpose of shareholding consolidation; (2) Bode Holding transferred 1.00% equity interest in Zhejiang Bonny to a new individual shareholder, Ms. Yang Shiyong, at a consideration of approximately RMB2.14 million, which was determined with reference to the value of the total net assets of Zhejiang Bonny as at 30 June 2017 pursuant to an asset valuation report issued by Yiwu Mingrui Asset Valuation Co., Ltd.* (義烏市明瑞資產評估有限公司) (the “**Valuation Report**”); and (3) Bode Holding transferred 5.00% equity interest in Zhejiang Bonny to Barry Trading, a limited company incorporated in Hong Kong wholly owned by Ms. Zhu Liping (朱麗萍), an Independent Third Party, at a consideration of approximately RMB10.68 million, which was determined with reference to the value of the total net asset value of Zhejiang Bonny as at 30 June 2017 pursuant to the Valuation Report.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

The above transfers were completed on 13 September 2017. Due to the shareholding by Barry Trading upon completion of the transfers, Zhejiang Bonny has become a sino-foreign equity joint venture and its shareholding was set forth in the table below:

Name of shareholders	Number of shares	Shareholding percentage (%)
Bode Holding	58,950,000	65.50
Mr. Jin	6,300,000	7.00
Mr. Tao Jianhang	4,950,000	5.50
Barry Trading	4,500,000	5.00
Mr. Gu Guoxin	3,600,000	4.00
Ms. Luo Kailang	3,150,000	3.50
Mr. Gong Yinghong	1,800,000	2.00
Mr. Luo Weixing	1,350,000	1.50
Mr. Huang Jing	900,000	1.00
Mr. Luo Chengming	900,000	1.00
Mr. Luo Yi	900,000	1.00
Mr. Yu Xiongjian	900,000	1.00
Mr. Sun Weimin	900,000	1.00
Ms. Yang Shiyong	900,000	1.00
Total:	90,000,000	100.00

6. Increase in Authorized Share Capital of our Company

On 31 March 2018, a resolution was passed by the Shareholders, pursuant to which the authorized share capital of our Company was increased from US\$50,000 divided into 5,000,000 Shares of a nominal or par value of US\$0.01 each, to US\$1,000,000 divided into 100,000,000 Shares of a nominal or par value of US\$0.01 each.

On the same day, 705,000, 70,000, 55,000, 40,000, 35,000, 20,000, 15,000, 10,000, 10,000, 10,000, 10,000 and 10,000 Shares were allotted and issued for cash at par value to Maximax, Jin Chunlong Holding Limited, Tao Jianhang Holding Limited, Gu Guoxin Holding Limited, Luo Kailang Holding Limited, Gong Yinghong Holding Limited, Luo Weixing Holding Limited, Huang Jing Holding Limited, Sun Weimin Holding Limited, Luo Chengming Holding Limited, Luo Yi Holding Limited, Yu Xiongjian Holding Limited and Yang Shiyong Holding Limited, respectively. Upon completion of such allotment and issuance of Shares, the Shareholders of our Company was as follows:

Name of Shareholder	Total number of Shares	Shareholding percentage (%)
Maximax	4,230,000	70.50
Jin Chunlong Holding Limited	420,000	7.00
Tao Jianhang Holding Limited	330,000	5.50
Gu Guoxin Holding Limited	240,000	4.00

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Name of Shareholder	Total number of Shares	Shareholding percentage (%)
Luo Kailang Holding Limited	210,000	3.50
Gong Yinghong Holding Limited	120,000	2.00
Luo Weixing Holding Limited	90,000	1.50
Huang Jing Holding Limited	60,000	1.00
Sun Weimin Holding Limited	60,000	1.00
Luo Chengming Holding Limited	60,000	1.00
Luo Yi Holding Limited	60,000	1.00
Yu Xiongjian Holding Limited	60,000	1.00
Yang Shiyang Holding Limited	60,000	1.00
Total	6,000,000	100.00

7. Acquisition of 100% equity interest in Zhejiang Bonny by Bonny HK

Pursuant to a series of equity transfer agreements entered into on 9 September 2017, each of Bode Holding and the 12 Individual Shareholders transferred their respective equity interests in Zhejiang Bonny to Bonny HK at a consideration of RMB139,888,350 and RMB63,003,150, respectively.

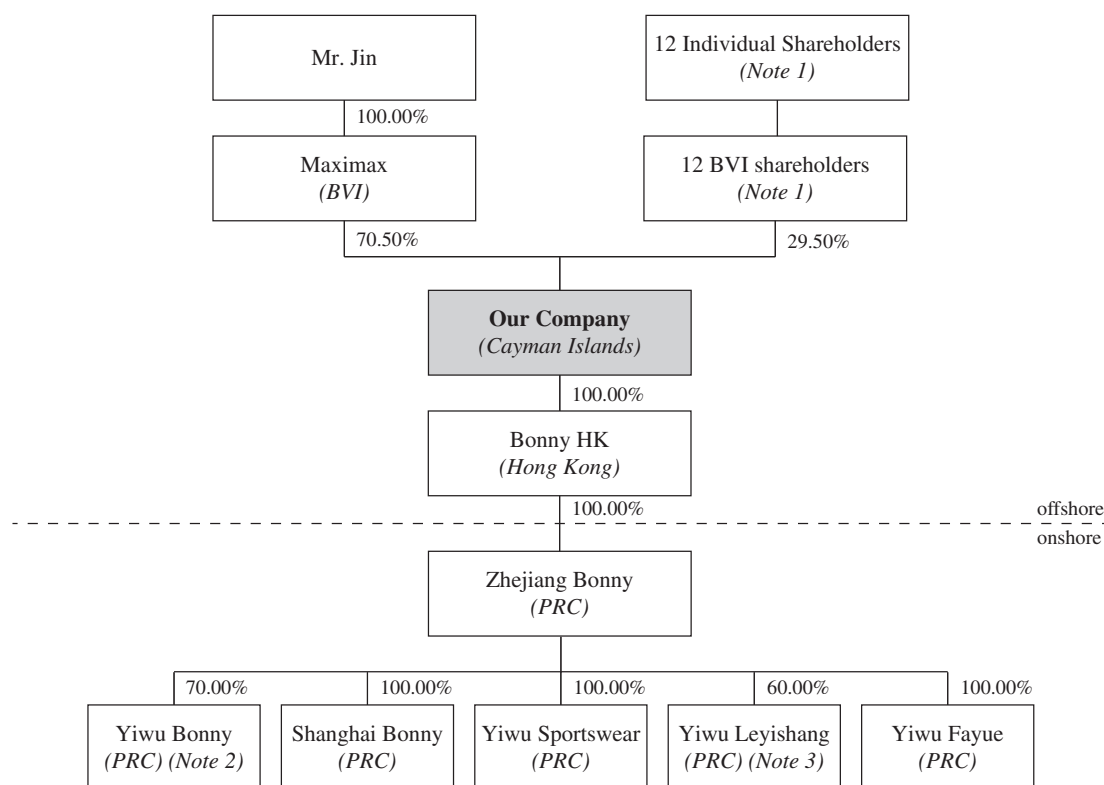
On 20 November 2017, Barry Trading and Bonny HK entered into an equity transfer agreement, pursuant to which Barry Trading transferred 5.00% of the equity interest in Zhejiang Bonny to Bonny HK for a consideration of RMB10,678,500. Each of the consideration were determined based on the Valuation Report. Pursuant to a supplemental agreement dated 24 December 2017 entered into by Bonny HK, Bode Holding, the 12 Individual Shareholders and Barry Trading, the consideration was adjusted due to payment of dividends to the shareholders of Zhejiang Bonny. The consideration paid to each of Bode Holding, the 12 Individual Shareholders and Barry Trading was HK\$120,700,991, HK\$54,361,515 and HK\$9,213,816, respectively. Upon completion of such transfers, Zhejiang Bonny became a direct wholly owned subsidiary of Bonny HK and an indirect wholly owned subsidiary of our Company. Shanghai Bonny, Yiwu Leyishang, Yiwu Sportswear and Yiwu Fayue also became indirect wholly owned subsidiaries of our Company and Yiwu Bonny became an indirect non-wholly owned subsidiary of our Company. Such transactions were completed by 20 April 2018.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

Corporate structure as at the Latest Practicable Date

The following chart sets forth our corporate structure after the Reorganization, and as at the Latest Practicable Date:



Notes:

- Each of the 12 Individual Shareholders indirectly holds Shares in our Company through each of their wholly-owned company incorporated in the BVI. The following table shows the details of the shareholdings of these 12 Individual Shareholders:

	Name of Individual Shareholder	Wholly-owned BVI company	Number of Shares held by respective BVI company	Percentage of shareholding of our Company immediately after the Reorganization
1	Mr. Jin Chunlong	Jin Chunlong Holding Limited	420,000	7%
2	Mr. Tao Jianhang	Tao Jianhang Holding Limited	330,000	5.5%
3	Mr. Gu Guoxin	Gu Guoxin Holding Limited	240,000	4%
4	Ms. Luo Kailang	Luo Kailang Holding Limited	210,000	3.5%
5	Mr. Gong Yinghong	Gong Yinghong Holding Limited	120,000	2%
6	Mr. Luo Weixing	Luo Weixing Holding Limited	90,000	1.5%
7	Mr. Huang Jing	Huang Jing Holding Limited	60,000	1%
8	Mr. Sun Weimin	Sun Weimin Holding Limited	60,000	1%
9	Mr. Luo Chengming	Luo Chengming Holding Limited	60,000	1%
10	Mr. Luo Yi	Luo Yi Holding Limited	60,000	1%
11	Mr. Yu Xiongjian	Yu Xiongjian Holding Limited	60,000	1%
12	Ms. Yang Shiyong	Yang Shiyong Holding Limited	60,000	1%

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

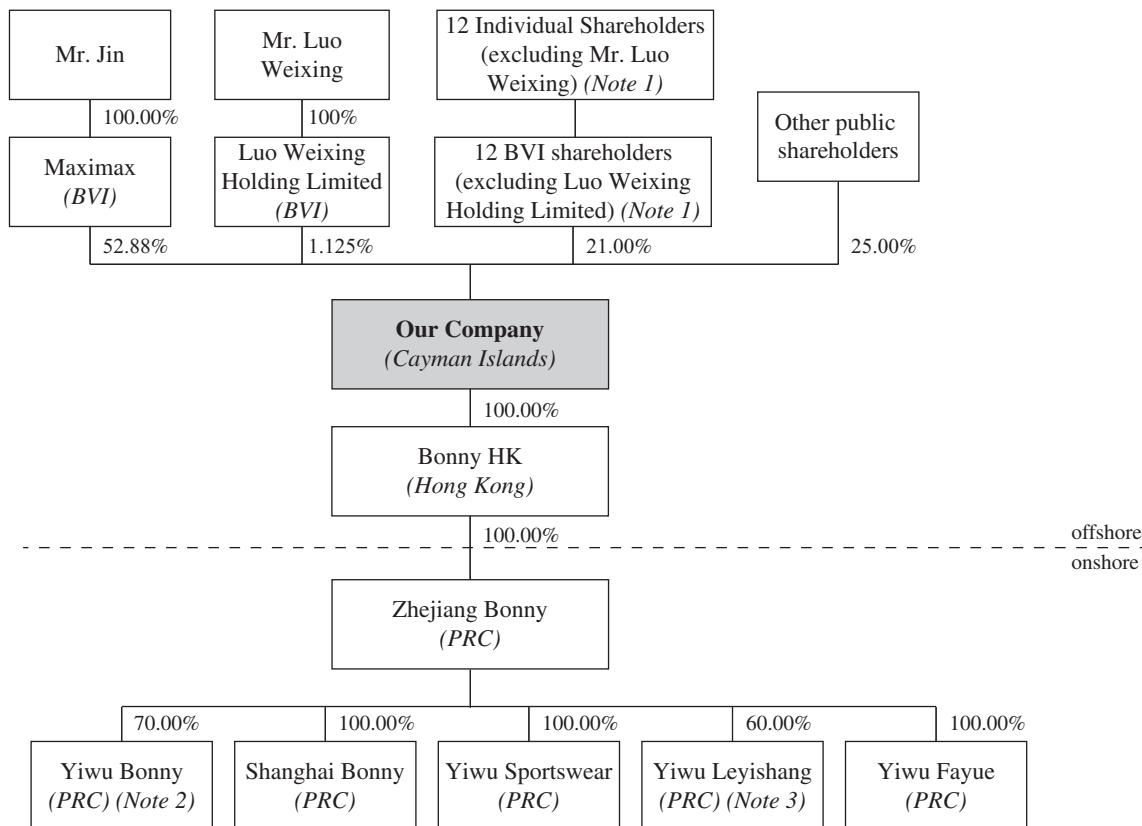
2. As at the Latest Practicable Date, Yiwu Bonny was held as to 30% by Shanghai Zhuoshi, which was wholly-owned by Mr. Chen.
3. As at the Latest Practicable Date, Yiwu Leyishang was held as to 40% by Mr. Zhu Zhengxi, a member of the senior management team of our Group.

INCREASE IN AUTHORIZED SHARE CAPITAL OF OUR COMPANY AND THE CAPITALIZATION ISSUE

Pursuant to the written resolutions of the Shareholders passed on 19 March 2019, the authorized share capital of our Company was increased from US\$1,000,000 to US\$30,000,000 by the creation of 2,900,000,000 new Shares. Our Company will also issue 894,000,000 Shares upon capitalization of certain sums standing to the credit of the share premium account of our Company. Details of the Shareholders' written resolutions are referred to in "Statutory and General Information – 3. Resolutions in writing of all Shareholders passed on 19 March 2019" in Appendix V to this prospectus.

Corporate structure immediately following the Global Offering

The following chart sets forth our shareholding structure immediately after the completion of the Global Offering, assuming the Over-allotment Option is not exercised:



HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Notes:

- Each of the 12 Individual Shareholders (excluding Mr. Luo Weixing) indirectly holds Shares in our Company through each of their wholly-owned company incorporated in the BVI. These BVI Shareholders (excluding Luo Weixing Holding Limited) will be counted towards the public float of our Company. The following table shows the details of the shareholdings of these 12 Individual Shareholders (excluding Mr. Luo Weixing):

	Name of Individual Shareholder	Wholly-owned BVI company	Number of Shares held by respective BVI company	Percentage of shareholding of our Company immediately following the Global Offering
1	Mr. Jin Chunlong	Jin Chunlong Holding Limited	63,000,000	5.25%
2	Mr. Tao Jianhang	Tao Jianhang Holding Limited	49,500,000	4.125%
3	Mr. Gu Guoxin	Gu Guoxin Holding Limited	36,000,000	3%
4	Ms. Luo Kailang	Luo Kailang Holding Limited	31,500,000	2.625%
5	Mr. Gong Yinghong	Gong Yinghong Holding Limited	18,000,000	1.5%
6	Mr. Huang Jing	Huang Jing Holding Limited	9,000,000	0.75%
7	Mr. Sun Weimin	Sun Weimin Holding Limited	9,000,000	0.75%
8	Mr. Luo Chengming	Luo Chengming Holding Limited	9,000,000	0.75%
9	Mr. Luo Yi	Luo Yi Holding Limited	9,000,000	0.75%
10	Mr. Yu Xiongjian	Yu Xiongjian Holding Limited	9,000,000	0.75%
11	Ms. Yang Shiyang	Yang Shiyang Holding Limited	9,000,000	0.75%

- As at the Latest Practicable Date, Yiwu Bonny was held as to 30% by Shanghai Zhuoshi, which was wholly-owned by Mr. Chen.
- As at the Latest Practicable Date, Yiwu Leyishang was held as to 40% by Mr. Zhu Zhengxi, a member of the senior management team of our Group.

COMPLIANCE WITH PRC LAWS

The Rules on Mergers and Acquisitions of Domestic Enterprise by Foreign Investors in the PRC

According to the Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) (the “Circular 10”) jointly issued by MOFCOM, the State-owned Assets Supervision and Administration Commission of the State Council, the SAT, the CSRC, the State Administration of Industry and Commerce and SAFE on 8 August 2006 and effective as of 8 September 2006 and amended in 22 June 2009, where a domestic company, enterprise or natural person intends to acquire its or his/her related domestic company in the name of an offshore company which it or he/she lawfully established or controls, the acquisition shall be subject to the examination and approval of the MOFCOM, and where a domestic company or natural person holds an equity interest in a domestic company through an offshore special purpose company, any overseas listing of that special purpose company shall be subject to approval by the CSRC.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

As confirmed by our Directors, (i) our Company is an offshore incorporated company, and (ii) Zhejiang Bonny was converted into a sino-foreign equity joint venture in September 2017 prior to the acquisition by Bonny HK. Please refer to “– Reorganization – 7. Acquisition of 100% equity interest in Zhejiang Bonny by Bonny HK” for further details. Therefore the acquisition of the equity interests in Zhejiang Bonny by Bonny HK did not constitute a “takeover of a domestic enterprise by a foreign investor” as defined in Circular 10 and shall be subject to Provisions for the Alteration of Investor’s Equities in Foreign-funded Enterprises (《外商投資企業投資者股權變更的若干規定》).

Our PRC Legal Adviser is of the opinion that, (i) the Reorganization and all the share transfers and increases in registered capital in respect of the PRC companies in our Group as described above have obtained all relevant approvals and permits and the procedures involved comply with PRC laws and regulations; and (ii) unless as required by subsequent requests by the CSRC or MOFCOM, it is not necessary for our Company to obtain approval from the CSRC or MOFCOM for the Listing.

SAFE Registration in the PRC

The Circular of the SAFE on Issues concerning Foreign Exchange Administration over the Overseas Investment and Financing and Round-trip Investment by Domestic Residents via Special Purpose Vehicles (《國家外匯管理局關於境內居民通過特殊目的公司境外投融資及返程投資外匯管理有關問題的通知》) (the “**Circular 37**”) was promulgated by the SAFE on 4 July 2014 and took effect on the same day. According to the Circular 37, a domestic resident (including PRC individuals and institutions) shall, before contributing lawful domestic and overseas assets or interests to a special purpose vehicle, register with the SAFE or its local branch to effect foreign exchange registration. Circular 37 also requires the PRC residents to file changes to their registration where their offshore special purpose vehicles undergo material events such as the change of basic information including PRC residence, name and operation period, as well as capital increase or decrease, share transfer or exchange, merger or division. Accordingly, as each of Mr. Jin, Mr. Jin Chunlong, Mr. Tao Jianhang, Mr. Gu Guoxin, Ms. Luo Kailang, Mr. Gong Yinghong, Mr. Luo Weixing, Mr. Huang Jing, Mr. Luo Chengming, Mr. Luo Yi, Mr. Yu Xiongjian, Mr. Sun Weimin and Ms. Yang Shiyong, being ultimate beneficial shareholders of our Company during the process of the Reorganization, has established an investment holding company in the BVI on 2 June 2017 through which they indirectly hold shares in our Company during the process of the Reorganization, such act is subject to registration in accordance with Circular 37.

Pursuant to the Circular of the State Administration of Foreign Exchange on Further Simplifying and Improving the Direct Investment-related Foreign Exchange Administration Policies (《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》) (“**Circular 13**”) issued by SAFE and which became effective on 1 June 2015, the power to accept SAFE registration was delegated from local SAFE to local banks where the assets or interest in the domestic entity was located.

HISTORY, DEVELOPMENT AND CORPORATE STRUCTURE

Accordingly, as advised by our PRC Legal Adviser, each of Mr. Jin, Mr. Jin Chunlong, Mr. Tao Jianhang, Mr. Gu Guoxin, Ms. Luo Kailang, Mr. Gong Yinghong, Mr. Luo Weixing, Mr. Huang Jing, Mr. Luo Chengming, Mr. Luo Yi, Mr. Yu Xiongjian, Mr. Sun Weimin and Ms. Yang Shiyang has duly complied with the requirements under Circular 37 and Circular 13, and the registrations stipulated thereunder were completed by 20 November 2017.

BUSINESS

OVERVIEW

We manufacture and sell seamless and traditional intimate wear products. We focus on providing one-stop in-house intimate wear manufacturing solutions to our ODM customers, while we also sell our branded intimate wears mainly under our “Bonny” and “U+ Bonny” brands through our retail network in the PRC. We manufacture a wide range of seamless and traditional intimate wears, including bras, underpants, thermal clothes and loungewear, and we also produce functional sportswear. Majority of our seamless products are sold to our ODM customers, while we mainly sell traditional products in our branded sales in the PRC.

The following table sets out the breakdown of our revenue by business segments during the Track Record Period:

	Year ended 31 December					
	2016		2017		2018	
	Revenue RMB'000	% of revenue %	Revenue RMB'000	% of revenue %	Revenue RMB'000	% of revenue %
ODM sales	217,548	66.7	200,677	63.8	243,505	73.0
– overseas	163,687	50.2	137,403	43.7	149,111	44.7
– PRC	53,861	16.5	63,274	20.1	94,394	28.3
Branded sales ^(Note)	108,987	33.3	113,906	36.2	90,220	27.0
Total	326,535	100.0	314,583	100.0	333,725	100.0

Note: All branded sales are domestic sales.

For our ODM sales, we manufacture seamless intimate wear products for our customers on an ODM basis and sell to over 20 countries including the United States, Germany, the Netherlands and the PRC. All our ODM products are seamless products. According to the Frost & Sullivan Report, we are the third largest seamless intimate wear manufacturer in the PRC with a market share of approximately 1.7% based on the total sales value in 2017. Our major ODM customers include sourcing agents for apparel brands and brand holding companies themselves. As at the Latest Practicable Date, we served over 50 ODM customers including famous apparel and retailer brands. As a success of our business development, in July 2018, we entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange, and in August 2018, we entered into a long-term supply agreement with the sourcing agent based in the U.S. of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. In light of the framework agreements and/or orders plans entered into with/provided by our customers (the “**Planned Purchases**”), it is expected that the demand for our intimate wear products will continue to rise. Leveraging our strong research and development capability and our technical expertise in seamless intimate wear production, we successfully penetrated into the niche segment of nursing bras which require specialized skills in product design and use of materials in 2017. We have become the sole and exclusive ODM supplier of nursing bras for Muxi Clothing, a

BUSINESS

domestic online maternity products retailer through e-commerce platforms which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, since 2017. Accordingly, our sales of nursing bras increased substantially from approximately RMB83,000 for the year ended 31 December 2016 to approximately RMB26.2 million for the year ended 31 December 2017, and further to approximately RMB85.6 million for the year ended 31 December 2018. We entered into a legally binding strategic cooperation framework agreement with Muxi Clothing in September 2018 pursuant to which among others Muxi Clothing has committed to purchase a minimum amount of not less than RMB150 million of nursing bras and other products of our Group for 2019 and we shall be the exclusive supplier of such products to Muxi Clothing. During the Track Record Period, we also supplied to a leading nursing bras seller on Amazon e-commerce platform, and to one of the leading brands for nursing bras based in Canada having extensive retail network in the United States and across Canada. Similar to our ODM customers, the customers of these Planned Purchases normally place order forecast three to six months in advance, and make their purchases by issuing purchase order specifying the price, quantity, payment terms, delivery schedule, destination and shipment arrangements and other essential terms.

For our branded sales, we sell products mainly under our “Bonny” brand through an extensive and structured nationwide retail network in the PRC which consists primarily of our self-operated retail outlets as well as franchised retail outlets, and does not involve distributors or multiple layers of franchisees. We sell mainly traditional intimate wear products in our branded sales. As at the Latest Practicable Date, our retail network comprised 153 self-operated retail outlets and 42 franchised retail outlets spanned through 18 provinces, municipalities and autonomous regions in the PRC.

We place strong emphasis on our design and product research and development efforts which primarily focus on, among other aspects, improving and developing the functionality and designs of our products, as well as diversifying our product portfolio. As at the Latest Practicable Date, our product design, research and development department was staffed with 35 employees, of which we had two dedicated teams serving our ODM sales and branded sales segments, respectively. For the years ended 31 December 2016, 2017 and 2018, our expenses for product design, research and development were approximately RMB16.0 million, RMB16.5 million and RMB17.9 million, respectively.

We have two production bases, namely our Suxi Production Site and our Beiyuan Production Site, both located at Yiwu, Zhejiang Province, the PRC. We currently only operate our Suxi Production Site for production at which we produce most of our seamless and some of our traditional intimate wear products. We possess over 200 sets of seamless circular knitting machines which are our core production equipment for seamless production. As the utilization rate of our seamless production of our Suxi Production Site already reached 82% for the year ended 31 December 2018, we intend to utilize our Beiyuan Production Site for our planned capacity expansion for our seamless production to cope with increasing demand for seamless products from our ODM customers. The principal raw materials we use in our production include yarns, accessory clothing parts, dyes and packaging materials. The yarns we source for intimate wear are mainly made of nylon.

BUSINESS

We emphasize quality control in all aspects of our business to protect our brand value and the image of our Group. From sourcing of raw materials, production, packaging and inventory storage to sale and delivery, we strictly control the quality of our operations. In 2017, we were awarded 2017 National Quality Benchmark for Bra (2017年度全國文胸質量標桿) by China Knitting Industrial Association (中國針織工業協會) which demonstrated our high quality standard nationally. Our quality control is also evidenced by our business relationships with brands which have stringent demands in their selection of qualified product suppliers. As a result of our strict quality control policies, during the Track Record Period and up to the Latest Practicable Date, we had not, due to product quality issues, (i) received any fine, product recall order or other penalty from any regulatory body, (ii) received any material product return request from our customers, or (iii) received any material complaint from consumers of our products.

COMPETITIVE STRENGTHS

We have proven track record in offering integrated in-house intimate wear manufacturing solutions.

We are an established seamless intimate wear manufacturer with a proven track record of over 15 years of experience in the seamless intimate wear industry. We began our seamless intimate wear production since 2003. According to the Frost & Sullivan Report, we are the third largest seamless intimate wear manufacturer in the PRC with a market share of approximately 1.7% based on the total sales value in 2017. Most of the seamless intimate wear products we manufacture are sold to our customers on an ODM basis.

We provide one-stop intimate wear manufacturing solutions to our ODM customers. Our production of seamless intimate wear products involves a series of processing steps including yarn arrangement, tension test and density adjustment, pre-weaving processing, knitting and dyeing. Our seamless circular knitting machines which are manufactured by Santoni, a famous Italian seamless garment machine manufacturer, form the core facilities of our seamless production and produce finished or semi-finished seamless products based on pre-programmed computer commands. Our advanced seamless production facilities enhance our level of automation and production efficiency and ensure our product quality. Through our vertically integrated intimate wear manufacturing solution platform and application of advanced production facilities, we aim to offer cost-effective and streamlined manufacturing services to our ODM customers. Furthermore, leveraging our strong product design, research and development capability and technical expertise in the seamless intimate wear industry, we provide suggestions to our ODM customers on design modification and use of materials to cater for the fashion trends and consumer preferences and to enhance production cost-effectiveness as well as functionality and quality of finished products.

Our Directors believe that our ability to provide integrated intimate wear manufacturing solutions coupled with our market position and reputation as a reliable and quality seamless intimate wear supplier are attributes which give us a competitive edge over other seamless intimate wear manufacturers and enable us to be in a better position than our competitors to capture the rapid market growth in the seamless intimate wear industry.

BUSINESS

We have developed entrenched relationship with high quality ODM customers with sales to diverse geographical locations.

We have strategically developed business relationships with high quality ODM customers which we believe will benefit us in the sustainable growth of our business. We have over five years of business relationship with most of our top five customers during the Track Record Period which are overseas ODM customers and are mainly sourcing agents for apparel brands and brand holding companies themselves. Contributing to our established market position and proven track record of provision of quality and reliable intimate wear manufacturing solutions, we are able to serve international apparel and retailer brands which have stringent demands in their selection of qualified product suppliers. We believe that our business will benefit from the growth of our high quality ODM customers.

Through the sales networks of our ODM customers, the seamless intimate wear products we manufacture are sold to over 20 countries including the United States, Germany, the Netherlands and the PRC. With such diversified geographical locations, we not only mitigate our exposure to fluctuations in different regional markets, but also benefit from customer needs and business opportunities worldwide. We believe our strong, mutually beneficial relationships with our ODM customers also enhance our credibility and reputation, enabling us to attract new customers. As a success of our business development, in July 2018, we entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange, and in August 2018, we entered into a long-term supply agreement with the sourcing agent of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. On the other hand, benefiting from our experience and success in overseas ODM sales, we are able to continuously to develop our domestic ODM sales which demonstrated substantial growth during the Track Record Period. Our PRC ODM customers are mainly trading companies and e-commerce retailers which we believe will continue to enjoy strong growth and hence result in increasing demand for our products.

We believe that our stable and long-term business relationship with our ODM customers is an invaluable asset to our business which ensures us a source of recurring revenue, and plays an important role for us to promote and develop our business and enhance our profile in the industry.

Our strong product research and development capability and technical expertise in seamless intimate wear production facilitates our business expansion to new product segment with high growth potential.

We have devoted substantial resources for our product design, research and development. For the years ended 31 December 2016, 2017 and 2018, our expenses for product design, research and development were approximately RMB16.0 million, RMB16.5 million and RMB17.9 million, respectively. We believe that our strong product design, research and development capability has been one of the key drivers of our continued success.

BUSINESS

As an evidence of success of our research and development, since 2012, we have been recognized as a High and New Technology Enterprise (高新技術企業) by among others the Science Technology Department of Zhejiang Province (浙江省科學技術廳). Leveraging our strong research and development capability, coupled with our profound technical expertise in seamless intimate wear production, we have successfully penetrated into the niche segment of nursing bras which require specialized skills in product design and use of materials through years of development. We became the sole and exclusive ODM supplier of nursing bras for Muxi Clothing, which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, since 2017. Accordingly, our sales of nursing bras increased substantially from approximately RMB83,000 for the year ended 31 December 2016 to approximately RMB26.2 million for the year ended 31 December 2017, and further to approximately RMB85.6 million for the year ended 31 December 2018. Our success in business development with Muxi Clothing has also attracted other overseas ODM customers to source nursing bras from us. During the Track Record Period, we also supply to a leading nursing bras seller on Amazon e-commerce platform, and to one of the leading brands for nursing bras in the United States. In China, high birth rates, the “two-child” policy and the growing popularity of e-retailing have been driving the growth of the maternity intimate wear market. Premium brands are now making their products available on various online shopping portals. In the coming years, the growth in online sales of maternity intimate wear is likely to fuel the growth of the overall maternity intimate wear market.

Our strong product design, research and development capability also supports our ODM sales in terms of provision of suggestions to our ODM customers on design modification and use of materials as well as to our branded sales in terms of launching new product categories to the retail market to cater for consumer needs.

We have stringent and comprehensive quality control over our operations.

We place a strong emphasis on the high and consistent quality of our products and production operations and have therefore implemented a stringent and comprehensive quality control system. We emphasize quality control in all aspects of our business to protect our brand value and the image of our Group. From sourcing of raw materials, production, packaging and inventory storage to sale and delivery, we strictly control the quality of our operations. In order to monitor the production quality and ensure that our products meet benchmarks and specifications of our customers and ourselves, we have implemented various quality-control checks throughout our production process.

To ensure our product quality, we only source from reliable suppliers who have a satisfactory record of quality and on-time delivery. For new suppliers, we evaluate, among others their production capacity, quality and reliability before we commence business relationship with them. In-process quality control is conducted throughout our production process. Finished goods are inspected on a random sampling basis to further minimise the risk of selling defective products to customers. Sample checks on each batch of finished products will be conducted before packaging and delivery to our customers or to our retail outlets.

BUSINESS

In recognition of our quality assurance practice, we have obtained ISO 9001 accreditation for our quality management system since 2010 and continued to conform with ISO 9001 management system standards as at the Latest Practicable Date. Since 2016, we have obtained the Oeko-Tex® Standard 100 certification (product class II) which demonstrated our dedication to product safety. In 2017, we were awarded 2017 National Quality Benchmark for Bra (2017年度全國文胸質量標桿) by China Knitting Industrial Association (中國針織工業協會) which demonstrated our high quality standard nationally. Our quality control is also evidenced by our business relationships with brands which have stringent demands in their selection of qualified product suppliers. Our Directors believe that our stringent and comprehensive quality control is essential to our success and provides a solid foundation for our future development.

We have an experienced, competent and committed management team.

We have an experienced, competent and committed management team led by our founder, Mr. Jin, who is an executive Director and our chairman and chief executive officer, and has over 15 years of working experience in seamless intimate wear manufacturing. Our another executive Director, Mr. Zhao Hui, who joined our Group in January 2008, has over 27 years of experience in accounting and management in the textiles and clothing industry. The senior management team led by them has diversified experience in finance and business administration, production and quality control, sales and marketing, product design, research and development, as well as e-commerce operations. Mr. Gao Jiangpeng, deputy general manager of Shanghai Bonny, who is responsible for the retail operation of our Group, has joined us since 2011 and possesses over 10 years of experience in intimate apparel industry. Mr. Zhou Donggen, our production manager, who is responsible for production management and quality control of our Group, has joined us since 2012 and possesses over 22 years of experience in the intimate apparel industry. Ms. Dong Lan, director of the Shanghai R&D centre of Zhejiang Bonny, who is responsible for research and development and design of the retail system of our Group, has over 12 years of experience in intimate apparel design.

We believe that the industry knowledge and diversified experience of our management team together with their in-depth knowledge of market trends and customers' needs, constitute an essential element of our success and future development.

BUSINESS STRATEGIES

Fortifying our position in the seamless intimate wear market

To capture the rapidly growing market, it is essential for us to maintain and strengthen our position in the seamless intimate wear market. We will continue to expand our seamless intimate wear businesses and fortify our market position in the seamless intimate wear industry. Our planned initiatives in this area include the followings:

- *Enhancing our market share in global seamless intimate wear.* We will continue to strengthen our sales and marketing efforts in our ODM sales to maintain our existing market and capture greater market share in the global seamless intimate wear

BUSINESS

industry. We plan to deepen relationship with our existing customers as well as explore business opportunities from new customers. As a success of our business development, in July 2018, we entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange, and in August 2018, we entered into a long-term supply agreement with the sourcing agent based in the U.S. of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. Contributing to our industry knowledge, in second half of 2018, we began to supply nursing bras which require specialized skills in product design and use of materials to one of the leading brands for nursing bras in the United States. We will continuously maintain a close relationship with our existing ODM customers particularly those internationally recognized brands, and proactively understand and coordinate with their plans in development of new seamless products by leveraging our market position and industry knowledge. By doing so, we not only reinforce the business relationship with our customers but also boost the shares of our products in their product lines. To achieve this, we intend to set up a sales office in Hong Kong as a platform to reach out to our overseas customers and will recruit additional sales and customer service personnel to deal with our sales and marketing campaigns.

- *Capturing rapid growth of the PRC seamless intimate wear market.* According to the Frost & Sullivan Report, China has seen tremendous growth in its retail sales of seamless intimate wear, and is estimated to enjoy an even higher growth rate than the global average between 2018 and 2022. We will continue to strengthen our ODM sales in the PRC particularly focusing on e-commerce customers. Duplicating our success in overseas ODM sales, we expect that we will benefit from the business growth of our domestic ODM customers especially those fast-growing e-commerce customers as a result of the increasing popularity of seamless intimate wear and online shopping in the PRC. We will also continue expansion of our business in the nursing bras segment by leveraging our business relationship with Muxi Clothing, which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall. We became the sole and exclusive ODM supplier of nursing bras for Muxi Clothing since 2017. We entered into a legally binding strategic cooperation framework agreement with Muxi Clothing in September 2018 pursuant to which among others Muxi Clothing has committed to purchase a minimum amount of not less than RMB150 million of nursing bras and other products of our Group for 2019 and we shall be the exclusive supplier of such products to Muxi Clothing. To further strengthen our strategic collaboration, we will introduce Muxi Clothing's maternity products to our domestic retail network as its offline retail channel on a consignment basis. Muxi Clothing was one of our top five customers for the years ended 31 December 2017 and 2018, and our revenue generated from Muxi Clothing amounted to approximately RMB26.4 million and RMB70.8 million, representing approximately 8.4% and 21.2% of the total revenue, for the corresponding year. Given our strategic cooperation arrangement as mentioned above, we expect that Muxi Clothing will continue to contribute a significant portion of our revenue going forward. On the

BUSINESS

other hand, for our domestic retail sales, majority of our branded products are non-seamless products. To capture the rapid growth of the PRC market of seamless intimate wear, we intend to adjust the portfolio of our branded products by introducing more seamless items particularly functional sportswear, and strengthen our sales and marketing campaigns for our seamless branded products.

- *Expanding seamless production capacity.* As the utilization rate of our seamless production of our Suxi Production Site already reached 82% for the year ended 31 December 2018, to cope with the increasing demand for our seamless products, we plan to expand our seamless production capacity by utilizing our Beiyuan Production Site. As part of our capacity expansion plan, we also plan to acquire and install 200 additional seamless circular knitting machines as well as other ancillary machinery and equipment at our Beiyuan Production Site. Upon installation of the said 200 additional circular knitting machines and ancillary equipment by end of 2019, we expect to increase our seamless production capacity by approximately 80% (as compared to that for the year ended 31 December 2018). We will use approximately 80%, or approximately HK\$93.2 million, of the net proceeds of the Global Offering for funding capital expenditures in relation to our capacity expansion plan in Beiyuan Production Site.

Optimizing our sales network in the PRC

We rely on our well-established extensive domestic retail network for sales of our branded products in the PRC which comprised 153 self-operated retail outlets and 42 franchised retail outlets covering 18 provinces, municipalities and autonomous regions in the PRC as at the Latest Practicable Date. To ensure the sustainability and continuous growth of our domestic branded sales, we intend to optimize our sales network in the PRC with the following planned initiatives:

- *Focus on franchising arrangements.* We resolved to formally commence our standardised franchising arrangements for our “Bonny” and “U+ Bonny” brands since 2015 and the second half of 2017, respectively. We believe that our franchise business model provides an asset-light and cost-effective means to maintain an effective retail network. As at the Latest Practicable Date, we have entered into franchising arrangements with 31 franchisees. We intend to place strategic focus on franchising arrangements for future development of our domestic retail network. We will continue to adhere to our stringent requirements in selection of our franchisees based on a number of criteria, including, among others, their local relationships and experiences, marketing capabilities, financial condition, risk management capabilities, reputation and outlet location. We will also continuously review and update our franchisee management standards which we require our franchisees to abide by to cope with our future business developments.
- *Develop “U+ Bonny” (Bonny 生活家) outlets.* Since the second half of 2017, we introduced our “U+ Bonny” brand and sales model through selected self-operated retail outlets and franchisees which diversify the target customers of our branded products to the mass market. The intimate wear products we sell in our “U+ Bonny”

outlets are different in terms of product diversity, product styles and prices from those we sell in our “Bonny” outlets and generally target mass market customers. In addition to intimate wear products, we also sell other knitted homeware, undergarments and accessories such as socks, bath towels and scarfs in “U+ Bonny” outlets. In order to further diversify our product portfolio and targeted markets of our branded products, we will continue to develop our “U+ Bonny” outlets. As part of our business strategies, we will focus on franchising arrangements to maintain an effective retail network in the PRC for the further development of our “U+ Bonny” brand while we will maintain around 15 to 20 self-operated “U+ Bonny” outlets in prime locations as flagship or model shops to showcase our product portfolio and attract potential franchisees.

- *Streamline our self-operated retail outlets.* To ensure the cost-effectiveness of our self-operated retail outlets and to optimize our profits, in parallel with our strategic focus on franchising arrangements, we will continue to review the financial and operational performance of our self-operated retail outlets and be more selective in opening new ones. In order to maintain brand awareness and access to first-hand market information and consumer feedbacks, besides flagship and model self-operated “U+ Bonny” outlets as mentioned above, we intend to maintain a certain number of our self-operated “Bonny” outlets at the level of around 150 outlets to 180 outlets in total depending on our scale of domestic branded sales, and will strictly adhere to our store opening and closure policy with strategic focus on cost-effectiveness and profitability in our retail outlets management.
- *Offer offline sales channel for maternity products of Muxi Clothing.* As part of our strategic collaboration with Muxi Clothing and to leverage its popularity in the maternity market, we plan to introduce Muxi Clothing’s maternity products to our domestic retail network as its offline retail channel on a consignment basis. Muxi Clothing, which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, currently only conducts online sales through e-commerce platforms. As we are the sole and exclusive ODM supplier of nursing bras for Muxi Clothing, we believe that we will benefit from its business growth by offering our retail network as its offline sales channel while at the same time expanding the product portfolio of our retail outlets.
- *Explore other sales channels.* In response to the change in consumption pattern towards online shopping in the PRC, we intend to actively expand our current e-commerce network as well as enhancing it into a comprehensive online shopping platform for intimate wear products. This online platform will be a complementary sales channel to our physical outlets to allow coherent multi-channel customer experience. In addition, duplicating our success with Muxi Clothing, we plan to further our cooperation with other well-recognized e-commerce operators through measures such as showcasing our products on business-to-customer platforms and participating in online marketing campaigns and applications.

BUSINESS

Enhancing product design and research and development capability

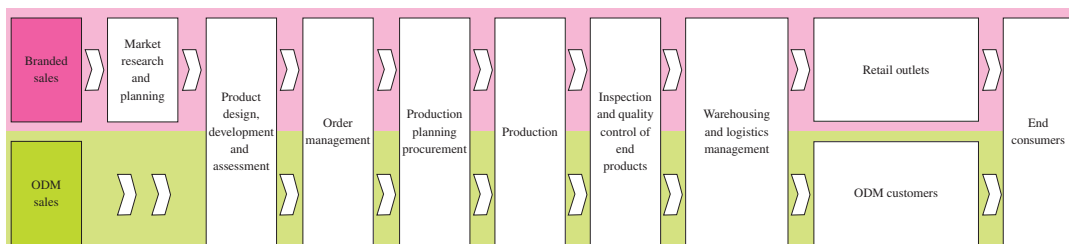
We believe that our strong product design and research and development capability is one of the key factors to our success in both our ODM sales and our branded sales. We will continue to devote substantial resources to enhance our product design and research and development capability in order to develop our product portfolio and continuously provide high value-added services to our ODM customers and launch new branded products for our domestic retail sales.

We intend to strengthen our existing research and development capability by offering better training programs to our research and development teams and cooperating with universities to recruit additional experienced research and development personnel. We will also strengthen our cooperation with suppliers in development of functional materials. In addition, we plan to continue developing or purchasing additional computerized design system which support our developing new products to satisfy consumer demand.

As an evidence of success of our research and development, since 2012, we have been recognized as a High and New Technology Enterprise (高新技術企業) by among others the Science Technology Department of Zhejiang Province (浙江省科學技術廳). To enhance our research and development capability, in June 2018, we entered into a technical cooperation agreement with an agent of quality textile machinery with over 50 years of operating history based in Hong Kong. Pursuant to the said technical cooperation agreement, among others, the collaborating entity shall provide us with the latest market and technology information of the seamless textile industry, guidance in technical improvement, product research and development and establishment of in-house research and development centre as well as on-site guidance, training and consultation for our production and technological aspects, while we are responsible to provide necessary premises, apparatus and funding for research and development projects. Ownership of any research and development results under the said technical cooperation agreement will be mutually agreed between the parties. Furthermore, we intend to install 20 additional seamless circular knitting machines at our Beiyuan Production Site specifically designated for product research and development purposes and recruit additional research and development personnel. As such, we intend to utilize approximately 10%, or approximately HK\$11.7 million, of the net proceeds of the Global Offering will be used for enhancing our research and development capability.

OUR BUSINESS MODEL

The following diagram illustrates our general business model:



BUSINESS

Market research and planning: For our branded sales, we continuously identify the latest fashion development and consumption propensities through various means such as performing industry research and analysis, obtaining feedback from customers, making reference to historical sales performances and attending trade fairs and industry conferences . We make use of such market information for reference and guidance in planning our product portfolio.

Product design, development and assessment: We maintain our own product design, research and development teams comprising designers, market researchers, production technicians and supporting personnel of dedicated expertise for our ongoing product research, development and commercialisation. For further details of our design, research and development, please refer to “– Design and Research & Development” in this section.

Order management: For our ODM sales, our customers typically place order forecast three to six months in advance, and make their purchases by issuing purchase order specifying the price, quantity, payment terms, delivery schedule, destination and shipment arrangements and other essential terms. For our branded sales, we receive internal orders from our headquarters prepared based on our production plans and schedules which in turn are formulated after taking into historical sales patterns and planned sales targets as well as occasional marketing and promotional activities of our retail outlets.

Procurement and production operations: We procure our raw materials from selected qualified suppliers to ensure the quality of our incoming raw materials. For our ODM sales, we generally place orders with our suppliers after we have received an order from the customers. For our branded sales, we procure from our selected suppliers after we have received internal orders from our headquarters. We formulate production plans and schedules on a half-yearly basis and review our production plans and schedules from time to time to take into account the orders we receive from our ODM customers as well as the sales performance of our branded products in order to optimize the utilization of our production facilities. We produce most of our seamless products and some of our traditional products at our Suxi Production Site.

Warehousing and logistics management: We closely monitor the sales, turnover as well as ageing of inventories for our ODM customers and at each of our retail outlets. We also conduct physical stock counts and spot checks at our warehouses and retail outlets to help identify obsolete or damaged products in order to facilitate our ongoing production planning and material sourcing processes. Besides, our “U+ Bonny” outlets are linked to our ERP system which allows real time monitoring. We also perform reconciliation with our franchisees on a monthly basis. Our central logistics center located at our headquarters in Yiwu, which is supported by our 16 branch companies across the country, is responsible for distributing our products to ports for exportation to our overseas customers and our retail outlets all over the PRC.

Sales and distribution: For our ODM sales, our customers are principally are mainly sourcing agents for apparel brands and brand holding companies themselves, which sell their branded products to end consumers through their own networks. For our branded sales, we reach out to end consumers through our well-established and nationwide retail network in the PRC.

Quality control: From sourcing of raw materials, production, packaging and inventory storage to sale and delivery, we strictly control the quality of our operations to ensure our product quality and to protect our brand value and the image of our Group.

BUSINESS

PRODUCTS

Depending on the production techniques, our products can be divided into seamless and traditional products. In respect of both types of products, we offer a diversified range of intimate wear products, which can be grouped into; (i) intimate wear including bras, underpants, thermal clothes and loungewear and other products; and (ii) functional sportswear products. Most of our products are for female consumers but we also sell a small number of male intimate wear products, knitted homeware, undergarments and accessories.

The following table sets forth the revenue breakdown by product type for the years indicated:-




	Year ended 31 December					
	2016		2017		2018	
	Revenue RMB'000	% of revenue %	Revenue RMB'000	% of revenue %	Revenue RMB'000	% of revenue %
ODM sales						
<i>Seamless products</i>						
Intimate wear and others	165,791	50.8	149,670	47.6	172,862	51.8
– Nursing bras	83	0.1	26,238	8.3	85,570	25.6
– Other bras	61,902	19.0	59,895	19.0	47,397	14.2
– Underpants	70,455	21.6	47,903	15.2	29,391	8.8
– Others	33,351	10.1	15,634	5.1	10,504	3.2
Functional sportswear	51,757	15.9	51,007	16.2	70,643	21.2
Subtotal	217,548	66.7	200,677	63.8	243,505	73.0
Branded Sales						
<i>Seamless Products</i>						
Intimate wear and others	4,908	1.5	5,411	1.7	7,338	2.2
Functional sportswear	–	–	47	0.1	82	0.1
<i>Traditional Products</i>						
Intimate wear and others	101,357	31.0	105,167	33.4	80,614	24.1
Functional sportswear	2,722	0.8	3,281	1.0	2,186	0.6
Subtotal	108,987	33.3	113,906	36.2	90,220	27.0
Total	326,535	100.0	314,583	100.0	333,725	100.0

Note: Intimate wear and others include sales of intimate wear, loungewear, thermal clothes and other products.

For our ODM sales, all our products are seamless products. On the other hand, for our branded sales, our products are mainly traditional products. Our branded products are mainly sold under our “Bonny” brand which we position as an intimate wear brand targeting mid to high-end intimate wear market. According to the Frost & Sullivan Report, products targeting the high-end market such as bras are typically sold at above RMB300 per unit and underwears are typically sold at above RMB100 per unit whereas products for the mass market are sold below those price levels. Since 2017, we introduced our “U+ Bonny” brand which we position as a brand specializing in knitted homeware and undergarments through selected self-operated retail outlets and franchisees to diversify the target customers of our branded products to the mass market. The products we sell in our “U+ Bonny” outlets are different in terms of product diversity, product styles and prices from those we sell in our “Bonny” outlets. In addition to intimate wear products, in our “U+ Bonny” outlets, we also sell other knitted homeware, undergarments and accessories such as socks, bath towels and scarfs.

BUSINESS

The following table sets out certain key information of our products:–

Products	Pictures	Branded or ODM sales	Approximate retail price range for our branded sales (RMB)
Bras		Branded sales	320 to 360
		ODM sales	
Underpants		Branded sales	59 to 150
		ODM sales	
Thermal clothes		Branded sales	280 to 480
			

BUSINESS

Products	Pictures	Branded or ODM sales	Approximate retail price range for our branded sales (RMB)
Functional sportswear		Branded sales ODM sales	59 to 380
Loungewear		Branded sales	169 to 560

BUSINESS

SALES

Overview

For our ODM sales, we generally sell and market our products directly through our internal sales and marketing personnel who have years of experience and knowledge in the industry. We sell our products to over 20 countries including the United States, Germany, the Netherlands and the PRC. As at the Latest Practicable Date, we had over 50 ODM customers.

For our branded sales, we sell our products principally through our extensive and structured nationwide retail network in the PRC which comprised 144 self-operated concession counters stores, nine self-operated standalone stores and 42 franchised retail outlets in 18 provinces, municipalities and autonomous regions in the PRC as at the Latest Practicable Date.

Revenue analysis by geographical segment

Our PRC sales, which accounted for about half of our revenue during the Track Record Period, mainly represent domestic sales of our branded products as well as our ODM sales to customers based in the PRC. On the other hand, for our overseas sales, we categorize our revenue based on the destination of our products as per purchase orders of our customers.

The following table sets out a breakdown of our revenue by geographic segments during the Track Record Period:

	2016		Year ended 31 December 2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
PRC	162,848	49.8	177,180	56.3	184,614	55.3
ODM	53,861	16.5	63,274	20.1	94,394	28.3
Branded	108,987	33.3	113,906	36.2	90,220	27.0
Overseas^(Note 1)						
United States	63,695	19.5	60,844	19.4	39,953	12.0
Germany	51,327	15.7	25,943	8.2	29,027	8.7
Netherlands	32,848	10.1	27,438	8.8	46,373	13.9
Other countries ^(Note 2)	15,817	4.9	23,178	7.3	33,758	10.1
	163,687	50.2	137,403	43.7	149,111	44.7
Total	326,535	100.0	314,583	100.0	333,725	100.0

Notes:

- Overseas revenue wholly represents ODM sales.
- Including Canada, U.K., Australia, Guatemala, Cambodia, Vietnam and other countries.

BUSINESS

Sales network for domestic branded sales

As at the Latest Practicable Date, our PRC retail network covered 195 retail outlets in 18 provinces, municipalities and autonomous regions which comprised 144 self-operated concession counters, nine self-operated standalone stores and 42 franchised retail outlets. The following table sets forth the revenue contribution of each type of our retail outlets during the Track Record Period:–

	2016		Year ended 31 December 2017		2018	
	revenue	% of	revenue	% of	revenue	% of
	RMB'000	revenue %	RMB'000	revenue %	RMB'000	revenue %
Self-operated stores and counters	84,454	77.5	73,934	64.9	62,751	69.6
Sales of aged stocks	17,173	15.8	29,934	26.3	15,087	16.7
E-commerce platforms	4,828	4.4	5,488	4.8	6,435	7.1
Franchised retail outlets	2,532	2.3	4,550	4.0	5,947	6.6
	<u>108,987</u>	<u>100.0</u>	<u>113,906</u>	<u>100.0</u>	<u>90,220</u>	<u>100.0</u>

With a view to facilitating sales and optimizing the decision-making process, our nationwide network is managed by our headquarters with geographical reference to the different sales regions which consist of the followings:–

Region	Coverage	Number of retail outlets as at the Latest Practicable Date			Total
		Self-operated concession counters	Self-operated standalone stores	Franchised retail outlets	
Southern China	Anhui Province,	18	–	5	23
	Hunan Province,	(including 3		(including 2	
	Guangxi Province and	“U+ Bonny”		“U+ Bonny”	
	Hainan Province	outlets)		outlets)	
Northwestern China	Gansu Province,	27	2	6	35
	Shaanxi Province and		(“U+ Bonny”	(including 4	
	Xinjiang Uyghur Autonomous Region		outlets only)	“U+ Bonny” outlets)	
Northern China	Beijing, Hebei Province,	36	2	16	54
	Henan Province,	(including 2	(“U+ Bonny”	(including 5	
	Liaoning Province and	“U+ Bonny”	outlets only)	“U+ Bonny”	
	Shandong Province	outlets)		outlets)	

BUSINESS

Region	Coverage	Number of retail outlets as at the Latest Practicable Date			Total
		Self-operated		Franchised retail outlets	
		concession counters	standalone stores		
Eastern China	Jiangsu Province, Zhejiang Province and Shanghai	39 <i>(including 3 “U+ Bonny” outlets)</i>	4 <i>(including 3 “U+ Bonny” outlets)</i>	7 <i>(including 4 “U+ Bonny” outlets)</i>	50
Southwestern China	Chongqing, Sichuan Province and Yunnan Province	24	1 <i>(“U+ Bonny” outlet only)</i>	8 <i>(including 3 “U+ Bonny” outlets)</i>	33
Total		144	9	42	195

During the Track Record Period, we have strategically optimized and streamlined our retail network by closing retail outlets with less satisfactory financial or operational performance while becoming more selective in opening new retail outlets. As part of our business strategies, we have also shifted our focus from self-operated retail outlets to franchised retail outlets and sales through e-commerce platforms. To a lesser extent, some of our retail outlets closed due to expiry or early termination of concession agreements with the relevant department stores or shopping malls. Accordingly, the total number of our retail outlets decreased from 248 as at 1 January 2016 to 195 as at the Latest Practicable Date.

The following table sets forth the corresponding number of various types of retail outlets within our nationwide network, newly opened outlets together with defunct outlets during the Track Record Period and up to the Latest Practicable Date:–

Year	Self-operated retail stores				Franchised retail outlets		Total
	Concession counters		Standalone stores		Bonny	U+Bonny	
	Bonny	U+Bonny	Bonny	U+Bonny			
2016							
Beginning	227	–	5	–	16	–	248
Opened	31	–	1	–	9	–	41
Defunct	55	–	3	–	7	–	65
Ending	203	–	3	–	18	–	224

BUSINESS

Year	Self-operated retail stores				Franchised retail outlets		Total
	Concession counters		Standalone stores		Bonny	U+Bonny	
	Bonny	U+Bonny	Bonny	U+Bonny			
2017							
Beginning	203	–	3	–	18	–	224
Opened	10	1	1	3	23	3	41
Defunct	45	–	1	–	4	–	50
Ending	168	1	3	3	37	3	215
2018							
Beginning	168	1	3	3	37	3	215
Opened	8	5	1	3	–	16	33
Defunct	36	1	2	–	10	1	50
Ending	140	5	2	6	27	18	198
2019 (Up to the Latest Practicable Date)							
Beginning	140	5	2	6	27	18	198
Opened	3	3	–	2	1	1	10
Defunct	7	–	1	–	4	1	13
Ending	136	8	1	8	24	18	195

The decrease in number of self-operated retail outlets from 232 as at 1 January 2016 to 153 as at the Latest Practicable Date was mainly due to closure of a total of 58, 46, 39 and 8 self-operated retail outlets (offset by opening of a total of 32, 15, 17 and 8 self-operated retail outlets) during 2016, 2017, 2018 and 2019 (up to the Latest Practicable Date), respectively. On the other hand, the increase in number of our franchised retail outlets from 16 as at 1 January 2016 to 42 as at the Latest Practicable Date was mainly due to opening of a total of nine, 26, 16 and 2 franchised retail outlets (offset by closure of a total of seven, four, 11 and 5 franchised retail outlets) during 2016, 2017, 2018 and 2019 (up to the Latest Practicable Date), respectively.

The decreasing trend of the total number of our retail outlets which were mainly our self-operated retail outlets as aforementioned resulted in a decrease in our overall revenue generated from our branded sales segment throughout the Track Record Period. Despite the decrease in overall revenue, to better understand the performance of our branded sales segment, we also evaluate our self-operated retail outlets/franchised retail outlets by various performance indicators including (i) the average same-store growth rate, which compares average monthly revenue derived from retail outlets that were in operation throughout the whole financial periods compared; (ii) weighted average monthly sales revenue growth rate, which compares weighted average monthly revenue derived from the retail outlet that

BUSINESS

generated revenue during the financial periods compared; (iii) average monthly sales volume per retail outlet; and (iv) operating margin of retail outlets. The table below sets forth these performance indicators of our retail outlets during the Track Record Period:

	Year ended 31 December			2018
	2016	2017	2017	
Number of same-store				
• <i>Self-operated</i>	140		130	
• <i>Franchised</i>	9		7	
Average monthly same-store sales (RMB'000) ^(Note 1)				
• <i>Self-operated</i>	33,847	32,611	33,387	31,884
• <i>Franchised</i>	21,459	15,561	18,436	18,940
Average monthly same-store sales growth rate				
• <i>Self-operated</i>	(3.7%)		(4.5%)	
• <i>Franchised</i>	(27.5%)		2.7%	
Number of retail outlets which generated revenue during the year				
• <i>Self-operated</i>	264	221	221	194
• <i>Franchised</i>	25	44	44	59
Average monthly sales volume per retail outlet (units)^(Note 2)				
• <i>Self-operated</i>	333	335	335	312
• <i>Franchised</i>	167	278	278	220
Growth rate of average monthly sales volume per retail outlet				
• <i>Self-operated</i>	0.6%		(6.9%)	
• <i>Franchised</i>	66.5%		(20.9%)	
Weighted average monthly sales revenue per retail outlet (RMB) ^(Note 3)				
• <i>Self-operated</i>	28,250	30,870	30,870	31,100
• <i>Franchised</i>	15,942	13,926	13,926	15,637
Growth rate of weighted average monthly sales revenue per retail outlet				
• <i>Self-operated</i>	9.3%		0.7%	
• <i>Franchised</i>	(12.6%)		12.3%	
Operating margin of retail outlets^(Note 4)				
• <i>Self-operated</i>	(12.3%)	(9.5%)	(9.5%)	(16.0%)
• <i>Franchised</i>	(1.3%)	(24.5%)	(24.5%)	14.5%

BUSINESS

Notes:

1. Average monthly same-store sales is calculated by the total sales generated by the same-store for the year divided by the number of same-store for the year.
2. Average monthly sales volume is calculated by the monthly sales volume during the year divided by the number of retail outlets which generated revenue during the year.
3. Weighted average monthly sales revenue is calculated by the total sales revenue for each retail outlet which generated revenue during the year divided by the corresponding operating months during the year, then divided by the number of these retail outlets which generated revenue during the year.
4. Operating margin of retail outlets is calculated by the total operating profit (i.e. revenue generated by retail outlets less corresponding cost of sales and operating expenses including selling and marketing expenses and administrative expenses etc.) divided by revenue generated by retail outlets.

During the Track Record Period, most of our outlets are self-operated retail outlets, majority of which are “Bonny” concession counters. Accordingly, excluding the sales of aged stocks, the revenue from branded sales decreased during the Track Record Period mainly due to the decreasing trend of the number of the Group’s self-operated retail outlets from 232 outlets as at 1 January 2016 to 153 outlets as at 31 December 2018, representing a decrease of a total of 79 outlets. The decrease in the number of our self-operated retail outlets was driven by our strategy to optimize and streamline our retail network of self-operated “Bonny” outlets by closing retail outlets with less satisfactory financial or operational performance while becoming more selective in opening new ones so as to improve the cost-effectiveness and profitability of our branded sales segment. Among the outlets closed during the Track Record Period, they were mostly traditional self-operated “Bonny” outlets. Contributing to the success of the aforementioned strategy, in respect of our self-operated retail outlets, during the Track Record Period, we maintained a stable average same-store sales growth rate with a slightly decreasing trend and a stable weighted average monthly sales revenue per retail outlet. Nonetheless, the operating margins of our self-operated retail outlets continued to deteriorate during the Track Record Period.

For the year ended 31 December 2017, as compared to 2016, we recorded significant drop in performance of our franchised retail outlets, which was primarily due to the sales of aged stocks, which has a significantly lower margin, through various promotional activities in our franchised retail outlets in order to clear part of the aged stocks with aging over 365 days, which was accumulated to a significant level as we closed down its retail outlets, coupled with our policy only to write off finished goods with aging of over five years, thus contributed to a significantly lower operating margin of franchised retail outlets. Hence, there was an increase in average monthly sales volume per each franchised outlet for the year ended 31 December 2017 but a decrease in monthly same-store growth rate, growth rate of weighted average monthly sales revenue and also operating margin during the same year. Since the second half of 2017, we introduced our “U+ Bonny” concept which we planned to develop mainly through our franchising model in order to diversify our branded products to the mass market. Contributing to the success of the aforesaid strategy of the introduction of “U+ Bonny” brand through franchising arrangements, in respect of our franchised retail outlets, the positive effect of which began to reflect in the performance of our Group in 2018, we started to see significant improvement in the performance of our franchised retail outlets with increase in both the

BUSINESS

average same-store growth rate and weighted average monthly sales revenue for the year ended 31 December 2018 as compared to 2017. We also recorded a positive operating margin for the year ended 31 December 2018, which substantiated the success of our strategy in introduction of “U+ Bonny” through franchising arrangements.

In the future, we will continue to ensure the sustainability and continuous growth of our domestic branded sales. Please refer to “– Business Strategies – Optimizing our sales network in the PRC” in this section. As part of our business strategies, we will focus on franchising arrangement to maintain an effective retail network in the PRC for the further development of the “U+ Bonny” brand while we will maintain around 15 to 20 self-operated “U+ Bonny” outlets in prime locations as flagship or model shops to showcase our product portfolio and attract potential franchisees. On the other hand, with respect to our “Bonny” outlets, in order to maintain brand awareness and access to first-hand market information and consumer feedbacks, we intend to maintain a certain number of our self-operated “Bonny” outlets at the level of around 150 outlets to 180 outlets in total depending on the scale of our domestic branded sales, and will strictly adhere to our store opening and closure policy with strategic focus on cost-effectiveness and profitability in our retail outlet management.

Self-operated retail outlets

We have full and direct control in the management and operation of our self-operated retail outlets which comprise 144 concession counters and nine standalone stores as at the Latest Practicable Date.

Concession counters

As at the Latest Practicable Date, we had a network of 144 self-operated concession counters with an average floor area of approximately 34 sq.m., which are located within department stores or shopping malls. We enter into concession agreements with department stores and shopping malls for our right to occupy and use designated spaces for operation of our concession counters. The location and size of a given concession counter are set out in the concession agreement. The majority of our concession agreements have a term of one year. In normal circumstances, we are able to renew the concession agreements for our concession counters upon expiry. The monthly concession fee for a concession counter is typically calculated as a fixed percentage of our monthly sales at the counter. Under our concession agreements, we are generally required to pay deposits to the department stores and shopping malls which is refundable upon expiration or termination of the concession agreement. We are also required to pay maintenance fee, utilities and other applicable fees and expenses relating to the operation of our concession counters. Payments from the sales of our products at our concession counters are typically collected by department stores and shopping malls, which are then required to transfer the monthly sales proceeds to us within 30 days after we issue invoices for the payments.

BUSINESS

Our concession agreements usually contain provisions that the department stores or shopping malls shall have the right to early terminate the concession agreements at their discretion by giving prior notice to us. This usually happens when the department stores or shopping malls decide to undergo internal renovation or re-arrangement of stores and counters for their own business purposes. In such circumstances, they may give notice to us to terminate our concession agreements or choose not to renew our concession agreements upon expiry. Notwithstanding the aforesaid, our Directors consider that we can usually relocate our concession counters to another space in the same department stores or shopping malls upon negotiations, or we can move to other readily available counters in nearby department stores or shopping malls for continuation of our operations at minimal costs. During the Track Record Period, we had no experienced any material disruption to our business operations due to the situations of early termination and/or failure to renew existing concession agreements.

Standalone stores

As at the Latest Practicable Date, we had nine self-operated standalone stores, of which one in Xi'an, Shaanxi Province, two in Shenyang, Liaoning Province, one in Suzhou, Jiangsu Province, two in Yiwu, Zhejiang Province, one in Quzhou, Zhejiang Province and one in Chengdu, Sichuan Province with an average floor area of approximately 73 sq.m.. Our standalone stores are located within department stores or shopping malls. We run our self-operated stores as flagship or model shops to facilitate the strengthening of our brand recognition, showcase our product portfolio, enhance retail network penetration and attract potential franchisees.

We enter into lease agreements with the lessors for our rights to open and operate our standalone stores on leased properties. For the year ended 31 December 2016, 2017 and 2018, our rental expenses included in selling and distribution expenses amounted to approximately RMB2.4 million, RMB1.8 million and RMB2.1 million, respectively. The lease agreements typically have terms of one to two years, and the rent is typically a monthly rent. We are required to pay a maintenance fee, utilities and other applicable fees and expenses relating to the operation of our standalone stores. We are also required to pay a deposit with respect to our standalone stores on the date of the lease agreements, which is refundable upon expiration or termination of the relevant lease agreement, as applicable.

Franchising arrangement

In addition to our self-operated retail outlets, we sell our branded products through retail outlets that are operated by our franchisees under franchising arrangements. We resolved to formally commence our standardised franchising arrangements for our “Bonny” and “U+ Bonny” brands since 2015 and the second half of 2017, respectively. We engage third party franchisees to operate outlets according to the same brand formats as our self-operated retail outlets so that consumers have the same shopping experiences at both our self-operated and franchised retail outlets. We believe that the franchise business model provides an asset-light and cost-effective means to maintain an effective retail network. We do not use distributors or multiple layers of franchisees in order to maintain direct control over our franchisees. As at 31 December 2016, 2017, 2018 and the Latest Practicable Date, we have entered into franchising arrangements with 12, 27, 35 and 31 franchisees, respectively.

BUSINESS

Depending on the branding, our franchisees and franchised retail outlets are divided into “Bonny” franchisees and franchised retail outlets and “U+ Bonny” franchisees and franchised retail outlets respectively. We enter into standard franchising agreements for both “Bonny” and “U+ Bonny” franchisees which have similar major terms as summarized in “– Management of franchisees” below. As at 31 December 2016, 2017, 2018 and the Latest Practicable Date, we had nil, 3, 17 and 17 “U+ Bonny” franchisees, respectively. As part of our business strategies, we will focus on franchising arrangement to maintain an effective retail network in the PRC for the further development of our “U+ Bonny” brand.

Under the franchising arrangements with our franchisees, the franchisees enter into standard franchising agreements with us, pursuant to which we provide products for sales at the franchised retail outlets operated by our franchisees on a consignment basis while our franchisees are responsible for store management and operations. We treat our franchisees as consignees of our products and we only recognize revenue from sales of our products when the products are sold to the end customers. We then share a certain percentage of our revenue with our franchisees based on the actual sales amount for “Bonny” franchisees or the uniform retail price of the products sold for “U+ Bonny” franchisees.

None of our Directors or their respective associates or any Shareholder (whom, to the knowledge of our Directors, owns more than 5% of the issued Shares) had any interest in any of our franchisees during the Track Record Period and as at the Latest Practicable Date. To the best knowledge, information and belief of our Directors, as of the Latest Practicable Date, all our franchisees were Independent Third Parties and none of them was our ex-employees.

Selection of franchisees

We have developed a systematic process with respect to the planning and execution of expansion projects for franchised retail outlets. We select our franchisees based on a number of criteria, including, among others, their local relationships and experiences, marketing capabilities, financial condition, risk management capabilities, reputation and outlet location.

Sale and ownership of products

We sell our regular priced products at the franchised retail outlets operated by our franchisees on a consignment basis. The products at the franchised retail outlets belong to us rather than our franchisees before they are sold to the end consumers. We only recognize revenue from sales of our products when they are sold to the end customers. We then share a certain percentage of our revenue with our franchisees based on the actual sales amount for “Bonny” franchisees or the uniform retail price of the products sold for “U+ Bonny” franchisees. To reduce the level of our aged finished goods, we, from time to time, sell aged stock at a higher discount. Some of such discounted products are sold to our franchisees as direct customers for their onwards sales to the end consumers.

BUSINESS

Franchisee support and services

Leveraging our experience with respect to operation of retail outlets, we have developed a franchise management system that allows us to attract and retain franchisees and maintain control and supervision over their operations. Our system helps our franchisees to achieve efficiency and receive support on every important aspect of store management, including, without limitation, the followings:

- **Assessment of outlet locations:** After a franchisee identifies a prospective outlet location, our business development team prepares a detailed outlet opening report analysing factors including population density, consumer purchasing power, geographic location, competition in the surrounding area and revenue forecast, then makes a decision on the outlet location.
- **Store decoration and product display:** We provide store decoration and product display services to all franchisees to ensure that each outlet adopts a uniformed design, appearance, decoration, layout, colour scheme, lighting scheme and product display.
- **Supervision and monitoring:** We conduct both scheduled and unannounced inspections of our franchised retail outlets to ensure that the franchised retail outlets are operated in accordance with our policies. We also closely monitor the sales performance of our franchised retail outlets. Our “U+ Bonny” franchised retail outlets are linked to our ERP system which allows real time monitoring. We also perform reconciliation with our franchisees on a monthly basis.
- **Personnel and other trainings:** We believe that the performance of outlet staff is critical to the success of a retail outlet. We place great emphasis on the training of the outlet staff and provide in-house training programs to the outlet staff on various retail operation matters, such as product knowledge, sales techniques, customer service, store operation and safety measures.
- **Service hotline:** We have service hotlines to answer franchisees’ questions or troubleshoot problems on issues such as product quality, order status inquiry and product return.

We believe that the foregoing support and services have strengthened our relationships with the franchisees. We may also benefit from the word-of-mouth references by our existing franchisees to attract potential franchisees. In addition, our franchise management system incentivizes our franchisees to grow their businesses with us.

Management of franchisees

The quality, consistency, display and appearance of our outlets and consumers' shopping experiences are the key to maintaining the integrity and attractiveness of our brand. Therefore, we manage our franchised retail outlets in substantially the same way as our self-operated retail outlets to ensure that our retail policies and operating procedures are implemented uniformly across our entire retail network under both our franchised retail outlets and self-operated retail outlets. In order to strike a balance between flexibility and stability, our franchise agreements are typically negotiated and renewed on an annual basis. All of our franchisees are required to enter into our standardized legally binding franchising agreements and abide by the franchisee management standards we adopt from time to time which include the following salient terms:

- ***Geographical territory and exclusivity:*** To prevent market share cannibalization within our retail network, price competition between our franchisees and over-concentration of retail outlets, depending on its economic and management capabilities, each of our franchisees is authorized to operate retail outlets within a designated geographic territory, which is usually a county, city or district of a province or municipality, on an exclusive basis under the relevant franchising agreement. Our franchisees are not allowed to sell our products outside the designated geographic territory.
- ***Location of retail outlets:*** Franchisees are responsible for providing premises agreed by us for opening franchised retail outlets. Franchisees are required to seek our approval before opening, furnishing, moving or closing any franchised retail outlets.
- ***No distributorship:*** Our franchisees are not allowed to sell our products through distributors.
- ***Deposit and replenishment of products:*** Each franchisee pays an initial deposit (the “**initial deposit**”) to us upon entering into the franchising agreement and we provide products for sales at its franchised retail outlet. The amount of the initial deposit depends on the negotiation between us and the relevant franchisee taking into account of the actual conditions of its franchised retail outlet. The maximum aggregate monetary value of the products we provide to such franchised outlet is calculated based on our uniform retail price and up to four times of the initial deposit paid (the “**replenishment limit**”). The franchisee is entitled for replenishment of products within the replenishment limit after recognition of sales with us. As at 31 December 2016, 2017 and 2018, the amount of deposits from franchisees amounted to approximately RMB0.4 million, RMB1.5 million and RMB4.9 million, respectively.

BUSINESS

- **Returns policy:** We sell our products at the franchised retail outlets on a consignment basis. The products at the franchised retail outlets belong to us rather than our franchisees before they are sold to the end consumers. Subject to the replenishment limit, franchisees are entitled to return products to us and replace with new ones: (i) if the products are returned within three months of delivery and there is no material impact on our re-sale of the relevant products; (ii) if the accumulated replacement amount within one year is within the replenishment limit; (iii) if the products contain quality defects; or (iv) in the circumstances that we adjust our uniform retail prices of the relevant products. During the Track Record Period, we had not experienced any return of products from our franchisees in any material respect. Upon termination of the franchising arrangement, our franchisees can return unsold products to us.
- **Operational costs:** Our franchisees bear all the operational costs of the retail outlets including rental expenses and staff costs.
- **Revenue sharing, reconciliation and settlement:** Franchisees are entitled to share the revenue derived from the sale of franchised retail outlets based on the actual sales amount for “Bonny” franchisees or the uniform retail price of the products sold for “U+ Bonny” franchisees. We perform reconciliation with our franchisees on a monthly basis. Our “Bonny” franchisees and “U+ Bonny” franchisees settle with us on a monthly basis and a weekly basis respectively.
- **Retail price and discounts:** We require our franchisees to sell products at our uniform retail price. Our franchisees have to obtain our prior approval if they offer discounts to our products over a certain percentage which is generally 30% of our uniform retail price. We allow our franchisees to participate in the seasonal and festive sales and other promotional sales that we organize from time to time.
- **Sales targets and awards:** We provide sales targets to our franchisees under the franchising agreements. For the purpose of encouraging our franchisees to achieve sales targets, we reward them by offering an award of our products with monetary value equivalent to a certain percentage of, for “Bonny” franchisees, the aggregate of the initial deposit and amount of products replenished; and for “U+ Bonny” franchisees, the actual sales amounts, during the terms of the franchising agreements. If our franchisees fail to achieve the sales targets, we will take the same into account in deciding whether to renew the franchising agreements upon expiry. No awards were provided to our franchisees for the years ended 31 December 2016, 2017 and 2018, respectively.
- **Supports and guidance to franchisees:** We provide supports to the operations of our franchised retail outlets, such as staff training, store visits and guidance, analysis of operating figures, assistance and supports for promotional and marketing activities, maintenance of consumer membership, etc.

BUSINESS

- ***Control of franchisees:*** To provide standardized shopping experiences and deliver a consistent brand image to end-customers, we require our franchisees to follow our standards of retail outlet decoration and product display and adopt uniform designs, appearance, decoration, layout, colour and lighting schemes. We conduct site visits every one or two month(s) to each of our franchised retail outlets to ensure compliance of our requirements by the franchised retail outlets. We also closely monitor the sales performance of our franchised retail outlets. Our “U+ Bonny” franchised retail outlets are linked to our ERP system which allows real time monitoring. We also perform reconciliation with our franchisees on a monthly basis.
- ***Business licenses for franchised retail outlets:*** Our franchisees are required to show that business licenses have been obtained for the franchised retail outlets they operate. The franchisees are permitted to operate franchised retail outlets under business licenses registered under their own names or provide evidence that the relevant department stores or shopping malls at which their outlets are located have obtained the necessary business licenses. As at the Latest Practicable Date, all of our franchised retail outlets are operated under valid business licenses.
- ***Use of brand:*** We authorize our franchisees to use our “Bonny” brand or “U+ Bonny” brand for sales of products at their franchised retail outlets. Our franchisees are not allowed to use our brand outside of the relevant franchised retail outlets, or do any act to jeopardize our brand such as sales of counterfeit products or malicious competition, which if happens, entitle us to terminate the respective franchising agreements.

During the Track Record Period and as of the Latest Practicable Date, we were not aware of any of our franchisees committing any material breach of their respective franchising agreements or being in violation of our policies relating to geographical scope or pricing.

In order to avoid competition and cannibalisation between our self-operated retail outlets and franchised retail outlets, we have implemented detailed outlet opening policy in which we take into account, among others, potential impact on the operations of our existing outlets in our site selection for opening outlet. Furthermore, pursuant to our franchisee management standards, each of our franchisees is only authorized to operate retail outlets within a designated geographic territory, and is not allowed to sell our products outside the designated geographic territory. Our franchisees are also required to seek our approval before opening any new outlet. During the course of our operations, we closely monitor the operations of each retail outlet. We take into account any competing or potential competing situations among retail outlets in streamlining our retail network.

Outlet opening and closure policy

We began our branded sales in 2008 and since then had been expanding the network of our self-operated retail outlets. After years of expansion and accumulation of experience in retail operation, to ensure the cost-effectiveness of our self-operated retail outlets and to optimize our profits, in 2013, we reviewed and revised our strategy and policy in retail network

BUSINESS

management. Our strategy shifted from expansion of geographical coverage to the profitability of each outlet and the overall returns to our Group. We adopted a more stringent standard in terms of sales performance and rates of return in deciding whether we continue operations of our existing outlets and a more conservative approach when we consider to open new retail outlets. It was also our plan at that time to explore the franchising model which provides an asset-light and cost-effective means for maintenance of our retail coverage. We resolved to formally commence our standardised franchising arrangements for our “Bonny” and “U+ Bonny” brands since 2015 and the second half of 2017, respectively.

Our outlet opening process usually begins with site selection. We conduct detailed analysis of any potential site for opening new retail outlet which include but not limited to location, neighbourhood and accessibility of the site, number and spending power of the population in that particular area, composition of occupants of department stores and shopping malls, potential competition in the same and nearby area, and potential impact on the operations of our existing outlets in the same city. Upon identifying a potential site, we will commence our internal business evaluation which include projections on returns, management and staffing, outlet style, branding and product portfolio, sales and marketing strategies, and on-going control, monitoring and compliance. Approval of, among others, our chief executive officer is needed for opening of any new retail outlet. This will be followed by subsequent administrative procedures such as negotiations and signing of tenancy or concession agreement for new retail outlet.

We closely and continuously monitor and analyze the sales and operational performance of each retail outlet in order to adjust the location, size, number as well as timing of opening or closing retail outlets. We will consider to close down any retail outlet if it fails to meet our assessment standards which take into account various factors in particular its profitability. For our self-operated retail outlets, we usually close down any outlet which continues to make loss for six months despite rectification. For our franchised retail outlets, we provide sales targets to our franchisees under the franchising agreements and will take the same into account in deciding whether to renew the franchising agreements upon expiry. We also from time to time review and assess the market conditions such as accessibility, spending power and competition landscape of the sites where retail outlets are located to determine whether any adjustment is needed to any specific retail outlet as well as our retail network layout as a whole. In certain circumstances, we may need to cease operations of retail outlets due to expiry or early termination of concession agreements with department stores or shopping malls. This may happen when the department stores or shopping malls decide to undergo internal renovation or re-arrangement of stores and counters for their own business purposes. Depending on our strategic planning, we may seek alternative site in nearby area for relocation of our retail outlet upon cessation.

During the Track Record Period, we continued with our aforesaid strategy and policy in respect of outlet opening and closure. As such, we had continuously closed down a number of self-operated retail outlets and were more selective in opening new ones. On the other hand, the number of our franchised retail outlets had increased. Please refer to “– Sales network for domestic branded sales” in this sub-section above for further details.

Selection of retail outlet location

We take into account various factors in selection of our retail outlet location which include accessibility, pedestrian traffic, spending power, potential competition and rate of rental etc. We locate our retail outlets in department stores and shopping malls including well-known ones such as Wangfujing (王府井), Bailian (百聯), Parkson (百盛), Dayang (大洋), Golden Eagle (金鷹), Maoye (茂業), INTIME (銀泰) and New World (新世界) which are primary retail channels for lifestyle products marketed to mid-to-high income consumers. These selected locations have enabled us to increase the exposure of our brand as well as benefit from the well-established customer traffic, reputation and marketing campaigns of the department stores and shopping malls where our retail outlets are located.

Outlet design and appearance

We establish our retail outlets under our “Bonny” brand. Since 2017, we also introduced our “U+ Bonny” concept and commenced establishment of “U+ Bonny” outlets through selected self-operated retail outlets and franchisees in order to diversify our branded products to the mass market. We do not operate dual-branded retail outlets for the sake of preservation of the unique identity and image of each brand. We operate a set of guidelines set by our headquarters regarding the design, decoration and layout of our retail outlets including both self-operated and franchised ones. Such guidelines are reviewed and, where necessary, re-adjusted from time to time based on the featured themes or seasonal considerations. All our retail outlets must present a coherent visual image in terms of the window display, in-store merchandise display, store layout, and product design and colour, and must not exhibit products or set up displays which do not belong to any of our brands.

Outlet operation

In general, we have an average of two sales personnel attached to each of our self-operated retail outlets. We provide trainings to our sales personnel to ensure their skills and techniques in serving our customers which include but not limited to the followings:–

- providing our end consumers with dressing assistance as well as styling or mix-and-match recommendations in order to improve their wearing comfort and experience;
- improving communication with and obtaining feedback from consumers; and
- enhancing familiarity with our range of intimate wear products.

In order to facilitate a more effective management of our retail store operations, we typically allocate a supervisor for every seven to 20 concession counters depending on their sizes and locations. All supervisors are managed by the general manager of the relevant branch company who is in turn managed by our headquarters. These supervisors and branch company general managers receive training on, among other aspects, leadership skills, market updates and human resources management.

Cash and Payment Management

Since most of our retail outlets are concession counters at the department stores or shopping malls, we follow the cash and payment management policies and procedures as required by the relevant department stores or shopping malls.

For our self-operated standalone stores, we accept payment by cash, credit card, Alipay and WeChat Pay.

We have adopted and implemented strict internal control procedures for handling cash, which include the following:

- each store is equipped with our information technology system, including POS terminals, which are directly connected to systems at our headquarters;
- the staff member at each store are required to check sales receipts against sales and cash proceeds each day, perform daily reconciliation of sales and actual cash proceeds and record the results in our information technology system;
- cash proceeds are kept in the store's safe and deposited in our designated bank accounts on the next business day; and
- the accounting department at our headquarters verifies the reconciliation of sales and actual cash proceeds of the previous month by cross-checking the sales information recorded in our information technology system and the cash deposited in the designated bank accounts in respect of each store and after having confirmed that the two amounts are consistent, records such confirmation accordingly.

During the Track Record Period and up to the Latest Practicable Date, we had not recorded any material cash loss or theft.

Seasonality and periodicity

Our operating results vary due to the seasonality of ODM sales and are historically stronger in the second half of the year. This variation primarily results from higher demands of our customers toward the year-end festive season, and stronger demands for thermal wear products during autumn/winter season. These seasonality fluctuations may affect our sales revenue and the utilization rate of our manufacturing facilities.

Pricing strategies

For our ODM sales, the price we charge varies depending on negotiations with our customers. We typically determine prices of our products on a cost-plus basis by reference to a number of factors, including production costs and expected profit margins.

BUSINESS

For our branded sales, we adopt a consistent pricing strategy, which denote a uniform retail price for each product category throughout our retail network in the PRC. We adopt a market-oriented pricing approach with reference to a number of factors which include costs of production, sophistication involved in the product design, development and manufacturing, consumption propensity and preferences of target consumers, market trends, pricing and branding strategies adopted by fellow competitors, data on our historical sales volume and pattern, anticipated profit margin levels and product turnover rates and prevailing market conditions.

Discount policies

We set a directional retail price for each product category throughout our retail network in the PRC. For our self-operated retail outlets, we apply a uniform discount policy. In general, we do not offer more than 20% discount to the uniform retail price of our seasonal products. For out-of-season or aged products, we allow higher level of discount. For products aging over three years, we fix a uniform discounted price for sales in our self-operated retail outlets. For our franchised sales, we require our franchisees to sell products at our uniform retail price. Our franchisees have to obtain our prior approval if they offer discounts to our products over a certain percentage which is generally 30% of our uniform retail price. We allow our franchisees to participate in the seasonal and festive sales and other promotional sales that we organize from time to time.

Sales return policies

We require all retail outlets including our franchised retail outlets to adopt a unified sales return policy for consumers. We allow consumers to return or exchange products within seven days from the date of purchase upon provision of sales receipts and on condition that the returned or exchanged products are in good condition for re-sale. Save for the aforesaid, we only accept return or exchange of products due to quality issues within 30 days from purchase. During the Track Record Period and up to the Latest Practicable Date, we did not receive any material product returns, exchanges or product liability claims from our end-customers.

For our franchised sales, subject to the replenishment limit, franchisees are entitled to return products to us and replace with new ones: (i) if the products are returned within three months of delivery and there is no material impact on our re-sale of the relevant products; (ii) if the accumulated replacement amount within one year is within the replenishment limit; (iii) if the products contain quality defects; or (iv) in the circumstances that we adjust our uniform retail prices of the relevant products. During the Track Record Period, we had not experienced any return of products from our franchisees in any material respect. Upon termination of the franchising arrangement, our franchisees can return unsold products to us.

DESIGN AND RESEARCH & DEVELOPMENT

Our design and product research and development efforts primarily focus on, among other aspects, improving and developing the functionality and designs of our products, as well as diversifying our product portfolio. Given that we are in a business which is susceptible to consumption propensity and preferences on, for instance, health concerns or fashion trends,

BUSINESS

marketability and popularity of our intimate wear products depend on our responsiveness to consumers' feedback and, more importantly, changing market circumstances. As such, we have dedicated considerable financial and administrative resources to product design, research and development. For the years ended 31 December 2016, 2017 and 2018, our expenses for product design, research and development were approximately RMB16.0 million, RMB16.5 million and RMB17.9 million, respectively.

As at the Latest Practicable Date, our product design, research and development department was staffed with 37 employees, of which we have two dedicated teams serving our ODM sales and branded sales segments, respectively. Our product design, research and development personnel include designers, production technicians and supporting personnel and are responsible for product research, design and sampling, and development and applications of materials and manufacturing techniques.

For our ODM sales, we usually receive purchase orders from their customers with specifications on production and design. We will provide product samples for selection by customers. During the process, we provide suggestions to our customers on design modification and use of materials to cater for the fashion trends and consumer preferences and to enhance production cost-effectiveness as well as functionality and quality of finished products. For our branded sales, by virtue of our strong product research, design and development capabilities, we introduce at an average rate of approximately 16 to 30 distinct types of products in terms of style, size and colour under different product categories for our branded sales every half year into the domestic retail market.

As an evidence of success of our research and development, since 2012, we have been recognized as a High and New Technology Enterprise (高新技術企業) by among others the Science Technology Department of Zhejiang Province (浙江省科學技術廳). To enhance our research and development capability, in June 2018, we entered a technical cooperation agreement with an agent of quality textile machinery with over 50 years of operating history based in Hong Kong. Pursuant to the said technical cooperation agreement, among others, the collaborating entity shall provide us with the latest market and technology information of the seamless textile industry, guidance in technical improvement, product research and development and establishment of in-house research and development centre as well as on-site guidance, training and consultation for our production and technological aspects, while we are responsible to provide necessary premises, apparatus and funding for research and development projects. Ownership of any research and development results under the said technical cooperation agreement will be mutually agreed between the parties. Furthermore, we intend to install 20 additional seamless circular knitting machines at our Beiyuan Production Site specifically designated for product research and development purposes and recruit additional research and development personnel.

MARKETING AND PROMOTION

As at the Latest Practicable Date, our sales and marketing was staffed with 472 personnel, who are responsible for maintenance and development of business relationship with our ODM customers, management of our domestic branded sales network (including promotional and marketing campaigns, retail outlet operations and franchisee management) and development and management of sales through e-commerce channels.

For our ODM sales, our marketing efforts are based primarily on our market position in seamless innerwear industry, our research and development capability and the ability to provide our customers with value-added services as well as the established expertise and experience of our key management personnel, their level of participation in the industry and the contacts such management personnel have developed among existing and potential customers in the industry. Our customers require sophistication in production scale, speed and reliable delivery. Over the years, our ability to consistently meet our customers' requirements has allowed us to develop strong relationships with our customers and to attract and retain brand companies as customers. In addition, we from time to time visit our customers to present them with our latest technologies and products as well as to gather information, answer questions and provide after-sales support.

For our branded sales, we focus on our brand development and management. We continuously invest in our brand to further raise brand recognition and acceptance. We market and promote our brand and products through a variety of means including advertisements on print media and outdoor billboards, participation in fashion shows in shopping malls, and sponsorship to modelling competitions, and attendance in trade shows and exhibitions.

In recent years, we also strengthen our online marketing and promotion through our corporate website, online social networks such as WeChat (微信) and Weibo (微博), and selected internet websites such as nynet.com.cn (中國內衣網) and chinapp.com (中國品牌網) which provide cost-effective ways for us to reach out the consumers.

For the years ended 31 December 2016, 2017 and 2018, our advertising and promotion expenses were approximately RMB1.7 million, RMB0.6 million and RMB3.9 million, respectively. To further build up consumer loyalty, we have established our membership program. Our members can redeem the reward points they earn through purchases of regularly priced items for discounts for further purchases of our products. Such reward points cannot be brought forward to the next financial year.

We also rely on several third-party e-commerce platforms such as 1688.com (誠信通), 百變 SEO as well as our official website as a mean of appealing our products to and communicating our corporate information with our ODM customers.

To a lesser extent, we sell to end consumers particularly those who are accustomed to satisfying their consumption needs by way of shopping online on third party e-commerce platforms such as Tmall and JD.com. We settle with these customers through the third-party

BUSINESS

e-commerce platforms. Our sales and marketing team gathers information and feedback on consumer preference, and work with our product design, research and development teams to develop intimate wear products that reflect contemporary fashion, healthiness, wellness and body-shaping trends. They proactively promote our brand and our products to potential customers particularly those ODM customers on the e-commerce platforms. We believe the pursuance of e-commerce platforms allows us to promote sales through deepening and broadening of our reach to potential customers. For the years ended 31 December 2016, 2017 and 2018, sales via third-party e-commerce platforms amounted to approximately RMB4.8 million, RMB5.5 million and RMB6.4 million, respectively.

CUSTOMERS

Our ODM sales

As at the Latest Practicable Date, we had over 50 ODM customers. Majority of our ODM customers are overseas customers which include sourcing agents for apparel brands and brand holding companies themselves. As a success of our business development, in July 2018, we entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange, and in August 2018, we entered into a long-term supply agreement with the sourcing agent based in the U.S. of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. On the other hand, our domestic ODM customers are mainly trading companies based in the PRC and e-commerce customers including Muxi Clothing, which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall.

In line with industry norms, our sales are made on the basis of individual orders received from our ODM customers, and we generally do not enter into long-term contracts or framework sales agreements with them. Our ODM customers typically place order forecast three to six months in advance. Our ODM customers confirm quotation for each job order by placing a purchase order or by email on order-by-order basis to effect each specific transaction which specifies orders generally stipulate the price, quantity, payment terms, delivery schedule, destination and shipment arrangements and their essential terms. Once the job order is confirmed, its terms will not be amended or supplemented without mutual consent. We may require our ODM customers to pay a 20% to 30% deposit in advance. In general, we grant a credit period of 30 to 90 days to our ODM customers. Our customers typically settle their trade payables by bank transfers or letters of credit. We have no sales return policy and do not offer any sales returns.

Despite the absence of long-term contracts or framework sales agreements, we have cultivated stable and mutually beneficial cooperative business relationships with most of our major ODM customers. As at the Latest Practicable Date, we have established business relationship with most of our major ODM customers for over five years.

BUSINESS

Our branded sales

We sell all our branded sales in retail sales mainly under our “Bonny” brand and through our extensive and structured nationwide retail network in the PRC. We strategically target mid to high-end consumers for our branded sales. Since the second half of 2017, we introduced our “U+ Bonny” sales model through selected self-operated retail outlets and franchisees which diversify the target customers of our branded products also to the mass market.

Our top five customers

Our top five customers, which are all ODM customers, collectively accounted for approximately 47.6%, 50.1% and 60.9%, respectively, of our total revenue for the years ended 31 December 2016, 2017 and year ended 31 December 2018. Our largest customer for each of the same periods accounted for approximately 17.9%, 13.5% and 21.2%, respectively, of our total revenue. None of our Directors, their respective close associates, or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our issued capital, has any interest in any of our five largest customers during the Track Record Period.

The following tables set out a summary of our top five customers during the Track Record Period:

For the year ended 31 December 2016

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
1.	Customer A	Customer A is a private company incorporated in Germany on 20 May 2005 and is the sourcing agent of a private brand of a German supermarket chain based in Germany with over 10,000 stores across Europe and the U.S..	Intimate wear and functional sportswear	8	58,596	17.9%	20% deposit, 70% upon issue of bills of lading, and 10% within 30 days of delivery	bank transfer

BUSINESS

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
2.	TEFRON LTD	<p>TEFRON LTD is a public company incorporated in Israel on 5 April 1977 and listed on the Tel Aviv Stock Exchange, and a sourcing agent for a number of international brands.</p> <p>One of the international brands that it sources for is a multinational supermarket chain headquartered in the U.S. which operates over 11,200 stores in 27 countries and e-commerce websites in 10 countries.</p>	Intimate wear and functional sportswear	7	37,195	11.4%	60 days	bank transfer
3.	KiK Textilien and Non-Food GmbH	<p>KiK Textilien and Non-Food GmbH is a private company incorporated in Germany on 25 April 1994 and principally engages in trading in garment and textiles and other consumer goods.</p> <p>Headquartered in Germany, it operates approximately 3,500 stores in 10 countries.</p>	Intimate wear	8	25,038	7.7%	letter of credit	letter of credit

BUSINESS

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
4.	Customer C	Customer C is a private company incorporated in Israel on 19 September 1991, and principally engages in development, manufacturing and sales of apparel products for international brands and retail chains. The international brands that it sources for mainly based in the U.S. with presence across mass merchandise retailers, e-commerce websites, discount stores and department stores in the U.S., Canada and Puerto Rico.	Intimate wear and functional sportswear	8	23,446	7.2%	30 days	bank transfer
5.	Yiwu Fengyi Import and Export Company Limited* (義烏市豐意進出口有限公司)	Yiwu Fengyi Import and Export Company Limited* (義烏市豐意進出口有限公司) is a private company incorporated in the PRC on 17 March 2009, and principally engages in import and exports trading of goods and technologies. With its branches in Italy, Chile, Mexico and China, Yiwu Fengyi Import and Export Company Limited also sells its merchandise under its own brand names to Europe, the U.S., Japan, Australia and Southeast Asia.	Intimate wear and functional sportswear	6	11,035	3.4%	90 days	bank transfer
Total					155,310	47.6%		

BUSINESS

For the year ended 31 December 2017

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
1.	TEFRON LTD	<p>TEFRON LTD is a public company incorporated in Israel on 5 April 1977 and listed on the Tel Aviv Stock Exchange, and the sourcing agent for a number of international apparel brands.</p> <p>The international brands that it sources for include a multinational supermarket chain headquartered in the U.S. which operates over 11,200 stores in 27 countries and e-commerce websites in 10 countries, and an underwear designer and retailer based in the U.S. which sells its merchandise through its own website, online fashion retailers as well as over 200 retail stores across the U.S..</p>	Intimate wear and functional sportswear	7	42,526	13.5%	60 days	bank transfer
2.	Customer C	<p>Customer C is a private company incorporated in Israel on 19 September 1991, and principally engages in development, manufacturing and sales of apparel products for international brands and retail chains.</p> <p>The international brands that it sources for mainly based in the U.S. with presence across mass merchandise retailers, e-commerce websites, discount stores and department stores in the U.S., Canada and Puerto Rico.</p>	Intimate wear and functional sportswear	8	32,215	10.2%	30/60/90 days	telegraphic transfer

BUSINESS

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
3.	Customer A	Customer A is a private company established in Germany on 20 May 2005 and is the sourcing agent of a private label of a German supermarket chain based in Germany with over 10,000 stores across Europe and the U.S. and an international chain of fashion retail clothing stores having over 1,500 stores with its head offices in Belgium and Germany.	Intimate wear and functional sportswear	8	31,809	10.1%	20% deposit, 70% upon issue of bills of lading, and 10% within 30 days of delivery	bank transfer
4.	Muxi Clothing	Muxi Clothing is a private company incorporated in the PRC on 28 April 2014 and a domestic online maternity products retailer through e-commerce platforms, and principally engages in sales of maternity and nursing clothing, which operates a leading brand, Emxee (嫫熙) for maternity products sold on Tmall.	Intimate wear	2	26,382	8.4%	30% deposit and 70% upon delivery	bank transfer
5.	KiK Textilien and Non-Food GmbH	KiK Textilien and Non-Food GmbH is a private company incorporated in Germany on 25 April 1994 and principally engages in trading in garment and textiles and other consumer goods. Headquartered in Germany, it operates approximately 3,500 stores in 10 countries.	Intimate wear and functional sportswear	8	24,788	7.9%	letter of credit	letter of credit
Total					157,720	50.1%		

BUSINESS

For the year ended 31 December 2018

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
1.	Muxi Clothing	Muxi Clothing is a private company incorporated in the PRC on 28 April 2014 and a domestic online maternity products retailer through e-commerce platforms, and principally engages in sales of maternity and nursing clothing, which operates a leading brand, Emxee (曼熙) for maternity products sold on Tmall.	Intimate wear	2	70,849	21.2%	30% deposit and 70% upon delivery	bank transfer
2.	Customer A	Customer A is a private company incorporated in Germany on 20 May 2005 and is the sourcing agent of a private brand of a German supermarket chain based in Germany with over 10,000 stores across Europe and the U.S. and an international chain of fashion retail clothing store having over 1,500 stores with its head offices in Belgium and Germany.	Intimate wear and functional sportswear	8	59,199	17.7%	20% deposit, 70% upon issue of bills of lading, and 10% within 30 days of delivery	bank transfer

BUSINESS

Rank	Customer	Background	Principal products we provided	Number of years of relationship as at the Latest Practicable Date	Approximate amount of revenue (RMB'000)	Approximate percentage of revenue of our Group	Credit term	Payment method
3.	TEFRON LTD	TEFRON LTD is a public company incorporated in Israel on 5 April 1977 and listed on the Tel Aviv Stock Exchange, and the sourcing agent for a number of international apparel brands. The international brands that it sources for include a multinational supermarket chain headquartered in the U.S. which operates over 11,200 stores in 27 countries and e-commerce websites in 10 countries, and an underwear designer and retailer based in the U.S. which sells its merchandise through its own website, online fashion retailers as well as over 200 retail stores across the U.S..	Intimate wear and functional sportswear	7	40,922	12.3%	60 days	bank transfer
4.	Customer C	Customer C is a private company incorporated in Israel on 19 September 1991 and principally engages in development, manufacturing and sales of apparel products for international brands and retail chains. The international brands that it sources for mainly based in the U.S. and Canada with presence across mass merchandise retailers, e-commerce websites, discount stores and department stores in the U.S., Canada and Puerto Rico.	Intimate wear and functional sportswear	8	20,132	6.0%	30/60/90 days	bank transfer
5.	Customer D	Customer D is a natural person lived in China who manages a private trademark registered in the United States and is principally engaged in trading garment and textiles, as well as other consumer goods.	Bras and under pants	2	12,468	3.7%	20% deposit and 80% upon delivery	bank transfer
Total					203,570	60.9%		

PRODUCTION**Production Sites**

We have two production bases, namely our Suxi Production Site and our Beiyuan Production Site, both located at Yiwu, Zhejiang Province, the PRC. We currently only conduct production operations at our Suxi Production Site, at which we produce most of our seamless products and some of our traditional products. Our Beiyuan Production Site is divided into phase I (which has been completed) and phase II (which is under construction). We intend to utilize our Beiyuan Production Site for expansion of our seamless production capacity and relevant research and development purpose. Details of our planned capacity expansion are set out in “– capacity expansion plan” below.

Suxi Production Site

Our Suxi Production Site is situated on three parcels of land with a site area of approximately 40,000 sq.m. and comprises six blocks of building and ancillary structures of a total GFA of approximately 56,759.5 sq.m. For further details of our Suxi Production Site, please refer to the Property Valuation Report as set out in Appendix III to this prospectus.

We currently only operate our Suxi Production Site for production operations which comprises three blocks of buildings for production and three blocks of staff dormitory. A portion of one block of its production buildings with a GFA of approximately 10,000 sq.m. is used as a warehouse for our Group’s inventory storage. Our Suxi Production Site houses all our production facilities which include our seamless circular knitting machines which form the core facilities of our production operations and contribute to our established position in global seamless intimate wear market. Our Suxi Production Site produces most of our seamless products and some of our traditional products.

Beiyuan Production Site

Our Beiyuan Production Site is situated on four parcels of land with a total site area of approximately 46,470.54 sq.m. and currently comprises phase I and phase II.

Construction of phase I of our Beiyuan Production Site was completed in September 2016 and comprises two blocks of building of a total GFA of approximately 31,744.78 sq.m. As at 28 February 2019, being the valuation date of the Property Valuation Report, we occupied portion of phase I of our Beiyuan Production Site with a GFA of approximately 15,240.78 sq.m. for office and warehousing purpose for our Group’s e-commerce business unit and the remaining portion with a GFA of approximately 16,504.00 sq.m. was temporarily held for investment, of which approximately 12,384.00 sq.m. is leased to certain Independent Third Parties. For further details of phase I of our Beiyuan Production Site, please refer to the Property Valuation Report as set out in Appendix III to this prospectus.

BUSINESS

Phase II of Beiyuan Production Site is under construction and will comprise two blocks of building, being a production building and a staff dormitory, with a total GFA of approximately 40,296.16 sq.m. Completion of phase II of Beiyuan Production Site is expected to complete in around November 2019.

Portion of the site area of our Beiyuan Production Site is currently vacant and reserved for future use depending on our business development.

We plan to utilize our Beiyuan Production Site for our capacity expansion plan for our seamless production. We will acquire and implement additional production equipment including a total of 200 new seamless circular knitting machines for our Beiyuan Production Site. Portion of phase I of our Beiyuan Production Site is currently leased to certain Independent Third Parties for rental income. Pursuant to the lease agreements with our existing tenants in respect of portion of phase I of our Beiyuan Production Site, we are entitled to terminate the lease agreements at any time by serving a 60-day notice. Depending on the implementation schedule of our capacity expansion plan, we will serve termination notice to the relevant tenants to vacate the premises for installation of production equipment. For further details of our capacity expansion plan, please refer to “– Capacity expansion plan” below.

Although construction of phase I of Beiyuan Production Site was completed in September 2016, we have decided not to use the same for production purpose because phase I of our Beiyuan Production Site, which comprises two blocks of buildings with a total GFA of approximately 31,744.78 sq.m., is insufficient to accommodate our planned capacity expansion with the proposed installation of among others 200 new seamless circular knitting machines and other ancillary equipment, as detailed in “– Capacity expansion plan” below.

Given the capacity expansion plan is an overall development plan of our Beiyuan Production Site, our Directors believe that it would lower the management efficiency and not in the benefits of our Group to only partially implement the capacity expansion plan by installing only some additional production equipment in phase I of our Beiyuan Production Site without the full support of ancillary facilities and staff dormitory. In formulating the capacity expansion plan and the timing of its implementation, our Directors have carefully considered its financial and business viability, as well as potential return to our Group, taking into account various factors including but not limited to the potential growth in the seamless intimate wear market, the demand for seamless products from customers, its competitiveness against competitors and the financial burden to our Group. As opposed to a piecemeal measure to deal with any sudden or occasional fluctuation in product demand, the capacity expansion plan which in essence is the establishment of a new production base, namely, our Beiyuan Production Site, and will mark a milestone of our Group in achieving our business strategies particularly in maintaining and strengthening our position in the seamless intimate wear market as well as to strengthen the confidence of our existing and potential customers in sourcing products from our Group. In addition, the capacity expansion plan is a proposal concluded after careful deliberation in various aspects including but not limited to the availability of floor area, number and types of production equipment and ancillary and supporting facilities to be installed, configuration and layout of equipment and facilities, design of floor plan, and

BUSINESS

recruitment and accommodation of additional staff, etc. Without a careful and detailed planning, any partial implementation of any expansion plan by piecemeal acquisition of new facilities may lower the management efficiency and increase the overall costs for reasons such as (i) incompatibility of existing facilities with additional ones, (ii) adjustment of equipment and facilities layout and arrangement, (iii) insufficient supporting facilities and staff.

With an aim to demonstrate dedication and financial commitment to expand our production capacity and provide confidence to our existing and potential customers in the stability and reliability of our Group, we completed phase I of Beiyuan Production Site in September 2016. To ensure our prudent development and financial soundness, having considered among others, our then financial condition and potential financial burden that it might have to bear, our Group decided to withhold the implementation of the capacity expansion plan, namely, the construction of phase II and acquisition of additional production equipment and ancillary facilities which in aggregate is estimated to involve a total cost of approximately RMB147.5 million.

To optimize the use of the idle constructed area for better returns, as at 28 February 2019, being the valuation date of the Property Valuation Report, we occupied portion of phase I of our Beiyuan Production Site with a GFA of approximately 15,240.78 sq.m. for office and warehousing purpose for our Group's e-commerce business unit and the remaining portion with a GFA of approximately 16,540.00 sq.m. was temporarily held for investment, of which approximately 12,384.00 sq.m. was leased to certain Independent Third Parties. The rental income from leasing of portion of our Beiyuan Production Site were nil, approximately RMB822,000 and RMB1,807,000 for the years ended 31 December 2016, 2017 and 2018, respectively. By leasing out portion of phase I of our Beiyuan Production Site, we would be able to generate rental income which to a certain extent cover the additional depreciation costs, pending completion of phase II of our Beiyuan Production Site for full implementation of our capacity expansion plan. As mentioned above, since we are entitled to terminate the relevant lease agreements by serving a 60-day notice, we expect that the leasing arrangements will not have any material impact on the implementation of our capacity expansion plan.

Production equipment

We currently house all our production equipment at our Suxi Production Site. The core facilities of our production operations are our seamless circular knitting machines for manufacturing seamless intimate wear products of various sizes ranging from 12 inches to 22 inches. All our seamless circular knitting machines were manufactured by Santoni, a world leader of seamless garment machines, and are widely used in seamless garment industry. These seamless circular knitting machines produce finished or semi-finished products based on pre-programmed computer commands. In addition to knitting machines, our other major production machinery includes sewing machines, moulding machines, computerized design system and various kinds of testing machines. We purchased all our production machinery from Independent Third Parties. As at the Latest Practicable Date, we owned most of our production machinery.

BUSINESS

The average expected useful life and replacement cycle of our major production machinery and equipment is 10 to 15 years. As at the Latest Practicable Date, the average age of our major production machinery and equipment was approximately five years.

The following table sets forth the details of units of our major production equipment as at the Latest Practicable Date.

Production equipment	Number of units	Years of service (approximately)	Approximate remaining useful lives (years)⁽¹⁾
Circular knitting machines (電子提花專用機) ⁽²⁾	261	5-10	Less than 1-5
Sewing machines (縫紉機)	462	1-10	Less than 1-9
Dyeing related equipment (染色相關設備) ⁽³⁾	57	6-10	Less than 1-4
Yarn wrapping machines (包紗機) ⁽³⁾	12	6-7	3-4
Overlock sewing machines (包縫機) ⁽⁴⁾	416	3-10	Less than 1-7
Setting machines (定型機) ⁽⁴⁾	42	Less than 1-10	Less than 1-10
Cutting machines (裁剪機) ⁽⁴⁾	40	Less than 1-10	Less than 1-10

Notes:

- (1) Based on expected useful life of 10 years. We are still able to continue to use our production equipment after their respective expected useful life as we believe that we have maintained our production equipment in good condition.
- (2) 30 new seamless circular knitting machines with a wider diameter were purchased during the end of 2018 in replacement of 28 existing seamless circular knitting machines via finance lease arrangement which has already commenced production in February 2019.
- (3) The dyeing related equipment and yarn wrapping machines at Suxi Production Site have sufficient production capacity to meet our additional seamless production in Beiyuan Production Site. In the event of exceeding the maximum production capacity of these equipment and machines, we are able to outsource certain parts of our production process which require the use of these equipment and machines to third party subcontracting manufacturers. As such, additional dyeing related equipment and yarn wrapping machines are not required for our capacity expansion plan in Beiyuan Production Site.
- (4) These machines are mainly used for the production of traditional intimate wear products.

BUSINESS

Production Capacity

Seamless intimate wear production

The table below sets out information about the estimated maximum production capacity and the estimated average utilization rate of our production facilities (namely our seamless circular knitting machines) for our seamless products during the Track Record Period:

(production time in hours,
except for day and
percentage)

	2016												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Actual production days ⁽¹⁾	27	15	30	28	27	30	30	30	30	28	30	30	335
Estimated production capacity ⁽²⁾	428	238	475	444	428	475	475	475	475	444	475	474	5,306
Actual production time ⁽³⁾	352	96	389	368	356	396	396	396	401	374	397	396	4,317
Estimate average utilization rate ⁽⁴⁾	82%	40%	82%	83%	83%	83%	83%	83%	84%	84%	84%	84%	81%
	2017												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Actual production days ⁽¹⁾	18	19	27	29	31	30	31	29	30	29	28	30	331
Estimated production capacity ⁽²⁾	285	301	428	459	491	475	491	459	475	459	444	476	5,243
Actual production time ⁽³⁾	273	112	376	375	383	391	390	405	397	393	411	406	4,312
Estimate average utilization rate ⁽⁴⁾	96%	37%	88%	82%	78%	82%	79%	88%	84%	86%	93%	85%	82%
	2018												Total
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Actual production days ⁽¹⁾	31	8	31	30	31	30	31	31	30	31	30	31	345
Estimated production capacity ⁽²⁾	491	127	491	475	491	475	491	491	475	491	475	491	5,465
Actual production time ⁽³⁾	383	76	366	378	432	409	407	408	400	405	389	406	4,459
Estimate average utilization rate ⁽⁴⁾	78%	60%	75%	80%	88%	86%	83%	83%	84%	83%	82%	83%	82%

Notes:

- (1) The actual production days refer to the number of days that our production facilities actually operated during the Track Record Period. The number of actual production days was usually lower in January/February because of the Chinese New Year holidays.
- (2) The production capacity is the estimated maximum number of hours that our seamless circular knitting machines could operate in the relevant year based on (i) 200 seamless circular knitting machines, taking into account repair and maintenance and machinery for product research and development purposes; (ii) actual production days for the year ended 31 December 2016, 2017 and 2018, respectively; and (iii) 22 hours per day, taking into account time for routine daily machinery check-up and maintenance.
- (3) The production time is the actual operating hours of our seamless circular knitting machines in the relevant year.

BUSINESS

- (4) The utilization rate is calculated based on the actual production time of the relevant year divided by the estimated maximum production capacity of the relevant year. As the production capacity is calculated based on the assumptions as disclosed in note (2) above, the estimated average utilization rates as set out in this table are for reference only and subject to change if the underlying assumptions are different. In calculation of the utilization rate, the time used for machinery adjustment and testing and parameter configuration in switching production among different sizes and/or types of products have not been taken into account. Furthermore, the Group has reserved certain buffer production capacity for occasional urgent product demands and emergency situations of machinery breakdown. As such, the Directors believe that the utilization rates of over 80% were persistently high during the Track Record Period.

Traditional intimate wear production

As compared to seamless intimate wear products, production of traditional products involves relatively simpler manufacturing process and does not form core part of our production operations. We produced in-house only less than two million pieces of traditional intimate wear products per year during the Track Record Period, representing less than 10% of our total sales volume, and from time to time outsourced production of traditional products to third party subcontracting manufacturers.

Capacity Expansion Plan

Background and reasons for our capacity expansion plan

As one of our business strategies, we intend to fortify our position in the seamless intimate wear market. We believe that expansion of our production capacity is essential to increase our market penetration and maintain our position in the seamless intimate wear market. According to the Frost & Sullivan Report, the production value of seamless intimate wear market in China is expected to grow at a CAGR of 13.02% between 2018 and 2022. In particular, due to a rise in the popularity of seamless intimate wear, seamless intimate wear has slowly been taking over traditional intimate wear. Not only can seamless technology be used in intimate wear, there are unlimited market potentials in this technology both locally in China and internationally according to the Frost and Sullivan Report. It can be applied to all types of clothing for different purposes such as swimwear, active wear, sleepwear and even protective wear providing safety and support for workers. There are more than 100 manufacturers in the seamless intimate wear production market in China, which explains the highly fragmented and competitive market nature, and with the top five players occupying around 13.3% of the total market share in terms of revenue in 2017. According to the Frost & Sullivan Report, we are the third largest seamless intimate wear manufacturer in the PRC with a market share of approximately 1.7% based on the total sales value in 2017. Possessing the seamless technology, our Group is able to accept orders for the production of a wide variety of products ranging from underpants to ski clothing and we are confident to capture the increasing demand for seamless intimate wear products with such market position.

Our business has been constrained by our seamless production capacity. We currently only operates the Suxi Production Site for production at which we produce most of our seamless and part of our traditional intimate wear products. Majority of the products manufactured in our production facility are seamless products. Our utilization rate has been

BUSINESS

persistently high and maintained at around 80% during the Track Record Period. In view of our continuous effort to capture business development opportunities and to expand its customers portfolio, in particular, our commencement of strategic exclusive cooperation with Muxi Clothing since September 2018, our production capacity is now insufficient to meet demands of customers due to the constraint on our production capacity. In order to capture business development opportunities and to expand our customer portfolio, taking into account various factors including (i) profitability; (ii) business scale, reputation, future potentials, management and quality control of the customers; (iii) industry outlook; (iv) risk of over-reliance on a few customers and/or products; (v) delivery schedules; and (vi) overall business strategies of our Group, we had to adjust and reallocate our production capacity previously reserved for overseas orders to produce seamless products for its domestic ODM customers to satisfy demands of our new and existing ODM customers. As a result, it resulted in a gradual decrease in overseas sales but an increase in PRC ODM sales.

We believe that the demand for seamless intimate wear products will continue to increase in the future as a result of (i) the expected market growth in the PRC and globally as demonstrated in the Frost & Sullivan Report; and (ii) the continued expansion of our ODM sales both locally and globally, which is supported by the progresses in our business development including the followings:

- In July 2018, we directly entered into a framework supply agreement for a renowned clothing retailer brand of a clothing retailer headquartered in Japan and dually listed on the Tokyo Stock Exchange and the Stock Exchange. Based on its order plans, it is expected that the said clothing retailer will have a purchase amount of US\$1.5 million for the 2018 fall and winter and 2019 spring and summer seasons, and US\$2.4 million for the 2019 fall and winter and 2020 spring and summer seasons, respectively. As at 21 March 2019, a total amount of approximately US\$2.5 million of purchase orders has been placed.
- In August 2018, we entered into a long-term supply agreement with a term of 10 years with a sourcing agent based in the U.S. of a brand holding company listed on the New York Stock Exchange which owns certain world-known apparel brands. We have commenced communication with the U.S. sourcing agent in relation to quotation, production capacity and sampling in relation to the product specifications and estimated products quantity provided by it.
- In September 2018, we entered into a legally binding strategic cooperation framework agreement with Muxi Clothing, which operates a leading brand for maternity products through e-commerce platforms in China with its products highly popular amongst Chinese mothers on Tmall, pursuant to which, Muxi Clothing has committed to purchase a minimum amount of not less than RMB150 million of nursing bras and other products of our Group for 2019 and our Group shall be the exclusive supplier of such products to Muxi Clothing. The corresponding sales volume of the aforesaid committed purchases of Muxi Clothing for 2019 is at least 4.5 million units subject to the types of products eventually decided by Muxi

BUSINESS

Clothing and specified to the Group. As at 21 March 2019, we have received order plans with a total committed purchase amount of approximately RMB20.0 million. We commenced sales to Muxi Clothing since 2017. Our major products sold to Muxi Clothing are nursing products given that we are its sole and exclusive nursing bras supplier. For the years ended 31 December 2017 and 2018, nursing bras products accounted for more than 88% of our total sales to Muxi Clothing respectively.

- In November 2018, we received order plans from a sourcing agent incorporated in Israel for a clothing brand based in Canada. Based on its order plans, it is expected that the said Canada-based clothing brand will have an aggregate purchase amount of approximately US\$2.7 million for 2019 spring and fall. As at 21 March 2019, a total amount of approximately US\$1.5 million of purchase orders has been placed.

Save for the committed purchases under the legally binding framework agreement with Muxi Clothing, the Planned Purchases for the specified year do not amount to committed purchases. We therefore have no contractual obligation to manufacture and supply to the customers pursuant thereto but will take the Planned Purchases into account in adjusting our own production capacity and formulating business strategies in determining whether to accept the purchase orders placed by those customers.

After taking into account the aforementioned framework supply agreements and/or order plans, that the estimated ODM sales volume for the year ending 31 December 2019 would consume up to approximately 60% of the estimated additional production capacity at the Beiyan Production Site for the year ending 31 December 2019, assuming that (i) the utilization rate of our Suxi Production Site remains stable at approximately 80%; and (ii) the 200 seamless circular knitting machines will be installed and commence operation in batches since July 2019 and reach full capacity by November 2019. Such sales volume has not taken into account the demand from the long-term supply agreement with the sourcing agent based in U.S. because no intended volume/amount was specified in the agreement.

In addition to the aforementioned framework supply agreements and/or order plans, we believe that the followings can further reflect the future demand for our products:

- Our Group's strategic cooperation with Muxi Clothing and became the sole exclusive supplier for its nursing bra products;
- Some of our customers requested our Group to increase production capacity to further cater for their demands, including but not limited to product types and product sizes requiring the use of seamless circular knitting machines with wider diameter;
- As at 21 March 2019, we have received orders to be shipped in 2019 in an aggregate amount of RMB117.4 million (based on exchange rate of USD1.00 = RMB6.6944 as at 22 March 2019), of which RMB89.4 million and RMB28.0 million represent orders received and to be delivered as at 31 December 2018 and 21 March 2019, respectively;

BUSINESS

- According to the Frost & Sullivan Report, China will continue to be a major producer of seamless intimate wear products for the world. China accounted for about 20.1% of the global production volume in 2013 and such proportion has been gradually increased to 27.4% in 2017. Frost & Sullivan expected China to take up approximately 32.3% of the global production of seamless products by 2022. The production value of seamless intimate wear market in China increased at a CAGR of 18.58% between 2013 and 2017 and such increasing trend is expected to continue at a CAGR of 13.02% between 2018 and 2022 and the production value of seamless intimate wear market in China will reach RMB22.14 billion by the 2022. Assuming the Group maintains its existing market share percentage of 1.7%, its share of the seamless intimate wear industry would amount to RMB376.4 million by 2022. If our product mix is to remain stable and at an average selling price of RMB10.2 per unit similar to that of the year ended 31 December 2017, the sales volume would increase to 36.9 million units, representing an increase of 88.3% by 2022, compared to that for the year ended 31 December 2017. With its utilization rate of more than 80% at the Suxi Production Site, our Group would not be able to capture such growth in the market in view of our current production capacity and our market share would only gradually decline as a result of the constraint on our production capacity despite the stronger customer base and a more diversified product portfolio after years of development; and
- We plan to capture additional market share through enhancing product design and research and development capability in order to develop our product portfolio. Through the capacity expansion plan, aside from increasing production capacity, we aims to increase the proportion of knitting machines with wider diameter among the 200 additional seamless circular knitting machines so that we can accept more orders for functional sportswear such as sports tops and jackets, as well as plus size intimate wear to better cater the market demand.

In light of the above, our Directors are of the view that there is sufficient demand for the increase in production capacity at the Beiyuan Production Site in our expansion plan.

BUSINESS

In view of the increasing demand for seamless intimate wear products, our Directors consider that it is in the best interest of our Group to pursue with the capacity expansion plan through our Beiyuan Production Site in order to capture such growing opportunities for the following reasons:

- Existing production capacity alone will not be sufficient for our Group to fulfil the demand in the aforementioned framework agreements. It is estimated that the estimated ODM sales volume for the year ending 31 December 2019 would consume up to approximately 60% of the estimated additional production capacity at the Beiyuan Production Site for the year ending 31 December 2019, on the assumption that (i) the utilization rate of our Suxi Production Site remains stable at approximately 80%; and (ii) the 200 seamless circular knitting machines will be installed and commence operation in batches since July 2019 and reach full capacity by November 2019, while replacing with the 30 new machinery is only an interim measures and could only slightly increase the overall production capacity by 1.0%;
- In the event that our seamless production capacity is insufficient to catch up with the product demands, we may need to outsource certain of its seamless production to third party subcontracting manufacturers. Nevertheless, save for Muxi Clothing, as far as our Directors understand, all the major ODM customers usually do not allow us to outsource production to third party manufacturers. Besides, even in the absence of customers' restriction, we generally does not outsource the knitting procedure which forms the core part of its seamless production process in order to ensure product quality and timeliness in product delivery due to the involvement of higher complexity and technological level as opposed to production of traditional products;
- According to the Frost & Sullivan Report, both overseas (including the U.S., Germany, U.K., France, Japan and the Netherlands) and PRC demands for intimate wear products are expected to grow at a CAGR in the range of 1.04% to 3.72%, and 7.95% from 2018 to 2022, respectively. Therefore, the capacity expansion plan of the Group is not only to capture growth opportunities under the framework agreements but also the expected growth in the market going forward;
- After years of strategic development, we now have a stronger customer base, which have remained stable at around 50 during the Track Record Period. With a growing customer base, we will be unable to fulfil the demand of all its customers by simply reallocating the production capacity from one customer to another, which would only limit the growth of our Group;
- Expansion of our Beiyuan Production Site demonstrated dedication and financial commitment to the Group's business and financial strength as indication of stability and reliability in the production and delivery of products in the intimate wear products, which will in turn provide confidence to customers in our Group, thus enhancing stickiness of its customers in particular products for international and renowned brands, and allow us to maintain competitiveness; and

BUSINESS

- Our product portfolio has been expanding. During the Track Record Period, we have accepted orders for several new types of products such as nursing bras, ski clothing products and sportswear. As the application of seamless technology is widely used in underwear, sportswear and shapewear, we are able to accept orders for the production of a diversity of products. During the Track Record Period, intimate wear products represented 84.3%, 81.8% and 75.5% of the total ODM sales volume. We intend to increase the proportion of circular knitting machines with wider diameter in its machinery portfolio which would enable us to manufacture loose-fitting products with larger size and measurements as opposed to close-fitting intimate wear, and thereby allow us the flexibility to accept more orders for the production of sportswear and plus size intimate wear to further widen its product portfolio. In 2018, we have commenced cooperation with a renowned clothing retailer brand of a clothing retailer headquartered in Japan for sportswear, in particular, to produce sports pants and tights, sports bras and sports top.

Expansion plan and estimated investment

Our estimated investment for the planned capacity expansion of our Beiyuan Production Site is approximately RMB147.5 million, which has been/will be funded by the net proceeds of the Global Offering and our internal and/or external resources, as follows:

- (i) approximately RMB60 million (equivalent to approximately HK\$70.6 million) (of which RMB18 million (equivalent to approximately HK\$21.2 million) has been paid) for construction costs of phase II of our Beiyuan Production Site with a total GFA of approximately 40,296.16 sq.m., which will comprise a production building of approximately 26,693.55 sq.m. and a staff dormitory of approximately 13,602.61 sq.m. Phase II of our Beiyuan Production Site is under construction and will complete in around November 2019. We intend to use approximately 20%, or approximately HK\$23.2 million, of the net proceeds of the Global Offering for funding part of our capital expenditures for construction of phase II of our Beiyuan Production Site, and the remaining approximately HK\$26.2 million will be funded by our internal and/or external resources; and
- (ii) approximately RMB87.5 million (or approximately HK\$102.9 million) for acquisition and implementation of new production equipment to be installed at our Beiyuan Production Site. It generally takes about six months for installation of our circular knitting machines from placing orders to purchase the equipment to actual operation. We currently intend to install 200 additional seamless circular knitting machines by end of 2019 which are estimated to increase our production capacity for seamless products by approximately 80% (as compared to that for the year ended 31 December 2018). Apart from seamless circular knitting machines, sewing machines and compressors, we will also acquire other ancillary facilities including additional transformers, stabilizers, exhaust fans, dryers, central air conditioning and other related utilities. We intend to use approximately 60%, or approximately HK\$70.0 million, will be used for funding the acquisition and implementation of the new production equipment to be installed at our Beiyuan Production Site, and the remaining approximately HK\$32.9 million will be funded by our internal and/or external resources.

BUSINESS

Details of our Beiyuan Production Site after completion of our planned capacity expansion are set out below:

Building No.	Number of Phase	Time of completion	Size	Use of property	Function/Number and types of production equipment
1.	Phase I	Completed in September 2016	15,872.39 sq.m.	Production	As our capacity expansion plan, we plan to install a total of 200 seamless circular knitting machines and ancillary facilities in batches starting from June 2019 in the production buildings at our Beiyuan Production Site.
2.	Phase I	Completed in September 2016	15,872.39 sq.m.	Production	See above.
3.	Phase II	Under construction and expected to complete in November 2019	26,693.55 sq.m.	Production	Post-knitting equipment will be acquired and delivered in September 2019 and installation of which will be completed in October 2019.
4.	Phase II	Under construction and expected to complete in November 2019	13,602.61 sq.m.	Staff dormitory	We will use this staff dormitory to accommodate additional staff to support our capacity expansion plan.

List of equipment and machinery

Set forth below is the list of equipment and machinery with the respective expected cost of purchase for our capacity expansion plan:

Types of major equipment/machinery	Number of unit	Expected cost of purchase (RMB million)
Seamless circular knitting machines	200	74
Sewing machines	300	4.5
Compressors	2	0.5
Ancillary facilities	21	5.5

Implementation plan

Our Beiyuan Production Site to be utilized for our capacity expansion plan for our seamless production comprises phase I and phase II. In relation to phase I of our Beiyuan Production Site, the construction of which was completed in September 2016, which comprises 2 blocks of buildings for seamless production. Instead of implementing phase I of our Beiyuan Production Site immediately upon its completion, having carefully considered its financial and business viability, our Directors are of the view that any partial implementation of any expansion plan by piecemeal acquisition of new facilities may lower the management efficiency and increase the overall costs. To ensure its prudent development and financial soundness, having considered among others, its then financial condition and potential financial burden that it might have to bear, the Group decided to withhold the implementation of the capacity expansion plan, namely, the construction of phase II and acquisition of additional production facilities which in aggregate is estimated to involve a total cost of approximately RMB147.5 million. In the meantime, to optimize the use of the idled constructed area of phase I of our Beiyuan Production Site, we decided to occupy a portion of phase I of our Beiyuan Production Site for office and warehousing purpose for our Group's e-commerce business unit and the remaining portion is temporarily held for investment, of which a portion of it was leased to certain Independent Third Parties.

To implement our capacity expansion plan upon the arrival of 200 seamless circular knitting machines in batches, we will exercise our right to terminate the lease agreements at any time by serving a 60-day notice as entitled pursuant to the lease agreements with our existing tenants in respect of the leased portion of phase I of our Beiyuan Production Site by serving termination notice to the relevant tenants to terminate the lease agreements and vacate the premises for installation of production equipment before the arrival of 200 seamless circular knitting machines in batches started from June 2019. The portion used for office and warehousing purpose will continue to serve our Group's e-commerce business unit upon the completion of construction of phase II of our Beiyuan Production Site.

BUSINESS

The construction of phase II of our Beiyuan Production Site is expected to commence in March 2019 and be completed in November 2019 with its foundation being laid since June 2018. Set forth below is the implementation plan in relation to phase II of our Beiyuan Production Site:

From Listing up to 30 June 2019

Stages	Implementation activities	Expected capital expenditures HK\$ (million)	Source of funding⁽⁴⁾ (Net proceeds from the Global Offering/internal resources) HK\$ (million)
Construction	Construction work of the buildings begins	49.4	23.2/26.2
Instalment payment for production facilities and equipment and installation of equipment	Instalment payment for production facilities and equipment Installation of seamless circular knitting machines, sewing machines, compressors and other ancillary facilities	102.9 ⁽¹⁾	70.0/32.9
Calibration and adjustment of equipment	Testing of seamless circular knitting machines	N/A	N/A

For the six months ending 31 December 2019

Stages	Implementation activities	Expected capital expenditures HK\$ (million)	Source of funding⁽³⁾ (Net proceeds from the Global Offering/internal resources) HK\$ (million)
Final payment for the production facilities and equipment	Final payment for the production facilities and equipment	102.9 ⁽¹⁾	70.0/32.9
Trial production	Trial production is expected to be commenced in July 2019	N/A	N/A

BUSINESS

Stages	Implementation activities	Expected capital expenditures <i>HK\$ (million)</i>	Source of funding⁽³⁾ (Net proceeds from the Global Offering/internal resources) <i>HK\$ (million)</i>
Completion of construction	Completion of construction	N/A	N/A
Reach full production capacity	Full capacity is expected to be reached in November 2019 whereby the production capacity for seamless products is estimated to increase by approximately 80% (as compared to that for the year ended 31 December 2018)	N/A	N/A
	Total:	<u>152.3⁽²⁾</u>	<u>93.2/59.1</u>

Notes:

- (1) The new production equipment and facilities to be installed under our expansion plan with a total purchase of approximately RMB87.5 million (equivalent to approximately HK\$102.9 million), comprising approximately RMB74.0 million for acquisition of a total of 200 additional seamless circular knitting machines, RMB6.0 million for acquisition of compressors and other ancillary facilities, RMB4.5 million for acquisition of additional sewing machines, and RMB3.0 million for installation expenses, will be used to produce seamless intimate wear products.
- (2) The estimated investment for the planned capacity expansion is approximately RMB147.5 million (equivalent to approximately HK\$173.5 million), of which RMB18 million (equivalent to approximately HK\$21.2 million) has been paid using our Group's internal resources as at the Latest Practicable Date for construction costs of phase II of our Beiyuan Production Site totaling to approximately RMB60 million (equivalent to approximately HK\$70.6 million), resulting in the outstanding balance of expected capital expenditures totaling to RMB129.5 million (equivalent to approximately HK\$152.3 million).
- (3) The net proceeds of approximately HK\$93.2 million (equivalent to approximately RMB79.2 million) from the Global Offering account for approximately 80% of the net proceeds to be received from the Global Offering, of which approximately 20% will be used for the construction of phase II of our Beiyuan Production Site, and approximately 60% will be used for the acquisition and installation of additional production equipment at our Beiyuan Production Site. Please refer to "Future Plans and Use of Proceeds – Use of Proceeds" in this prospectus for a detailed description of our use of proceeds.

Implementation schedule and arrangements

Given that phase I of our Beiyuan Production Site has already been completed, the additional equipment and ancillary facilities including the 200 new circular knitting machines will be delivered and installed in batches to enable our Beiyuan Production Site to commence contribution of additional production capacity to our Group from July 2019 onwards. Set forth below is the details of the implementation schedule and arrangements:

- (i) In around March/April 2019, our Group plans to enter into purchase agreement with Santoni, the machinery manufacturer and supplier for acquisition of the 200 seamless circular knitting machines, which are the core production equipment for the capacity expansion plan. Santoni, which is also the manufacturer and supplier of the existing circular knitting machines of our Group, is the leading Italian seamless garment machine manufacturer, which meets over 90% of the worldwide demand for seamless machines. Considering the quantity ordered and availability of stock, the 200 seamless circular knitting machines will have to be delivered to our Group in batches since June 2019 until October 2019. Our Group will make payment in installments in accordance with the delivery schedule for the seamless circular knitting machines. Our Group plans to install all the 200 new circular knitting machines at the existing production buildings of phase I of our Beiyuan Production Site.
- (ii) Upon delivery, it generally takes one month for installation which includes setting up ancillary and supporting facilities such as compressors, electricity supply, lighting and air-conditioning so that the seamless circular knitting machines can commence operation.
- (iii) The production building of phase II of our Beiyuan Production Site will be completed in November 2019 and used to house the additional production equipment for the post-knitting procedures which comprise cutting and sewing, trimming, finished production inspection, labeling and packing and cartonning and do not form part of the core production process of our Group. As a transitional arrangement, the post-knitting procedures for the work-in-progress after knitting at phase II of the Beiyuan Production Site will be carried out at our Suxi Production Site or outsourced to third party subcontracting manufacturers depending on the then production capacity of the existing facilities of our Group.
- (iv) A total number of about 640 additional staff will be required upon full implementation of the capacity expansion plan in November 2019 comprising: (a) 110 staff for operation of the 200 additional circular knitting machines; (ii) 500 staff for operation of the corresponding post-knitting procedures; and (iii) 30 staff for management. Operation of the seamless circular knitting machines requires less staff than post-knitting procedures because the seamless circular knitting machines are highly automated while the post-knitting procedures are relatively labor intensive. Since the 200 additional seamless circular knitting will be delivered to our Group in batches, the corresponding 110 operating staff will be engaged at different stages accordingly.

BUSINESS

- (v) A new staff dormitory to be located at phase II of the Beiyan Production will be completed in November 2019. As a transitional arrangement, our Group plans to lease apartments from Independent Third Parties to accommodate the additional staff.

The table below summarizes the schedule and arrangements before full implementation of the capacity expansion plan of the Beiyan Production Site:

Month 2019	Events	Location	Additional staff	Transitional arrangement
June	Delivery and installation of 30 seamless circular knitting machines (to commence production in July)	Existing production building of phase I	–	Lease third party accommodation for the additional staff before completion of staff dormitory Post-knitting procedures for the work-in-progress after knitting carried out in the Suxi Production Site or outsourced to third party subcontracting manufacturers
July	Delivery and installation of 30 seamless circular knitting machines (to commence production in August)	Existing production building of phase I	16 operating staff (for knitting procedures) 5 supporting staff	Lease third party accommodation for the additional staff before completion of staff dormitory
August	Delivery and installation of 50 seamless circular knitting machines (to commence production in September)	Existing production building of phase I	10 operating staff (for knitting procedures)	Same as above

BUSINESS

Month 2019	Events	Location	Additional staff	Transitional arrangement
September	Delivery and installation of 50 seamless circular knitting machines (to commence production in September)	Existing production building of phase I	26 operating staff (for knitting procedures)	Same as above
	Acquisition, delivery and installation of post-knitting equipment (principally 300 sewing machines)			
October	Delivery and installation of 40 seamless circular knitting machines (to commence production in November)	Existing production building of phase I	23 operating staff (for knitting procedures)	Same as above
	Completion of installation of post-knitting equipment			
November	Completion of new production building and staff dormitory of phase II	Existing production building of phase I	35 operating staff (for knitting procedures) 500 staff for post-knitting procedures 30 management staff (<i>Note</i>)	Full implementation of capacity expansion plan

Note: Supporting staff to be commenced working in July will be re-designated to 5 of the 30 management staff in November.

Cost benefit analysis

We expect our capacity expansion plan will enable us to capture additional demand from the market and will increase our Group's revenue and profit in the future, accompanying with additional depreciation and operating cost in relation to the new production facilities. We estimate the breakeven period, which is based on the forecasted sales and expenses upon commencement of production operation of our Beiyuan Production Site, to be within three months after commencement of its operation. We also estimate the payback period, being the years required by our Group to recover the relevant capital expected to be spent on the capacity expansion plan calculated based on our Group's forecasted earnings before interest, tax, depreciation and amortisation to be approximately 5.1 years after commencement of production operation of our Beiyuan Production Site. The abovementioned breakeven period and payback period estimations are subject to a number of risks and uncertainties, including the difficulty to forecast the level of customer orders with certainty. For details, please refer to "Risk Factors – Risks relating to our industry and business – There is no assurance that the implementation of our future plans will be successful" in this prospectus.

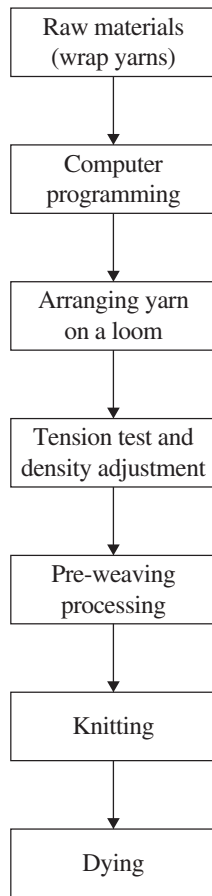
Production Process

Mr. Zhou Donggen, our production manager of Zhejiang Bonny, who has nearly 20 years of experience in the apparel industry, is responsible to supervise our overall production operations. We have an integrated production control system through which we closely monitor all key stages of our manufacturing processes. The production cycle of our products varies depending on the product produced and specific customer requirements. Due to its technology nature, seamless products generally require less production lead time (being the time required from procurement of raw materials to delivery of finished products) than corresponding traditional products. Typically, bras require 50 days (for seamless) to 90 days (for traditional) to produce, pants require 30 days (for seamless) to 75 days (for traditional) to produce, thermal wear require 60-70 days (for seamless) to 75 days (for traditional) to produce, loungewear require 80-90 days to produce, and functional sportswear require 80-90 days to produce.

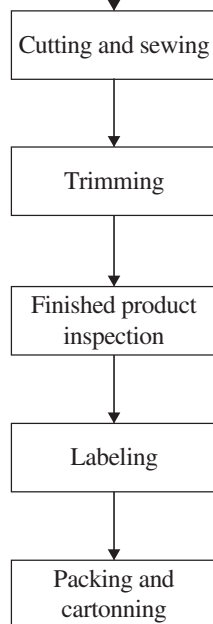
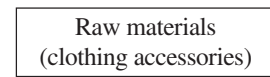
BUSINESS

The following diagrams summarize the key steps of our manufacturing processes.

For seamless products



For traditional products



Repair and maintenance

We repair and maintain our machinery and equipment on a regular basis. In addition, we carry out our major machinery and equipment repairing, inspection and/or maintenance during off seasons every year in order to avoid material disruption to our production. If any malfunction or hazard in respect of our equipment and machinery is detected during our regular maintenance within the warranty period, the relevant manufacturers will assist us in resolving such problems. We may engage third party service providers to repair and maintain our machinery and equipment on an as needed basis. We have not experienced any material or prolonged operational interruption due to equipment or machinery failure during the Track Record Period.

Outsourced manufacturing

We from time to time outsource our production to third party subcontracting manufacturers in respect of production of some of our traditional intimate wear products if we do not have sufficient production capacity to meet demands of customers as well as certain manufacturing procedures which do not form key parts of our production process and require specialised equipment such as tie-dyeing. Our Directors consider that making investment of machinery and labor to engage in such processes is not an effective use of funds and resources while subcontracting is more cost-effective and time-efficient.

We select our subcontractors upon considering several key factors such as their location, reliability, production capacity, product quality and price. We did not enter into any long-term subcontracting agreement during the Track Record Period, and we engaged subcontractors based on our needs. We negotiate the terms of each subcontracting order with independent subcontractors on a job-by-job basis. Our subcontractors are usually responsible for sourcing of materials for the subcontracting processes. We send our quality control personnel to the production facility of our subcontractor to conduct quality check during the subcontracting process. We also perform quality control tests on the semi-finished/finished products processed by our subcontractors before further using them in our production process and/or delivering the finished products to us.

For the years ended 31 December 2016, 2017 and 2018, we had engaged 14, 11 and 18 subcontractors for the aforesaid processing procedures and the subcontracting fees paid to such subcontractors amounted to approximately RMB7.4 million, RMB3.1 million and RMB5.7 million, respectively. Each of the subcontractors engaged by us during the Track Record Period and up to the Latest Practicable Date is an Independent Third Party.

During the Track Record Period, we did not experience any difficulties in procuring services from subcontractors, nor have we encountered any material delay in the provision of services by our subcontractors which caused material disruption to our operations.

Since January 2018, we have commenced to engage production subcontractors provide on-site subcontracting staff to replace the dispatched staff. For details of our production subcontracting arrangement, please refer to “– Employees – Labor dispatch arrangements” in this section.

BUSINESS

SUPPLIERS AND RAW MATERIALS

The principal raw materials we use in our production include yarns, accessory clothing parts, dyes and packaging materials. The yarns we source for intimate wear are mainly made of nylon. We carefully select our suppliers and require them to satisfy certain evaluation and assessment criteria. For new suppliers, we evaluate, among others, their production capacity, quality and reliability before we commence a business relationship with them. Our customers generally do not designate suppliers of raw materials for their products. For the purpose of our product design and research and development, as well as to better satisfy our customers' needs, we from time to time work with our suppliers on development of functional materials.

We enter into one-year framework supply agreements with certain of our major suppliers particularly for our principal raw materials such as yarns. Specific product type, unit price, quantity, delivery timeline and other special items are set out in each purchase order we send to our suppliers. For our ODM sales, we generally place purchase orders with our suppliers after we have received a purchase order from the relevant customer. For our domestic branded sales, we procure from our selected suppliers based on our production plans and schedules. Most of our raw material suppliers are located in the PRC, and most of our raw material purchases are denominated in RMB. Payment terms granted by our suppliers vary depending on a number of factors including our relationships with them and the size of the transactions. While some of them require full prepayment, our suppliers typically provide us with credit terms of two to three months after delivery. We typically settle our trade payables by bank transfers or bank bills. Delivery charges are typically borne by our suppliers.

We closely monitor the quality of all raw materials provided by our suppliers to ensure that all raw materials comply with our requirements. We arrange for our quality control staff to carry out on-site inspections on raw materials at our suppliers' facilities before they are delivered to us. We evaluate our suppliers periodically based on a range of factors, including raw material quality and the ability to meet our delivery timeline. Please refer to "– Quality Control – Incoming quality control" in this section for more details. During the Track Record Period, we did not have material disputes with our suppliers.

We take into account, among others, the prices of the principal raw materials when we negotiate with our ODM customers and fix retail prices of branded products. We also optimize our production procedures to ensure cost-effective use of raw materials. We have not experienced any shortage of raw materials or quality issues with our raw materials during the Track Record Period that materially affected our operations.

During the Track Record Period and as at the Latest Practicable Date, we have established stable relationship with our five largest suppliers for a range of approximately four months to nine years. For the years ended 31 December 2016, 2017 and 2018, purchases from our five largest suppliers together accounted for approximately 36.8%, 37.3% and 35.1% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 14.2%, 16.4% and 14.2% of our total purchases, respectively. Except for Deshipu New Materials, which was our largest supplier for the three years ended 31 December 2016, 2017 and 2018, none of our Directors or their respective associates or any Shareholder (whom to the knowledge of our Directors owns more than 5% of the issued Shares) had any interest in any of our five largest suppliers during the Track Record Period and as of the Latest Practicable Date. For further details of the transactions between our Group and Deshipu New Materials, please refer to "Continuing Connected Transactions" in this prospectus.

BUSINESS

The following tables set out a summary of our top five suppliers during the Track Record Period:

For the year ended 31 December 2016

Rank	Supplier	Business activities	Principal raw materials we procured	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials (RMB'000)	Approximate percentage of purchases of our Group	Credit term	Payment method
1	Deshipu New Materials	Design and sales of polyamide, wrap yarns and chemical fibre	yarns	5	13,922	14.2%	90 days	bill of acceptance/ bank transfer
2	Yiwu Dingheng Chemical Fibre Company Limited* (義烏市鼎亨化纖有限公司)	Production and sales of wrap yarns and chemical fibre	yarns	5	8,173	8.3%	90 days	bill of acceptance
3	Guangdong Smart Team Textiles Technology Company Limited* (廣東兆天紡織科技有限公司)	Production and sales of clothing and textiles	clothing accessories	6	7,071	7.2%	60 days	bill of acceptance
4	Nilit Nylon Technology (Suzhou) Company Limited* (屹立錦綸科技(蘇州)有限公司)	Design and sales of polyamide	yarns	10	3,766	3.8%	prepayment	bank transfer
5	Yiwu Tianli Brassiere Company Limited* (義烏市天麗文胸有限公司)	Production and sales of bra cups and its accessories	clothing accessories	4	3,289	3.3%	90 days	bill of acceptance
Total					36,221	36.8%		

BUSINESS

For the year ended 31 December 2017

Rank	Supplier	Business activities	Principal raw materials we procured	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials (RMB'000)	Approximate percentage of purchases of our Group	Credit term	Payment method
1	Deshipu New Materials	Design and sales of polyamide, wrap yarns and chemical fibre	yarns	5	16,589	16.4%	90 days	bill of acceptance/ bank transfer
2	Nilit Nylon Technology (Suzhou) Company Limited* (屹立錦綸科技(蘇州)有限公司)	Design and sales of polyamide	yarns	10	6,940	6.8%	prepayment	bank transfer
3	Yiwu Dingheng Chemical Fibre Company Limited* (義烏市鼎亨化纖有限公司)	Production and sales of wrap yarns and chemical fibre	yarns	5	6,702	6.6%	90 days	bill of acceptance
4	Huizhou City Jun Qi Stretch Fabric Company Limited* (惠州市君琦彈力織物有限公司)	Production and sales of plastic straps, yarns and underwear accessories	clothing accessories	7	4,318	4.2%	60 days	bill of acceptance
5	Yiwu Tianli Brassiere Company Limited* (義烏市天麗文胸有限公司)	Production and sales of bra cups and its accessories	clothing accessories	4	3,339	3.3%	90 days	bill of acceptance
Total					37,888	37.3%		

BUSINESS

For the year ended 31 December 2018

Rank	Supplier	Business activities	Principal raw materials we Procured	Number of years of relationship as at the Latest Practicable Date	Approximate amount of purchase of materials (RMB'000)	Approximate percentage of purchases of our Group	Credit term	Payment method
1	Deshipu New Materials	Design and sales of polyamide, wrap yarns and chemical fibre	yarns	5	20,932	14.2%	90 days	bill of acceptance/ bank transfer
2	Nilit Nylon Technology (Suzhou) Company Limited* (屹立錦綸科技(蘇州)有限公司)	Design and sales of polyamide	yarns	10	11,842	8.1%	prepayment	bank transfer
3	Supplier B	Production and sales of polyamide fibres and related processing products, technology consulting and research and development	yarns	4	8,376	5.7%	prepayment	bank transfer
4	Huizhou City Jun Qi Stretch Fabric Company Limited* (惠州市君琦彈力織物有限公司)	Production and sales of plastic straps, yarns and underwear accessories	clothing accessories	7	5,493	3.7%	30 days	bank transfer
5	Yiwu Dingheng Chemical Fibre Company Limited* (義烏市鼎亨化纖有限公司)	Production and sales of wrap yarns and chemical fibre	yarns	5	5,008	3.4%	90 days	bill of acceptance
Total					51,651	35.1%		

QUALITY CONTROL

Product quality

We emphasize quality control in all aspects of our business to protect our brand value and the image of our Group. From sourcing of raw materials, production, packaging and inventory storage to sale and delivery, we strictly control the quality of our operations. In order to monitor the production quality and ensure that our products meet benchmarks and specifications of our customers and ourselves, we have implemented various quality-control checks into our production process.

Our quality control department, which is directly under the supervision of Mr. Zhou Donggen, production manager of Zhejiang Bonny, was staffed with seven quality control personnel as at the Latest Practicable Date. Our quality control department is responsible for ensuring that our raw materials used or semi-finished and finished printing products produced by us pass through our quality control process and meet customers' standards. We also communicate regularly with our customers to obtain feedback on the quality of our products.

In recognition of our quality assurance practice, we have obtained ISO 9001 accreditation for our quality management system since 2010 and continued to conform with ISO 9001 management system standards as at the Latest Practicable Date. Since 2016, we have obtained the Oeko-Tex[®] Standard 100 certification (product class II) which demonstrated our dedication to product safety. In 2017, we were awarded 2017 National Quality Benchmark for Bra (2017 年度全國文胸質量標桿) by China Knitting Industrial Association (中國針織工業協會) which demonstrated our high quality standard nationally. Our quality control is also evidenced by our business relationships with international brands which have stringent demands in their selection of qualified suppliers for their products.

Incoming Quality Control

To ensure our product quality, we only source from reliable suppliers who have a satisfactory record of quality and on-time delivery. For new suppliers, we evaluate among others their production capacity, quality and reliability before we commence our business relationship with them. In addition, we conduct random sample checks on incoming raw materials to ensure that they meet our quality requirements. If the quality of the supply does not meet our standards, we will return it to our suppliers for replacement or refund. Only raw materials with samples which have passed our incoming quality control will be delivered to our warehouse and utilized in our production. During the Track Record Period, we did not have any material claims against our suppliers due to defective quality of raw materials.

All finished products manufactured and semi-finished products processed by our subcontractors are also inspected before acceptance into our warehouse or being further utilized in our production process. We also conduct factory visit regularly to sample check the products of subcontractors and monitor the production process. Before accepting the goods, our quality control staff will inspect the goods produced by subcontractors against the specifications as stated in the supply agreement entered into between us and the subcontractors.

In-Process Quality Control

In-process quality control is conducted throughout our production process. Production quality control checkpoints are set up throughout the production process to ensure that the semi-finished goods meet the production specifications. Usually, checking is performed on random sampling basis. Any defective goods identified are re-processed before proceeding to the next step.

Out-going Quality Control

Finished goods are inspected on a random sampling basis to further minimise the risk of selling defective products to customers. Sample checks on each batch of finished products will be conducted before packaging and delivery to our customers or to our retail outlets.

INVENTORY CONTROL AND LOGISTICS

Inventory control

Our inventory consists of raw materials for our production, work-in-progress and finished products. We strive to reduce excess levels of raw materials, work-in-progress and finished products in our inventory while meeting the supply demands of our ODM customers and our retail outlets.

We use our ERP system to assist us in planning and managing our inventory control. Our inventory system software is able to produce real time information of inventories, and provides our management team with clear visibility on the inventory data including inventory levels, inventory age, inventory composition and inventory turnover rate. We also carry out physical stock counts on a regular basis.

Raw materials

We generally place orders for raw materials after we have received internal orders from our headquarters for our branded sales or confirmed purchase orders from our customers for our ODM sales. We prepare our internal orders for production based on our production plans and schedules which in turn are formulated after taking into historical sales patterns and planned sales targets as well as occasional marketing and promotional activities of our retail outlets.

We also time the delivery of the raw materials required for our internal orders or purchase orders in a manner that is coordinated with our delivery dates to retail outlets or customers as the case maybe so as to minimize the time we have to store raw materials prior to production.

BUSINESS

Finished products

For our ODM sales, finished goods inventory occurs where we store the finished products pending shipment to our customers. Our information technology system keeps track of the inventory level of finished goods and itinerary of shipments on a real-time basis.

For our branded sales, we closely monitor the inventory levels of finished products at each of our retail outlets. We classify our retail outlets according to their monthly sales amounts, product portfolio and market positioning. For retail outlets which have strong profitability with focus on sales of seasonal items, given their product nature and higher inventory turnover rate, we usually maintain a lower stock-to-sales level.

To reduce the risk of building up aged inventory, we carry out physical stock counts periodically, and allow higher level of discount percentage of discount for out-of-season or aged products. To clear our inventory of finished products, we also participate in store anniversary sales or festival promotional sales as directed by department stores or shopping malls where our concession counters situate, set aside discounted corners at our self-operated retail outlets and organise internal special offer sales from time to time. We also sell aged stock at a discount through our self-operated retail outlets and annual internal special offer sales.

Logistics

We believe an effective logistics management system is essential to our business performance. Our central logistics center located at our headquarters in Yiwu, which is supported by our 16 branch companies across the country, is responsible for distributing our products to ports for exportation to our overseas customers and our retail outlets all over the PRC. For our overseas sales, we adopt FOB Shanghai as the international trade term.

We hire Independent Third Party logistics service providers to deliver our products from our central logistics center in Yiwu to ports for exportation and our retail outlets all over the PRC. We typically enter into annual agreements with logistics service providers. Under these agreements, the logistics service providers bear our insurance expenses and risks during transportation. The logistics service providers are responsible for all damages resulting from delayed delivery and indemnify us against all claims and losses arising out of the conduct of their drivers and employees. In addition, the logistics service providers are not allowed to subcontract the work to third parties without our prior written consent. Our logistics service providers typically bear the risks and losses associated with the delivery. For our overseas sales, our customers are responsible for the shipment and insurance thereon.

BUSINESS

AWARDS AND RECOGNITIONS

We have received a number of awards and recognitions over the past years, among which are the followings:–

Award year	Expiry date	Award/recognition	Awarding Institution/authority
2019	15 February 2020	Gold Certificate of Compliance, which was first obtained in 2018 and renewed in 2019	World Responsible Accredited Production
2018	29 November 2021	High and New Technology Enterprise Certificate (高新技術 企業證書)	Science Technology Department of Zhejiang Province (浙江省科學技 術廳), Zhejiang Provincial Department of Finance (浙江省財 政廳), Zhejiang Provincial Office of State Administration of Taxation (浙江省稅務局) and Zhejiang Local Taxation Bureau (浙江省地方稅務局)
2017	N/A	2017 National Quality Benchmark for Bra (2017年度全 國文胸質量標杆)	China Knitting Industrial Association (中國針織工業協會)
2016	December 2019	Work Safety Standardization Certificate (安全生產標準化證書)	State Administration of Work Safety (國家安全生產監督管理局)
2016 and 2017	N/A	2015-2016 and 2016-2017 Annual Best Brand in China Lingerie Industry at Shenzhen International Brand Underwear Fair (SIUF) (2015-2016年度及 2016-2017年度SIUF中國內衣行業 品牌價值獎)	Chinese Underwear Culture Week Organizing Committee (中國內衣 文化周組委會) China (Shenzhen) International Brand Underwear Exhibition Committee (中國(深圳)國際品牌 內衣展組委會)
2016	N/A	2015-2016 Annual Public Welfare Medal in China Lingerie Industry at Shenzhen International Brand Underwear Fair (SIUF) (2015- 2016年度SIUF中國內衣行業年度 公益獎)	Chinese Underwear Culture Week Organizing Committee (中國內衣 文化周組委會) China (Shenzhen) International Brand Underwear Exhibition Committee (中國(深圳)國際品牌 內衣展組委會)

BUSINESS

Award year	Expiry date	Award/recognition	Awarding Institution/authority
2016	2 May 2019	ISO 14001 (environmental management system certification), which was first obtained in 2010, and renewed in 2013 and 2016 respectively.	Shanghai Ingeer Certification Assessment Co., Ltd (上海英格爾認證有限公司)
2016	2 May 2019	ISO 9001 (quality management system certification), which was first obtained in 2010, and renewed in 2013 and 2016 respectively.	Shanghai Ingeer Certification Assessment Co., Ltd (上海英格爾認證有限公司)
2015	N/A	Authorized Economic Operator (AEO) Senior Enterprise Certification (AEO 高級認證企業)	General Administration of Customs of the PRC Hangzhou Bureau (中國杭州海關)
2014	N/A	Bonny Lingerie Products– Top 10 Best-Selling Brand of Like Product in PRC Market in 2013 (博尼品牌內衣–2013全國市場同類產品十大暢銷品牌)	China Industry Information Issuing Centre (中國行業企業信息發佈中心)
2013	N/A	Quality Award of the Government of Yiwu City (義烏市人民政府質量獎)	Yiwu Municipal People’s Government (義烏市人民政府)

RISK MANAGEMENT

We have formulated and implemented a risk management policy to address various potential risks identified in relation to our operations, including strategic risks, operational risks, financial risks, and legal risks. Our risk management policy sets forth procedures to identify, analyze, categorize, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management and assessing and updating our risk management policy on an annual basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

COMPETITION**Seamless intimate wear market**

In 2017, there are approximately 25,000 to 30,000 seamless machines in the world, where China accounted for about 12% of the global supply of the machines and the major production base is highly concentrated in Yiwu, Zhejiang Province. It is estimated that Yiwu accounted for more than 70% of the country's supply of seamless machines and around 10% of the global supply. It is seen that there are more than 100 manufacturers in the seamless intimate wear production market in China, which explains the highly fragmented and competitive market nature. In China, manufacturers of seamless intimate wear are mainly ODM/OEMs for foreign retail brands, given that the current market penetration is still low in China and exporting seamless intimate wear to Europe and America yields a higher profit margin. The market is expected to see more intense competition as there will be more lingerie manufacturers trying to enter the seamless intimate wear market given its higher profit margin and growth potential and prospect.

Leveraging our strong research and development capability, coupled with our profound technical expertise in seamless intimate wear production, we have successfully penetrated into the niche segment of nursing bras which require specialized skills in product design and use of materials through years of development. We became the sole and exclusive ODM supplier of nursing bras for Muxi Clothing, a domestic online maternity products retailer which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on T-mall, since 2017. We entered into a legally binding strategic cooperation framework agreement with Muxi Clothing in September 2018 pursuant to which among others Muxi Clothing has committed to purchase a minimum amount of not less than RMB150 million of nursing bras and other products of our Group for 2019 and we shall be the exclusive supplier of such products to Muxi Clothing. Accordingly, our sales of nursing bras increased substantially from approximately RMB83,000 for the year ended 31 December 2016 to approximately RMB26.2 million for the year ended 31 December 2017 and further to approximately RMB85.6 million for the year ended 31 December 2018. Our success in business development with Muxi Clothing has also attracted other overseas ODM customers to source nursing bras from us. During the Track Record Period, we also supply to a leading nursing bras seller on Amazon e-commerce platform, and to one of the leading brands for nursing bras in the United States. In China, high birth rates, the "two-child" policy and the growing popularity of e-retailing have been driving the growth of the maternity intimate wear market. Premium brands are now making their products available on various online shopping portals. In the coming years, the growth in online sales of maternity intimate wear is likely to fuel the growth of the overall maternity intimate wear market.

On the other hand, China is also expected to become one of the major production bases in the world with the largest growth potential, based on the rapid growing investment on seamless equipment by Chinese manufacturers. The key entry barriers of the seamless intimate wear manufacturing industry in China are production capacity and facilities, and customer base and sales channels. Our Directors believe that our established market position supported by our seamless production capacity coupled with our proven track record to serve reputable brands and established business relationships with ODM customers distinguish ourselves from our competitors in the seamless intimate wear market.

BUSINESS

Intimate wear retail market in China

On the other hand, in respect of our branded sales, the intimate wear retail market in China is a moderately fragmented market with over 3,000 market players. In 2017, the top five players in the intimate wear industry accounted for a total of 5.63% of the whole intimate wear market in China. The intimate wear retail market is benefited from increasing spending on intimate wear and increasing demand for high quality intimate wear. Market players in the intimate wear retail market in the PRC mainly compete in terms of their understanding of consumer needs, sales channels as well as effectiveness in brand strategy and communications with target consumers. With maintenance of an effective and structured domestic retail network and continuous focus on brand management, our strategic collaboration with Muxi Clothing and intention to introduce its maternity products to our domestic retail network as well as cost advantage arising from economies of scale for design and production of seamless products, we believe we will be able to compete in the retail intimate wear market in China.

PROPERTY

Owned properties

As at the Latest Practicable Date, we owned two properties, namely our Suxi Production Site and our Beiyuan Production Site, both located in Yiwu, Zhejiang Province, the PRC. AVISTA Valuation Advisory Limited, an independent valuer, has valued the said properties as at 28 February 2019. The text of the Property Valuation Report issued by AVISTA Valuation Advisory Limited is set out in Appendix III to this prospectus.

No.		Total Site Area	Total GFA	Usage
1.	Suxi Production Site	40,000 sq.m.	56,759.50 sq.m.	We occupied this property as our Suxi Production Site for our production purpose.
2.	Beiyuan Production Site (phase 1)	46,470.54 sq.m	31,744.78 sq.m.	As at 28 February 2019, being the valuation date of the Property Valuation Report, we occupied portion of property with a GFA of approximately 15,240.78 sq.m. was occupied by our Group. Whilst the remaining portion with a GFA of approximately 16,504.00 sq.m. was held for investment, of which approximately 12,384.00 sq.m. was leased to certain Independent Third Parties. The rental income from leasing of portion of our Beiyuan Production Site were nil, approximately RMB822,000 and RMB1,807,000 for the years ended 31 December 2016, 2017 and 2018, respectively.

BUSINESS

Leased properties

As at the Latest Practicable Date, we leased 25 properties with an aggregate GFA of approximately 4,605.4 sq.m. from Independent Third Parties to support our business activities and operations. The leased properties are mainly used as our offices and self-operated retail stores throughout the PRC.

The terms of our lease agreements are generally one to three years. All of the lease agreements executed by us are renewable upon expiration and with a fixed amount of rental fees throughout the lease term.

INTELLECTUAL PROPERTY

We rely on a combination of applicable intellectual property laws as well as confidentiality agreements to protect our product design, trade secrets and other intellectual property rights. As at the Latest Practicable Date, we had 77 registered trademarks in the PRC and one registered trademark in Hong Kong. In addition, as at the Latest Practicable Date, we had a total of 30 registered patents and 14 registered software copyrights in the PRC and four registered domain names. For further details on the list of intellectual property rights of our Group, please refer to “Statutory and General Information – B. Further Information about our Business – 2. Our Intellectual Property Rights” in Appendix V to this prospectus.

As at the Latest Practicable Date, we were not sued for infringement of intellectual property rights of any kind by any third parties, and to the best of knowledge, information and belief of our Directors, we were not aware of any actual or threatened proceedings, disputes or claims of a material extent relating to intellectual property rights against us. Nevertheless, notwithstanding our continuing efforts to safeguard our own intellectual property rights, we cannot provide full assurance that other third parties will not misappropriate, misuse or infringe our rights or that we will not be sued by other third parties for infringement of their intellectual property rights.

INSURANCE

We maintain adequate insurance policies to safeguard against risks and unexpected events. We have purchased property insurance covering our facilities, equipment and our inventories (including raw materials and finished goods). We have also purchased fixed asset insurance, inventory insurance and vehicle insurance. In addition, we participate in government sponsored social security programs including pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing fund. Our Directors believe that our insurance policies are adequate and consistent with the common industry practice in the PRC. During the Track Record Period and up to the Latest Practicable Date, we have not received any material insurance claims against us.

BUSINESS

EMPLOYEES

As at the Latest Practicable Date, we had 764 full-time employees in the PRC. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:–

Functional role	Number of employees
Executive Officers	11
Product Design, Research and Development	37
Sales and Marketing	472
Supply Chain Management	35
Production	138
Quality Control	8
Information Technology	2
Human Resources and Administration	21
Accounting and Finance	27
Logistics	22
Total	773

We believe our success depends heavily upon our employees' provision of consistent, quality and reliable services. In order to attract, retain and develop the knowledge, skill level and quality of our employees, we place a strong emphasis on training our employees. We provide on-site training periodically and across operational functions, including introductory training for new employees and technical training.

We enter into individual employment contracts with our employees. We review the performance of our employees on a regular basis, the results of which are used in his or her salary review and promotion appraisal. In order to attract and retain quality personnel and to preserve competitiveness in the labor market, we also conduct research on the remuneration packages that are offered by other companies of comparable size in the same industry.

Pursuant to regulations in each of the local jurisdictions where we operate, we make contributions to various employee benefit plans. Employee benefits covered by these arrangements include employee benefits required by PRC laws and regulations as well as incentives for increasing production quantity, accommodations, meals and travel allowances. We also contribute to social security insurance covering pension insurance, medical insurance, unemployment insurance, personal injury insurance and maternity insurance (where applicable) as well as a housing fund for our employees according to the relevant PRC laws and regulations.

We incurred employee benefit expense (excluding directors' and chief executive's remuneration) of approximately RMB88.1 million, RMB79.6 million and RMB57.9 million for the year ended 31 December 2016, 2017 and 2018, respectively.

BUSINESS

As at the Latest Practicable Date, we had one workers' union in the PRC. We consider our relationship with our employees to be satisfactory and had not experienced any material issues with our employees or disruption to our operation due to labor disputes or strikes, recruitment difficulties and labor retention problems during the Track Record Period.

Labor dispatch arrangements

In addition to direct employment, during the Track Record Period, we entered into labor dispatch agreement with an Independent Third Party employment agent. Our Directors confirmed that most of the staff dispatched to us by the employment agent were production workers. Our Directors consider that the labor dispatch arrangement enabled us to maintain a sufficient while flexible level of labor force to meet our operation requirements.

The term of our current labor dispatch agreement with the said employment agent is from 1 January 2018 to 31 December 2019. Pursuant to the labor dispatch agreement, we paid service fees at a rate of RMB80 per staff to the employment agent, and the employment agent provided suitable dispatched staff to work for our Group based on our job requirements. Our Group was responsible to pay wages to the dispatched staff and ensure their occupational health and safety, while the employment agent was responsible to arrange for their insurances and other welfare conditions as required by the PRC laws and regulations. The dispatched staff were employed by the employment agent, and hence our Group was not their employer.

During the Track Record Period, Zhejiang Bonny utilized and engaged dispatched staff. Pursuant to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》) which came into effect on 1 March 2014, if the number of dispatched staff utilized by an employer exceeds 10% of the total number of its workers prior to the effective date of the provisions, such employer shall develop a scheme for employment adjustments to reduce the proportion to the specified level within two years from the effective date of the provisions. For the year ended 31 December 2016, 2017 and 2018, the average number of dispatched staff per month under the labor dispatch arrangement was about 948, 824 and 171 which accounted for approximately 50%, 52% and 19% of the total number of staff of Zhejiang Bonny, and the total staff cost involved (excluding the service fees paid to the employment agent) were approximately RMB36.5 million, RMB34.5 million and RMB7.7 million and the payment to the employment agent was approximately RMB0.9 million, RMB0.8 million and RMB0.2 million. The number of dispatched staff engaged by Zhejiang Bonny had therefore exceeded the regulatory threshold of 10% of the total number of their respective workers under the Interim Provisions on Labor Dispatch during the Track Record Period.

To rectify the situation, as well as to satisfy our actual production needs, since January 2018, we have commenced to engage production subcontractors to provide on-site subcontracting staff to replace the dispatched staff. The number of dispatched staff engaged by Zhejiang Bonny has reduced to below the regulatory limit since September 2018. For details, please refer to “– Compliance – Non-compliance incidents” in this section.

BUSINESS

As advised by our PRC Legal Adviser, it is legal for the production subcontractor to arrange for its production workers to work at our Suxi Production Site under production subcontracting arrangement. As there is no employment contract entered into between the manufacturing workers provided by the production subcontractor and our Group, we do not have any obligation to pay salaries, social insurance and housing provident fund contributions under the PRC laws and regulations for the manufacturing workers provided by the production subcontractor.

As further advised by our PRC Legal Adviser, our on-site production subcontracting arrangements are different from and do not constitute labor dispatch arrangements, and are therefore not subject to laws and regulations applicable to labor dispatch arrangements. Under labor dispatch arrangements, parties generally agree on the number of workers, wages of the workers and the period of dispatch. A company that employs labor dispatch agency generally applies its human resources policy to the workers dispatched to it. The dispatched staff and the company's own staff receive equal wages for the same job and the wages of the dispatched staff are determined and borne by the company. Labor dispatch agency also generally receives a fee calculated based on the number of workers dispatched. While under our on-site production subcontracting arrangements, purchase orders are placed to the relevant production subcontractor who bears the responsibility to complete the subcontracted products with its own workers. Our human resources policy does not apply to workers of the relevant production subcontractor and we neither determine nor directly pay wages to the subcontracting staff. Subcontracting fees are calculated based on the quantity of goods or services delivered to us.

ENVIRONMENTAL PROTECTION

We conduct our production operations in the PRC which are therefore subject to PRC environmental laws and regulations which govern a broad range of environmental matters, including air pollution, noise emissions and water and waste discharge. For details of the environmental protection requirements related to our operations, please refer to “Regulatory Overview – Laws and regulations relating to environmental protection” in this prospectus.

We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations. We believe that our production process does not generate hazards that have any significant adverse effect on the environment and our environmental protection measures are adequate to comply with all applicable current local and national PRC regulations. We have implemented various environmental policies and have been awarded quality standard certification of ISO14001 in respect of our environmental management system. Our production facilities currently in operations obtained the discharge permit and other requisite approvals.

As confirmed by our PRC Legal Adviser, our principal operating subsidiary, Zhejiang Bonny, is subject to environmental protection laws and regulations in the PRC. It is further confirmed that, pursuant to the confirmation letter issued by the Yiwu Environmental Protection Bureau (義烏市環境保護局) on 20 July 2018, Zhejiang Bonny had been in

BUSINESS

compliance with the relevant environmental protection laws and regulations and had not been sanctioned for any non-compliance with or material violation of such laws and regulations from the date of its establishment to the date of issuance of the said confirmation letter. Notwithstanding the aforesaid, our operations are subject to regulation and regular inspection by the relevant environmental protection authorities, in the event of failing to non-compliance of which may lead to fines, revocation of licence or even cessation of our operations.

We had not been subject to any sanctions or penalties for violation of environmental laws or regulations, nor had we receive any complaint from our end consumers or other relevant parties with respect to environmental protection issues during the Track Record Period. For the years ended 31 December 2016, 2017 and 2018, our expenditures regarding compliance with the applicable environmental protection requirements amounted to approximately RMB257,000, RMB186,000 and RMB299,000 respectively. In the future, we will continue to follow our environmental policy which has been awarded quality standard certification of ISO14001. In addition, we will keep abreast of the new legal development in the PRC regarding this aspect and review our environmental policy from time to time to ensure our on-going compliance with the latest relevant environmental laws and regulations. We expect the annual compliance cost in respect of our environment obligations will not experience significant change from that of the Track Record Period.

OCCUPATIONAL HEALTH AND SAFETY

Our operations are subject to the PRC labor and work safety laws and regulations, pursuant to which, among others, any entity that is not sufficiently facilitated or equipped to ensure safe production may not engage in production and business operation activities. Entities operating in the PRC must provide production safety education and training programmes, as well as a safe working environment to employees. For details, please refer to “Regulatory Overview – Laws and regulations relating to occupation safety” and “Regulatory Overview – Employment contracts” in this prospectus.

Our PRC Legal Adviser confirmed that our principal operating subsidiary, Zhejiang Bonny, is subject to the PRC labor and work safety laws and regulations. Should we fail to comply with present or legal applicable laws and regulations, we would likely be subject to fines, sanctions or business suspensions. Pursuant to the confirmation letter issued by Yiwu Administration of Work Safety (義烏市安全生產監督管理局) on 8 August 2018, Zhejiang Bonny had not been subject to any penalties, disciplinary actions or administrative sanctions as a result of non-compliance with the relevant labor work safety laws and regulations since the date of its establishment up to the date of issuance of the said letter. Besides, during the Track Record Period, we complied with all applicable labor and work safety laws and regulations in all material aspects and strictly implemented internal safety guidelines coupled with other operating procedures, and had neither experienced any material accidents in the course of our manufacturing operations nor been subject to the complaints, claims or other arbitration or legal proceedings instituted by our employees with respect to labor protection issues.

BUSINESS

With a view to promoting occupational safety within our working environment, we implemented operational procedures and safety standards for our manufacturing process. As an evidence of our dedication to production safety, in 2018, we were awarded the Gold Certificate of Compliance by the World Responsible Accredited Production. We also provide our employees with occupational safety training to enhance their awareness of safety. We will continue our efforts on the promotion of occupational health and safety of our employees and demonstrate compliance with the applicable laws and regulations.

We had not recorded any material accident during the Track Record Period.

COMPLIANCE

Licences, certificates and other regulatory approvals

During the Track Record Period and as of the Latest Practicable Date, we had obtained from the relevant regulatory authorities all requisite business licenses, approvals, permits and certificates which are material to our business operations in accordance with applicable PRC laws, regulations and requirements necessary for the purpose of our business operation. As confirmed by our PRC Legal Adviser, we had obtained all such licences, approvals, permits and certificates, where applicable, as of the Latest Practicable Date.

Non-compliance incidents

As most of our operations are in the PRC, PRC laws, rules and regulations are of material significance to our Group. Please refer to “Regulatory Overview” in this prospectus for a brief overview of the PRC laws, rules and regulations of relevance to our business and operations in the PRC. We confirm that, as at the Latest Practicable Date, save as disclosed below, there were no material breaches or violations of the laws or regulations applicable to us that would have a material adverse impact on our business, results of operation and financial conditions taken as a whole.

The table below sets forth summaries of certain incidents of historical non-compliance with applicable laws and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material impact on our operational and financial performance.

(1) Number of dispatched staff engaged exceeding regulatory threshold under the Interim Provisions on Labor Dispatch

Details of non-compliance incident

During the Track Record Period, Zhejiang Bonny utilized and engaged dispatched staff. Pursuant to the Interim Provisions on Labor Dispatch (《勞務派遣暫行規定》), an employer shall ensure the number of dispatched staff utilized by it shall not exceed 10% of the total number of its workers. For the year ended 31 December 2016, 2017 and 2018,

the average number of dispatched staff per month under the labor dispatch arrangement was about 948, 824 and 171 which accounted for approximately 50%, 52% and 19% of the total number of staff of Zhejiang Bonny. The number of dispatched staff engaged by Zhejiang Bonny had therefore exceeded the regulatory threshold of 10% of the total number of its workers under the Interim Provisions on Labor Dispatch during the Track Record Period.

Reasons

Our Directors confirmed that most of the dispatched staff engaged by Zhejiang Bonny were production workers. Our Directors consider that the labor dispatch arrangement enabled us to maintain a sufficient while flexible level of labor force to meet our operation requirements. Our Directors confirmed that the non-compliance happened due to inadequate legal knowledge and/or inadvertent oversight of the relevant legal requirements.

Possible legal consequences and potential maximum penalties

According to the Interim Provisions on Labor Dispatch and as advised by our PRC Legal Adviser, the labor administrative department may impose a fine of not less than RMB5,000 but not more than RMB10,000 per person if the relevant entity refuses to rectify the violation after being ordered to do so by the labor administrative department.

During the Track Record Period and up to the Latest Practicable Date, Zhejiang Bonny has not received any notice of rectification from the labor administrative departments nor there is any pecuniary penalty imposed on Zhejiang Bonny in relation to the said non-compliance.

Remedial actions and potential impact on the Group

To rectify the situation, as well as to satisfy our production needs, since January 2018, we have commenced to engage production subcontractors provide on-site subcontracting staff to replace the dispatched staff. The number of dispatched staff engaged by Zhejiang Bonny has reduced to below the regulatory limit in compliance with the Interim Provisions on Labor Dispatch since September 2018.

Since Zhejiang Bonny has not received any notice of rectification from the labor administrative department and Zhejiang Bonny has taken steps to reduce its number of dispatched staff to below the regulatory limit under the Interim Provisions on Labor Dispatch, our PRC Legal Adviser is of the view that the business operations of Zhejiang Bonny will not be subject to material legal risk as a result of the non-compliance. Accordingly, no provisions had been made for this non-compliance.

We have adopted internal policies to require our human resources department to maintain a staff list in identifying the dispatched staff and our own staff and calculate the ratio of dispatched staff to the total number of workers. In addition, the designated staff is required to calculate the ratio before each engagement of dispatched staff, to ensure the potential engagement would not exceed 10% of the total number of its workers. Furthermore, the staff list (with the ratio of the dispatched staff) is required to submit to department heads of production department, finance department and human resources department to review on a monthly basis.

(2) *Failure to make social insurance premium in full compliance with the Social Insurance Law*

Details of non-compliance incident

During the Track Record Period, Zhejiang Bonny and Shanghai Bonny did not fully comply with provisions of the Social Insurance Law of the PRC (《中華人民共和國社會保險法》) (the “**Social Insurance Law**”) in respect of social insurance contributions for their respective employees.

The amount of social insurance payment underpaid by Zhejiang Bonny for each of the years ended 31 December 2016, 2017 and 2018 were approximately RMB2,390,000, RMB1,723,000 and RMB3,622,000, respectively.

The amount of social insurance payment underpaid by Shanghai Bonny for each of the years ended 31 December 2016, 2017 and 2018 were approximately RMB871,000, RMB646,000 and RMB654,000, respectively.

Reasons

- (i) Zhejiang Bonny had not made contributions to the social insurance premium based on the actual income of their respective employees but on the statutory minimum salary approved by the relevant local authority.
- (ii) Certain employees of Zhejiang Bonny are migrant workers who came from rural areas and have their residence registered with the villages from which they came. Such migrant workers have high mobility and claimed that they paid their social insurance contributions at their place of residence or are not willing to participate in the social welfare schemes from the city where they temporarily reside in as such contributions cannot be easily transferred among cities within China under the current social security system in China.
- (iii) Employees of Shanghai Bonny were reluctant and voluntarily gave up to make full social insurance contributions.

Possible legal consequences and impact

According to the Social Insurance Law and as advised by our PRC Legal Adviser, the employer who fails to make full contribution to the social insurance premium, will be ordered to make the payment or make up the difference within the stipulated period and will be charged a daily surcharge equivalent to 0.05% of the overdue payment from the date on which the payment is overdue. If the payment is not made within the stipulated period, a fine from one to three times the amount of overdue payment will be imposed.

Remedial actions and potential impact on the Group

For Zhejiang Bonny:

On 16 August 2018, Yiwu Human Resource and Social Insurance Bureau (義烏市人力資源和社會保障局) (the “**Yiwu Social Insurance Bureau**”), being the competent authority, as confirmed by the PRC Legal Adviser, issued a confirmation (the “**Yiwu Social Insurance Confirmation**”) confirming, among others, that since its establishment, (a) Zhejiang Bonny had paid social insurance contributions for its employees, and the basis and ratio of social insurance contributions are, in accordance with the relevant laws, regulations, directives and local social insurance policies in practice; and (b) Zhejiang Bonny had never been subject to any administrative penalty, and will not be subject to request for payment for any outstanding social insurance contributions, due to non-compliance with the relevant laws, regulations, directives and local social insurance policies.

In an interview (the “**Yiwu Social Insurance Interview**”) with Yiwu Social Insurance Bureau on 30 August 2018, it was confirmed that, among others, (a) Yiwu Social Insurance Bureau is fully aware of the situation of Zhejiang Bonny for its non-compliance with the Social Insurance Law; (b) situations similar to that of Zhejiang Bonny are common in Yiwu and are in compliance with the practice of Yiwu Social Insurance Bureau and hence Yiwu Social Insurance Bureau will not impose any penalty or demand the payment of any shortfall in social insurance contributions due to such situation; and (c) Yiwu Social Insurance Bureau had not received any demand for making up shortfall in social insurance contributions from any employee of Zhejiang Bonny, and in the event that any employee requests Zhejiang Bonny to make contribution for the shortfall in social insurance contributions, Yiwu Social Insurance Bureau will usually request such employee to provide corresponding supporting legal judgments, and therefore the possibility of Zhejiang Bonny making payment for the shortfall in social insurance contributions is relatively small.

During the Yiwu Social Insurance Interview, Yiwu Social Insurance Bureau also confirmed that the current practice of contributing social insurance premium undertaken by Zhejiang Bonny is in compliance with the actual law enforcement practice of the Yiwu Social Insurance Bureau, and on the premises that there are no material changes to relevant national policies, Zhejiang Bonny could continue to pay social insurance contributions based on such practice.

BUSINESS

As confirmed in the Yiwu Social Insurance Confirmation and the Yiwu Social Insurance Interview, and advised by the PRC Legal Adviser, Yiwu Social Insurance Bureau is the competent governmental authority with regard to the social insurance contributions of Zhejiang Bonny.

Zhejiang Bonny has obtained written confirmations from all existing employees involved in situation of underpayment of social insurance premium or non-participation in social insurance scheme as at 31 December 2017 confirming that they voluntarily gave up payments for their social insurance premium. In respect of new employees, Zhejiang Bonny will encourage them to participate in the social insurance scheme, and obtain relevant written confirmation from any employee who refuses to do so.

As at the Latest Practicable Date, we had not received any notice or demand from Yiwu Social Insurance Bureau or other competent authorities ordering us to make retrospective payments or any differences of the payments for the social insurance contributions. We had not received any complaint from our employees and were not aware of any employees lodging any complaint to Yiwu Social Insurance Bureau or other competent authorities or initiating any arbitration or court proceedings against our Group in relation to its failure to contribute to the social insurance fund.

Based on the above, our PRC Legal Adviser is of the view that there is remote risk that Zhejiang Bonny will be penalised or ordered to make retrospective payments or shortfall to the social insurance fund as a result of its failure to make social insurance contribution to all of its employees.

On the basis of the Yiwu Social Insurance Confirmation, Yiwu Social Insurance Interview and the advice from our PRC Legal Adviser, the risk of Zhejiang Bonny being penalised as a result of its failure to make social insurance contribution to all of its employees is remote, and accordingly, no provision is required to be made.

In addition, our Directors are of the view that the non-compliance incident of Zhejiang Bonny in respect of the social insurance contributions will not have a material adverse impact on our Group's operations and financial conditions.

For Shanghai Bonny:

On 25 July 2018, Shanghai Social Insurance Affairs Management Centre (上海市社會保險事業管理中心) (the “**Shanghai Social Insurance Management Centre**”), being the competent authority, issued a document (the “**Shanghai Social Insurance Confirmation**”) confirming, among others, as at June 2018, Shanghai Bonny had no outstanding payment of social insurance contributions.

As advised by the PRC Legal Adviser, Shanghai Social Insurance Affairs Management Centre is the competent governmental authority with regard to the social insurance contributions of Shanghai Bonny.

Since September 2018, Shanghai Bonny has made social insurance contribution for all of its employees based on the level of contribution required by the local social insurance authority based on the actual income of the employees.

As at the Latest Practicable Date, we had not received any notice or demand from Shanghai Social Insurance Management Centre or other competent authorities ordering us to make retrospective payments or any differences of the payments for the social insurance contributions. We had not received any complaint from our employees and were not aware of any employees lodging any complaint to Shanghai Social Insurance Management Centre or other competent authorities or initiating any arbitration or court proceedings against our Group in relation to its failure to contribute to the social insurance fund.

We had a provision in the amount of approximately RMB1,368,000 as at 31 December 2018 for the non-compliance of Shanghai Bonny with the Social Insurance Law.

Based on the above, and on the basis of the Shanghai Social Insurance Confirmation, our Directors are of the view that the non-compliance incident of Shanghai Bonny in respect of the social insurance contributions will not have a material adverse impact on our Group's operations and financial conditions.

(3) *Failure to make housing provident fund contributions in full compliance with the Housing Provident Fund Regulations*

Details of non-compliance incident

During the Track Record Period, Zhejiang Bonny and Shanghai Bonny did not fully comply with the Regulations on the Administration of Housing Provident Fund of the PRC (《住房公積金管理條例》) (the “**Housing Provident Fund Regulations**”) as they failed to fully make housing provident fund contributions for all of their respective employees.

The amount of outstanding housing provident fund contribution of Zhejiang Bonny for each of the years ended 31 December 2016, 2017 and 2018 were approximately RMB2,365,000, RMB1,913,000 and RMB2,837,000 respectively.

The amount of outstanding housing provident fund contribution of Shanghai Bonny for each of the years ended 31 December 2016, 2017 and 2018 were approximately RMB312,000, RMB241,000 and RMB190,000, respectively.

Reasons

- (i) Certain employees of Zhejiang Bonny are migrant workers who have high mobility, and are reluctant and voluntarily gave up housing provident fund contributions to be made on their behalf by Zhejiang Bonny. In addition, Zhejiang Bonny has provided accommodation for all its employees.
- (ii) Employees of Shanghai Bonny are reluctant and voluntarily gave up to make housing provident fund contributions.

Possible legal consequences and impact

According to the Housing Provident Fund Regulations and as advised by our PRC Legal Adviser, if an employer fails to complete the registration and open a housing provident fund account for its employees, the relevant housing provident fund authority is entitled to order the employer to do so within a prescribed time limit. If the employer fails to do so within such prescribed time limit, it will be subject to a fine in the range of RMB10,000 to RMB50,000. The housing provident fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing fund authority may seek an order for payment from the relevant PRC court.

Remedial actions and potential impact on the Group

For Zhejiang Bonny:

On 20 July 2018, Yiwu Housing Provident Fund Management Centre (義烏市住房公積金管理中心), being the competent governmental authority, as confirmed by the PRC Legal Adviser, issued a confirmation (the “**Yiwu Housing Provident Fund Confirmation**”) confirming, among others, that since its establishment, (a) Zhejiang Bonny had paid housing provident fund contributions for its employees, and the basis and ratio of housing provident fund contributions are, in accordance with the relevant laws, regulations, directives and local housing provident fund policies in practice; and (b) Zhejiang Bonny had never been subject to any administrative penalty, and will not be subject to request for payment for any outstanding housing provident fund contributions, due to non-compliance with the relevant laws, regulations, directives and local housing provident fund policies.

In an interview (the “**Yiwu Housing Provident Fund Interview**”) with Yiwu Housing Provident Fund Management Centre on 30 August 2018, it was confirmed that, among others, (a) Yiwu Housing Provident Fund Management Centre is fully aware of the situation of Zhejiang Bonny for non-compliance with the Housing Provident Fund Regulations; (b) situations similar to that of Zhejiang Bonny are common in Yiwu and are in compliance with the practice of Yiwu Housing Provident Fund Management Centre and hence Yiwu Housing Provident Fund Management Centre will not impose any penalty or demand the payment of any shortfall in housing provident fund contributions due to such situation; and (c) there has been no disagreement raised by any employee of Zhejiang Bonny in relation to housing provident fund contributions.

During the Yiwu Housing Provident Fund Interview, Yiwu Housing Provident Fund Management Centre further confirmed that the current practice of contributing housing provident fund undertaken by Zhejiang Bonny is in compliance with the actual law enforcement practice of the Yiwu Housing Provident Fund Management Centre, and on the premises that there are no material changes to relevant national policies, Zhejiang Bonny could continue to pay housing provident fund contributions based on such practice.

BUSINESS

As confirmed in the Yiwu Housing Provident Fund Confirmation and the Housing Provident Fund Interview, and advised by the PRC Legal Adviser, Yiwu Housing Provident Fund Management Centre is the competent governmental authority, as confirmed by the PRC Legal Adviser, with regard to the housing provident fund contributions of Zhejiang Bonny.

As at the Latest Practicable Date, we had not received any notice or demand from Yiwu Housing Provident Fund Management Centre or other competent authorities ordering us to make payments or any shortfall to the housing provident fund. We had not received any complaint from employees and were not aware of any employees lodging any complaint to Yiwu Housing Provident Fund Management Centre or other competent authorities or initiating any arbitration or court proceedings against Zhejiang Bonny in relation to its failure to contribute to the housing provident fund.

Based on the above, our PRC Legal Adviser is of the view that there is a remote risk that Zhejiang Bonny will be ordered to pay the outstanding housing provident fund contribution or be penalised as a result of its failure to make contribution to housing provident fund in respect of all of its employees.

On the basis of the Yiwu Housing Provident Fund Confirmation, Yiwu Housing Provident Fund Interview and the advice from our PRC Legal Adviser, the risk of Zhejiang Bonny being penalised or ordered to make retrospective payments or any shortfall to the housing provident fund as a result of its failure to make housing provident fund contribution to all of its employees is remote, and accordingly, no provision is required to be made.

In addition, our Directors are of the view that the non-compliance incident of Zhejiang Bonny in respect of the housing provident fund contributions will not have a material adverse impact on our Group's operations and financial conditions.

For Shanghai Bonny:

On 27 July 2018, Shanghai Provident Fund Management Centre (上海市公積金管理中心), being the competent governmental authority, issued a certification (the "**Shanghai Housing Provident Fund Confirmation**") confirming, among others, that since its setting up the housing provident management account, Shanghai Bonny had no record of punishment by the Shanghai Provident Fund Management Centre.

As advised by the PRC Legal Adviser, Shanghai Provident Fund Management Centre is the competent governmental authority with regard to the housing provident fund contributions of Shanghai Bonny.

Since September 2018, Shanghai Bonny has made housing provident fund contribution for all of its employees based on the level of contribution required by the local housing provident fund authority.

BUSINESS

As at the Latest Practicable Date, we had not received any notice or demand from Shanghai Provident Fund Management Centre or other competent authorities ordering us to make payments or any shortfall to the housing provident fund. We had not received any complaint from employees and were not aware of any employees lodging any complaint to Shanghai Provident Fund Management Centre or other competent authorities or initiating any arbitration or court proceedings against Shanghai Bonny in relation to its failure to contribute to the housing provident fund.

We had a provision in the amount of approximately RMB292,000 as at 31 December 2018 for the non-compliance of Shanghai Bonny with the Housing Provident Fund Regulations.

Based on the above, and on the basis of the Shanghai Housing Provident Fund Confirmation, our Directors are of the view that the non-compliance incident of Shanghai Bonny in respect of the housing provident fund contributions will not have a material adverse impact on our Group's operations and financial conditions.

On-going compliance measures after the Listing

We will adopt the following on-going compliance measures after the Listing:

- Zhejiang Bonny and Shanghai Bonny will continue to regularly communicate with the relevant government authorities and, where necessary, consult our PRC legal adviser, as to the applicable bases for calculation of the social insurance fund contributions and housing provident fund contributions, and liaise with their respective employees on the social insurance fund contribution and housing provident fund contributions at the rate approved by the relevant government authorities;
- after the Listing, we will disclose in our interim and annual reports on the outstanding amount of the social insurance fund and the housing provident fund and state whether a provision is required to be made; and
- we will provide regular trainings to our responsible staff in respect of legal compliance who will from time to time consult our PRC legal adviser on the relevant laws and regulations and any updates thereof and report the same to our Board.

Indemnity from our Controlling Shareholders in relation to the non-compliances

Our Controlling Shareholders have entered into the Deed of Indemnity whereby our Controlling Shareholders have agreed to indemnify our Group, subject to the terms and conditions of the Deed of Indemnity, in respect of, among others, any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by us directly or indirectly as a result of and in connection with any non-compliance(s) of our Group with all applicable laws, rules or regulations on or before the Listing Date. Further details of the Deed of Indemnity are set out in “Statutory and General Information – E. Other Information – 1. Estate duty, tax and other indemnities” in Appendix V to this prospectus.

Additional measures to ensure future compliance

To enhance the effectiveness of our corporate governance, to strengthen our monitoring and internal control system and to ensure compliance with the relevant laws and regulations, we have adopted the following measures to ensure on-going compliance with all applicable laws and regulations after the Listing:

- (a) we have established the Audit Committee comprising three independent non-executive Directors to oversee the internal control procedures and accounting and financial reporting matters of our Group. Pursuant to its terms of reference, one of the duties and obligations of the Audit Committee is to ensure our Group’s compliance with the relevant regulatory requirements and to review any arrangement which may raise concerns about possible improprieties in financial reporting, internal control or other matters;
- (b) we have appointed Innovax Capital Limited as our compliance adviser to advise our Company on compliance matters upon Listing in accordance with Rule 3A.19 of the Listing Rules. Please refer to “Directors and Senior Management – Compliance adviser” in this prospectus for duties of our compliance adviser; and
- (c) we shall engage external legal advisers after Listing to assist us in performing the requisite legal due diligence and complying with the relevant registration/filing and other legal requirements in respect of any agreements to be entered into by us and/or matters associated with business operated by our Group in the future as well as to advise us on compliance with applicable laws, rules and regulations.

We have appointed an independent internal control adviser to conduct an internal control review. Such internal control adviser has reviewed the implementation status of the above corrective actions. The above corrective actions are consistent with those recommended by the internal control adviser in addressing some key findings of its review on our internal controls. Based on the findings, recommendations and testing results of the work performed by the internal control adviser, it is considered that such remedial actions are adequate and effective.

BUSINESS

Having taken into account the fact that (i) our Group has taken corrective measures and the abovementioned non-compliance incidents have been rectified to the extent practicable; (ii) our Group has implemented the abovementioned additional measures to avoid recurrence of the non-compliance incidents; and (iii) the non-compliance incidents were unintentional, did not involve any fraudulent act on the part of our Directors or cast doubt on their integrity, our Directors are of the view, and the Sole Sponsor concurs, that the abovementioned non-compliance incidents do not have any material impact on the suitability of our Directors and our suitability for Listing. Our Directors are satisfied that our internal control system is adequate and effective for our current operating environment.

INTERNAL CONTROL AND CORPORATE GOVERNANCE

We recognize the importance of good corporate governance in management and internal control mechanism. We intend to adopt or have adopted the following measures to safeguard the interests of our Shareholders:–

Voting arrangement of the Board in case of potential conflict of interests: Our Articles provide that, but for certain limited situations, a Director shall not vote on any resolution approving any contract, arrangement or any other proposal in which such Director has a material interest, nor shall such Director be counted in the quorum present at that meeting. On the basis of the foregoing, our Controlling Shareholders shall not vote or be counted in the quorum with respect to any proposals involving the Controlling Shareholders or any of their affiliates.

Balanced composition of our Board: We are committed to the balanced composition of our Board with executive and independent non-executive Directors. We believe our independent non-executive Directors are of sufficient calibre and experience, are free from any business or other relationship which could interfere in any material aspect with the exercise of their independent judgment and will be able to provide us with impartial opinion to protect the interests of our public Shareholders. For further details, please refer to the section headed “Directors and Senior Management” in this prospectus.

Corporate governance on management of conflict of interests: We have established the Audit Committee which comprises three independent non-executive Directors to oversee the internal control procedures and accounting and financial reporting matters of our Group. The Audit Committee also adopted its terms of references which set out clearly its duties and obligations for ensuring compliances with the relevant regulatory requirements. In particular, the Audit Committee is empowered under its terms of reference to discuss the implementation of internal control measures with our management and review any arrangement which may lead to concerns about possible improprieties in financial reporting, internal control or other matters.

BUSINESS

Enhancement of internal control framework: We have engaged an independent internal control adviser (“**Internal Control Adviser**”) to undertake a review of selected areas of our internal control systems in June 2017. The Internal Control Adviser is a professional consultancy firm that primarily engages in providing consultancy and advisory services to listed companies and companies in preparation for listing in Hong Kong. During the review process, the Internal Control Adviser has recommended measures to address and rectify any significant weaknesses of our internal control system identified, which include certain non-compliance and irregularities of our Group. Taking into consideration recommendations of the Internal Control Adviser, we established a set of internal control measures and remedial policies as disclosed under “– Compliance – Non-compliance incidents” in this section.

Compliance with Hong Kong securities laws and regulations: Our Directors have attended training conducted by our Company’s legal advisers as to Hong Kong laws, in respect of the duties of directors of companies listed in Hong Kong. The attendees were reminded, at the said seminar, to seek professional advice whenever necessary to ensure compliance with the relevant rules and regulations. Our Company has also appointed Innovax Capital Limited as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules from the Listing Date till the date on which our Company distributes its annual report with respect to its financial results for the first full financial year thereafter. Furthermore, we may also engage other professional advisers to advise us on matters relating to ongoing compliance with the Listing Rules issues as well as other applicable securities laws and regulations in Hong Kong.

Our Directors are of the view that our enhanced internal control and corporate governance measures as aforementioned are sufficient and effective. Taking into consideration (i) the Sole Sponsor’s review of our internal control procedures and its discussion with our Directors and members of our senior management, (ii) the assessments and findings of the Internal Control Adviser, coupled with (iii) the remedial measures taken or proposed by us to be taken in connection with historical non-compliance incidents, the Sole Sponsor is not aware of any reasons to disagree with our Directors’ view.

LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings, investigations, disputes and claims arising in the ordinary course of our business. Save as disclosed under “– Compliance – Non-compliance incidents” in this section, our Group has complied with applicable PRC laws and regulations in all material aspects. As at the Latest Practicable Date, we were not engaged in any litigation, arbitration or claim of material importance pending or, to our knowledge and information, threatened by or against us or any of our Directors that could have a material adverse effect on the business, results of operations or financial condition of our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

OVERVIEW

Immediately after the completion of the Capitalization Issue and the Global Offering (but without taking into account the Shares to be issued pursuant to the exercise of the Over-allotment Option), Maximax will hold approximately 52.88% of the issued share capital of our Company. Maximax is held as to 100.00% by Mr. Jin, and thus Mr. Jin and Maximax will continue to be our Controlling Shareholders upon Listing. For details of our Controlling Shareholders' background, please refer to "History, Development and Corporate Structure" and "Directors and Senior Management" in this prospectus.

EXCLUDED BUSINESS OF OUR CONTROLLING SHAREHOLDERS

During the Track Record Period and up to the Latest Practicable Date, our Controlling Shareholders and their respective close associates had been interested in two companies, namely Deshipu New Materials and Deshipu Polyamide (the "**Excluded Companies**") which are engaged in the research and development, manufacturing and sales of polyamide (the "**Excluded Business**").

Deshipu New Materials

Deshipu New Materials is a company established in the PRC on 16 December 2010. As at the Latest Practicable Date, Deshipu New Materials was wholly owned by Bode Holding, which was in turn owned as to 75.50% by Mr. Jin and 24.50% by Ms. Gong, the spouse of Mr. Jin. The principal business of Deshipu New Materials is research and development, manufacturing and sale of polyamide. During the Track Record Period, Deshipu New Materials had supplied polyamide to Zhejiang Bonny. Please refer to "Business – Suppliers and Raw Materials" in this prospectus for details. After the Listing, we will continue to purchase polyamide from Deshipu New Materials and such transactions between our Group and Deshipu New Materials will constitute continuing connected transactions of our Company under the Listing Rules. Please refer to "Continuing Connected Transactions" in this prospectus for details of such transactions.

Deshipu Polyamide

Deshipu Polyamide is a company established in the PRC on 14 December 2006. As at the Latest Practicable Date, Deshipu Polyamide was wholly owned by Bode Holding. The principal business of Deshipu Polyamide is sales and trading of polyamide. During the Track Record Period, Deshipu Polyamide had supplied polyamide to Zhejiang Bonny in 2016. It is expected that we will not continue to purchase polyamide from Deshipu Polyamide after the Listing.

As confirmed by the Directors, during the Track Record Period and up to the Latest Practicable Date, there had been no material non-compliance committed by the Excluded Companies.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Our Controlling Shareholders have no present intention to inject the Excluded Companies into our Group because each of them is not engaged in the business of our Group. In particular, the research and development, production and sales of polyamide will not be included in our Group primarily because it is clearly delineated from our business of production, sales and research and development of seamless intimate wear which is analysed in the paragraph headed “Delineation of Business” below.

Delineation of Business

Our Directors are of the view that our business can be clearly differentiated from the Excluded Business and will not be in any direct or indirect competition due to the following reasons:

Different product offering – The products of the Excluded Business are entirely distinguishable from our products. The Excluded Business only produces polyamide which generally requires further processing by garment manufacturers (such as our Group) before it can be sold to end-consumers. In contrast, we produce seamless intimate wear.

Different business models – The business model of the Excluded Business is also differentiated from our business model. The business model of the Excluded Business will focus on the research and development, manufacturing and sales of polyamide. In contrast, we will focus on the production, sales and research and development of seamless intimate wear.

Different target customers – The target customers of the Excluded Business are entirely distinguishable from our target customers. The Excluded Business is primarily targeted at garment manufacturers (such as our Group and also other independent third party customers), which will further process the polyamide. Based on the unaudited management accounts of Deshipu New Materials, sales to our Group by Deshipu New Materials only accounted for approximately 4.3%, 3.1% and 3.6% of its total sales for the three years ended 31 December 2016, 2017 and 2018; while based on the unaudited management accounts of Deshipu Polyamide, sales to our Group by Deshipu Polyamide only accounts for nil, approximately 5.1% and nil of its total sales for the three years ended 31 December 2016, 2017 and 2018. In contrast, for our ODM sales, majority of our ODM customers are overseas customers which include sourcing agents for apparel brands and brand holding companies themselves and for our branded sales, we target mid to high-end retail consumers, and we market and distribute our products by leveraging our market position in the seamless innerwear industry as well as through self-operated retail outlets, franchised retail outlets and e-commerce platforms. Please refer to “Business – Customers” and “Business – Sales” in this prospectus for further details. There is no overlap of customers between our Group and the Excluded Business.

Different suppliers – The suppliers of the Excluded Business are also entirely different from our suppliers. The suppliers of the Excluded Business are mainly suppliers of polyamide fiber. In contrast, our suppliers include suppliers of various raw materials necessary for our manufacturing (such as the Excluded Companies). Please refer to “Business – Suppliers and Raw Materials” in this prospectus for further details. There is no overlap of suppliers between our Group and the Excluded Business.

Accordingly, our Directors consider there is a clear delineation between our business and the Excluded Business, and the Excluded Companies do not and will not pose any direct or indirect competition with our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

In the opinion of our Directors, our Group is capable of carrying on our business independently of, and does not place undue reliance on, our Controlling Shareholders, their respective associates or any other parties, taking into account the following factors:

Financial Independence

Our finance department is independent from our Controlling Shareholders, and composed of independent finance staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit and internal control. None of our finance staff works for our Controlling Shareholders and/or their respective associates. We are capable of making financial decisions independently, and our Controlling Shareholders will not interfere with our use of funds. We have established an independent audit system, a standardised financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our Controlling Shareholders and/or their respective associates.

In addition, our Group does not rely on the Controlling Shareholders and/or their respective associates for their provision of financial resources. As at the Latest Practicable Date, we had no outstanding loans and advances due to our Controlling Shareholders or their associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholders or their respective associates. All guarantees from our Controlling Shareholders for our bank borrowings will be fully released upon Listing. Furthermore, our Directors confirm that all amount due from/(to) related parties, except for the balance in trading nature with Deshipu New Materials as disclosed in the section headed “Continuing connected transaction” in this prospectus, would be fully settled prior the Listing. Therefore, our Directors believe that our financial operation is independent from our Controlling Shareholders.

Operational Independence

We are independent from our Controlling Shareholders as we do not share operational capabilities with our Controlling Shareholders, and save for the purchases from Deshipu New Materials as disclosed in the section headed “Continuing Connected Transaction” in this prospectus, we have independent access to suppliers and customers, as well as an independent management team to handle our day-to-day operations. We are also in possession of all relevant licenses necessary to carry on and operate our business and we have sufficient operational capacity in terms of capital and employees to operate independently from our Controlling Shareholders.

Our Directors are of the view that there is no operational dependence by us on our Controlling Shareholders and our Group is able to operate independently from our Controlling Shareholders after the Listing.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management Independence

Our Board consists of seven Directors, of whom two are executive Directors, two are non-executive Directors and three are independent non-executive Directors. Please refer to “Directors and Senior Management” in this prospectus for details. Mr. Jin is our executive Director and also our Controlling Shareholder. Ms. Gong, being the spouse of Mr. Jin, is our non-executive Director. Mr. Jin and Ms. Gong also hold positions in certain companies in which our Controlling Shareholder are interested other than those within our Group as set out in the below table.

Name of the entity	Shareholding	Position
Bode Holding	Owned as to 75.50% by Mr. Jin and 24.50% by Ms. Gong	Mr. Jin is the executive director and Ms. Gong is the supervisor.
Deshipu New Materials	Wholly owned by Bode Holding	Mr. Jin is the executive director.
Deshipu Polyamide	Wholly owned by Bode Holding	Mr. Jin is the executive director.
Yiwu Junhe Intelligent Technology Limited Company* (義烏俊和智能科技有限公司)	Owned as to 51.00% by Bode Holding and 49.00% by an Independent Third Party	Mr. Jin is a supervisor.
Yiwu Junhe Cross Border E-commerce Industrial Park Management Limited Company* (義烏俊和跨境電商產業園管理有限公司)	Wholly owned by Bode Holding	Mr. Jin is the manager and Ms. Gong is the supervisor.

Although Mr. Jin and Ms. Gong hold positions in the above companies, their time involvement in the matters of such companies will be minimal and they confirm that they would be largely involved in the day-to-day management and operation of the Group. In the event that each of Mr. Jin and Ms. Gong is required to absent himself/herself from any board meeting on any matter which may give rise to a potential conflict of interest with the above companies, our remaining Directors will have sufficient expertise and experience to fully consider any such matter.

Save as disclosed above, none of our Directors or senior management members holds any position in any of the companies in which our Controlling Shareholders are interested other than those within our Group. Therefore, there are sufficient non-overlapping Directors who are not executive management of the companies in which the Controlling Shareholders have interests and have relevant experience to ensure the proper functioning of our Board.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

We consider that our Board and senior management will function independently from our Controlling Shareholders because:

- (i) each Director is aware of his or her fiduciary duties as a Director which require, among other things, that he or she acts for the benefit and in the best interest of our Company and does not allow any conflict between his duties as a Director and his or her personal interests;
- (ii) the three independent non-executive Directors have extensive experience in different areas and have been appointed in accordance with the requirements under the Listing Rules to ensure that the decision of the Board are made only after due consideration of independent and impartial opinions;
- (iii) in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates (a “**Conflicting Transaction**”), the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions, and shall not be counted in forming quorum. The interested Director(s) shall not attend any independent board committee meetings comprising our independent non-executive Directors only. In the event that there is a Conflicting Transaction which shall be submitted to our independent non-executive Directors for their consideration and approval, they shall have extensive experience and knowledge to oversee such a Conflicting Transaction from different aspects;
- (iv) our Company has also established internal control mechanism to identify related party transactions to ensure that our Controlling Shareholders or Directors with conflicting interests in a proposed transaction will abstain from voting on the relevant resolutions; and
- (v) in order to allow the non-conflicting members of the Board to function properly with the necessary professional advice, our Company will engage a third party professional adviser to advise the Board when necessary, depending on the nature and significance of any proposed transactions to be entered into between our Group and our Directors or their respective associates.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently and manage the business of the Group independently from our Controlling Shareholders after the Listing.

COMPETING INTERESTS

Each of our Controlling Shareholders and our Directors confirms that he/she/it does not have any interests in any business, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with the business of our Group, which would require disclosure under Rule 8.10 of the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DEED OF NON-COMPETITION

Each of our Controlling Shareholders has confirmed that none of them nor any of its/his close associates is engaged in, involved in or interested in any business (other than being a director or shareholder of our Group) which, directly or indirectly, competes or may compete with our business. To protect our Group from any potential competition, our Controlling Shareholders have given an irrevocable non-compete undertaking in favour of our Company (for itself and for the benefits of its subsidiaries) pursuant to which each of our Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us on a joint and several basis that at any time during the Relevant Period (as defined below), each of our Controlling Shareholders shall, and shall procure that their respective associates and/or companies controlled by them (other than our Group):

- (i) not, directly or indirectly, either on its own account or in conjunction with or on behalf of, or through any person, firm or company, among other things, carry on, participate or be interested, engaged or otherwise involved in or acquire or hold any right or interest in or provide any financial assistance, technical support or business know-how to any other person to carry on (in each case whether as a shareholder, partner, agent, employee or otherwise and whether for profit, reward or otherwise) any activity or business which competes or is likely to compete, whether directly or indirectly, with any business of any members of the Group and any other new business which the Group may undertake from time to time after the Listing within Hong Kong and such other places as the Group may conduct or carry on business from time to time (the “**Restricted Business**”);
- (ii) to provide all relevant information requested by our Company which is necessary for the annual review by our independent non-executive Directors of its compliance with and the enforcement of the Deed of Non-competition;
- (iii) to procure our Company to disclose on matters reviewed by our independent non-executive Directors relating to the compliance and enforcement of the Deed of Non-competition either through our Company’s annual report, or by way of announcement(s) to the public; and
- (iv) to make an annual declaration in a form determined by our Company on the compliance with the terms of the Deed of Non-competition in accordance with the principle of voluntary disclosure in our Company’s corporate governance report within two months after the date upon which the financial period of our Company ends, or if not, particulars of any non-compliance, which declaration (or any part thereof) may be reproduced, incorporated, extracted and/or referred to in our Company’s annual report, corporate governance report, its other announcements or publications.

Each of our Controlling Shareholders has unconditionally and irrevocably undertaken to us that in the event that it/he or its/his close associate(s) (other than any member of our Group) (the “**Offeror**”) is given or offered or has identified any business investment or commercial

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

opportunity which directly or indirectly competes, or may lead to competition with the Restricted Business (the “**New Opportunity**”), it/he will and will procure its/his associate(s) (other than members of our Group) to refer the New Opportunity to us in the following manner:

- (i) our Controlling Shareholders are required to, and shall procure their respective associates (other than members of our Group) to, refer, or to procure the referral of, the New Opportunity to us, and shall give written notice to us of any New Opportunity containing all information considered by our Directors necessary for our Directors and our Company to consider whether (a) such New Opportunity forms part of the Restricted Business; and (b) it is in the interest of our Group and the shareholders of our Company as a whole to pursue such New Opportunity, including but not limited to the nature of the New Opportunity and the details of the investment or acquisition costs (the “**Offer Notice**”) as soon as practicable after such opportunity arises;
- (ii) the Offeror will be entitled to pursue the New Opportunity only if (a) our independent non-executive Directors have served a written notice on the Offeror and our Controlling Shareholders declining the New Opportunity and confirming that the New Opportunity would not constitute competition with the business of our Group (the “**Decline Notice**”), or (b) our independent non-executive Directors have not served a notice within fifteen business days from our Company’s receipt of the Offer Notice; and
- (iii) if there is a material change in the terms and conditions of the New Opportunity (or any subsequent revised New Opportunity) offered by the Offeror, our Controlling Shareholders are required to, and shall procure their respective associate to, refer or procure the referral of such revised New Opportunity in the manner provided for in the immediately preceding point (i) above, and our independent non-executive Directors shall have a further fifteen business days period to provide a response to the Offeror and our Controlling Shareholders.

Where our Controlling Shareholders and/or their respective associates (other than members of our Group) have acquired any business, investment or interest in any entity relating to the Restricted Business pursuant to the immediately preceding point (ii) above, our relevant Controlling Shareholders and/or their respective associates (other than members of our Group) shall provide us with pre-emptive right (the “**Pre-emptive Right**”) to acquire any such Restricted Business on terms that are no less favourable than that offered to our Controlling Shareholders and/or their respective associates. Where our independent non-executive Directors decide to waive the Pre-emptive Right by way of written notice, our relevant Controlling Shareholders and/or their respective associates (other than members of our Group) may offer to sell such business, investment or interest in the Restricted Business to other third parties on such terms which are no more favorable than those made available to our Group.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

For the above purpose, the “Relevant Period” means the period commencing from the Listing Date and shall expire on the earlier of:

- (i) the date on which our Controlling Shareholders and their associates, individually or taken as a whole, cease to be our Controlling Shareholders for the purpose of the Listing Rules; and
- (ii) the date on which our Shares cease to be listed on the Hong Kong Stock Exchange or (if applicable) other stock exchange.

The Deed of Non-competition is conditional on (i) the Listing Committee granting listing of, and permission to deal in, all our Shares in issue and to be issued under the Global Offering and the Capitalization Issue and our Shares which may be issued upon the exercise of the Over-allotment Option and options that have been or may be granted under the Share Option Schemes, and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant as a result of the waiver of any condition(s) by the Underwriters) and that the Underwriting Agreements not being terminated in accordance with their terms or otherwise.

CORPORATE GOVERNANCE

Our Company has adopted the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “Code”) and save for code provision A.2.1 of the Code, our Company intends to comply with the code provisions in the Code. The Code sets out principles of good corporate governance in relation to, among other matters, directors, the chairman and chief executive officer, board composition, the appointment, re-election and removal of directors, their responsibilities and remuneration and communications with shareholders.

Our Company is also required to comply with the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules, which provides, among other matters, prohibitions on directors’ dealings in securities and protection of minority shareholders’ rights.

Our Directors are therefore satisfied that sufficient corporate governance measures have been put in place to manage conflicts of interest between our Group and our Controlling Shareholders, and to protect minority shareholders’ rights after the Listing.

Our Company is committed to the view that our Board should include a balanced composition of executive and independent non-executive Directors so that there is a strong independent element on our Board which can effectively exercise independent judgment. Our independent non-executive Directors, details of whom are set out in the section headed “Directors and Senior Management”, individually and together possess the requisite knowledge and experience to be a member of our Board. All of our independent non-executive Directors are experienced and will provide impartial and professional advice to protect the interest of our minority Shareholders.

CONTINUING CONNECTED TRANSACTIONS

OVERVIEW

Pursuant to Chapter 14A of the Listing Rules, the Directors, substantial Shareholders and chief executive officer or those of our subsidiaries, any person who was a Director or a director of our subsidiaries within 12 months pending the Listing Date and any of their associates will become a connected person of our Company upon Listing. Upon Listing, transactions between the Group and our connected persons will constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

CONNECTED PERSONS

We have entered into transactions with the following person, who will become our connected person upon Listing:

- Deshipu New Materials, a company established in the PRC with limited liability and engages in the research and development of new materials and the research and development, production and sales of polyamide in the PRC. Deshipu New Materials is wholly owned by Bode Holding, a company established in the PRC with 75.50% of its equity interest being held by Mr. Jin, and the remaining 24.50% of its equity interest being held by Ms. Gong. Therefore, Deshipu New Materials is an associate of Mr. Jin and Ms. Gong and hence a connected person of our Company.

NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Framework Purchasing Agreement with Deshipu New Materials

Overview

On 19 March 2019, Zhejiang Bonny (as buyer) entered a framework purchasing agreement with Deshipu New Materials (as seller) (the “**Framework Purchasing Agreement**”), pursuant to which Zhejiang Bonny agreed to purchase from Deshipu New Materials, and Deshipu New Materials agreed to supply polyamide to Zhejiang Bonny.

The Framework Purchasing Agreement will become effective on the Listing Date and is valid until 31 December 2021 or the date on which Deshipu New Materials ceases to be our connected person, whichever comes earlier.

Subject to the provisions of the Framework Purchasing Agreements, Zhejiang Bonny will enter into specific agreements or place purchase orders with Deshipu New Materials to set out the specific terms and conditions in respect of the supply of polyamide. The consideration payable by Zhejiang Bonny under the Framework Purchasing Agreement for purchasing polyamide will be made at the time and according to the method agreed in separate agreements or purchase orders.

Reasons for the transactions

The transactions under the Framework Purchasing Agreement enable us to obtain the necessary raw materials for our production at the prevailing market price which shall not be higher than the price that the Group can purchase the similar products from the Independent Third Party.

CONTINUING CONNECTED TRANSACTIONS

Pricing policy

The price of purchasing polyamide by Zhejiang Bonny under the Framework Purchasing Agreement shall be determined on an arm's length basis with reference to the prevailing market price of polyamide and in any event shall not be higher than the price that Zhejiang Bonny can purchase polyamide from the Independent Third Parties.

Historical transaction amounts

The amounts of transactions in respect of the procurement of polyamide by the Group from Deshipu New Materials for the three years ended 31 December 2016, 2017 and 2018 were set out below:

	For the year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
From Deshipu New Materials	13,922	16,589	20,932

Annual caps on future transaction amounts

The maximum aggregate annual amount in respect of the procurement of polyamide from Deshipu New Materials for the years ending 31 December 2019, 2020 and 2021 shall not exceed the proposed annual caps set out below:

	For the year ending 31 December		
	2019	2020	2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
From Deshipu New Materials	30,000	30,000	30,000

In determining the above annual caps, the Directors have considered (1) the historical transactions amount for the purchases by our Company from Deshipu New Materials, (2) the prevailing market prices of the polyamide, and (3) our Company's anticipated demand for the polyamide supplied by Deshipu New Materials.

Listing Rules implications

As the highest relevant percentage ratios (other than the profit ratio) for the transactions contemplated under the Framework Purchasing Agreement is expected to be more than 5% and the annual consideration is more than HK\$10 million, the transactions contemplated under the Framework Purchasing Agreement will be subject to the annual reporting, annual review, announcement, circular and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

OUR DIRECTORS' VIEW

Our Directors, including the independent non-executive Directors, are of the view that the non-exempt continuing connected transactions described above, which have been and shall be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms and are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole. Our Directors, including the independent non-executive Directors, are of the view that the proposed annual caps for the non-exempt continuing connected transaction described in this section are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that the non-exempt continuing connected transactions described above have been and shall be entered into in the ordinary and usual course of business of our Company, are on normal commercial terms, are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole, and that the proposed annual caps for these transactions referred to in this section are fair and reasonable and in the interests of our Company and the shareholders of our Company as a whole.

WAIVER APPLICATION

In relation to the continuing connected transactions described under the paragraph headed “Non-exempt Continuing Connected Transaction” of this section, since the highest applicable percentage ratio for the three financial years ending 31 December 2019, 2020 and 2021 calculated for the purpose of Chapter 14A of the Listing Rules is expected to be more than 5% and the annual consideration is more than HK\$10 million, such transactions will, upon the Listing, constitute continuing connected transactions of our Company subject to annual reporting, annual review, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

As the above non-exempt continuing connected transactions are expected to continue after the Listing on a recurring and continuing basis and have been fully disclosed in the prospectus, the Directors consider that strict compliance with requirements would be impractical, and such requirements would lead to unnecessary administrative costs and would be unduly burdensome to us. Accordingly, we have applied to the Stock Exchange, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement, circular and independent shareholders’ approval requirements pursuant to Rule 14A.105 of the Listing Rules, provided that the total value of transactions for each of the three financial years ending 31 December 2019, 2020 and 2021 will not exceed the relevant annual caps set forth above. We shall strictly comply with other relevant requirements under Chapter 14A of the Listing Rules. Our independent non-executive Directors and auditors of our Company will review whether the non-exempt continuing connected transactions have been entered into based on the principal terms and pricing policies under the relevant agreements as disclosed in this section. The confirmations of our independent non-executive Directors and our auditors will be disclosed annually, as required by the Listing Rules.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Directors

The Board consists of seven Directors, including two executive Directors, two non-executive Directors and three independent non-executive Directors. The Board is responsible for and has general powers for the management and the conduct of our business. The following table sets forth certain information of our Directors.

Name	Age	Position	Date of appointment	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
<i>Executive Directors</i>						
Mr. Jin Guojun (金國軍)	42	Executive Director, chairman of the Board and chief executive officer	19 July 2017 (Note 1)	21 August 2001	Overseeing the daily operational management and the business performance of our Group, overall strategy planning and management of our Company's business and the chairman of the Nomination Committee and a member of the Remuneration Committee	Spouse of Ms. Gong
Mr. Zhao Hui (趙輝)	49	Executive Director, secretary to the Board and chief financial officer	19 July 2017 (Note 1)	26 December 2007	Overseeing our Group's financial strategies and management and internal compliance	None
<i>Non-executive Director</i>						
Ms. Gong Lijin (龔麗瑾)	40	Non-executive Director	19 July 2017 (Note 2)	21 August 2001	Providing strategic advice on the operations and management of our Group	Spouse of Mr. Jin
Mr. Luo Weixing (駱衛星)	43	Non-executive Director	19 July 2017 (Note 2)	16 November 2013	Providing strategic advice on the operations and management of our Group	None
<i>Independent non-executive Directors</i>						
Mr. Li Youxing (李有星)	56	Independent non-executive Director	19 March 2019	19 March 2019	Supervising the management of our Company, providing independent judgement to our Board and a member of the Audit Committee	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
Mr. Wang Jian (王健)	57	Independent non-executive Director	19 March 2019	19 March 2019	Supervising the management of our Company, providing independent judgement to our Board and the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee	None
Mr. Zhang Senquan (張森泉)	42	Independent non-executive Director	19 March 2019	19 March 2019	Supervising the management of our Company, providing independent judgement to our Board and the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee	None

Notes:

- Each of Mr. Jin and Mr. Zhao Hui was appointed as our Director on 19 July 2017 and re-designated as our executive Director on 19 September 2018.
- Each of Ms. Gong and Mr. Luo Weixing was appointed as our Director on 19 July 2017 and re-designated as our non-executive Director on 19 September 2018.

Senior Management

The following table sets forth certain information of our senior management other than Mr. Jin and Mr. Zhao:

Name	Age	Position	Date of appointment	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
Mr. Li Zhanhai (李占海)	39	Administrative vice president	20 July 2012	20 August 2008	Responsible for the administrative operation of our Group	None
Mr. Gao Jiangpeng (高江鵬)	34	Deputy general manager of Shanghai Bonny	3 July 2017	21 March 2011	Responsible for the retail operation of our Group	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position	Date of appointment	Date of joining the Group	Roles and responsibilities	Relationships with other Directors and senior management
Ms. Dong Lan (董瀾)	40	Director of the Shanghai research and development centre of Zhejiang Bonny	29 August 2016	29 August 2016	Responsible for the research and development and design of the retail system of our Group	None
Mr. Zhu Zhengxi (朱正喜)	34	Director of the e-commerce centre of Zhejiang Bonny	16 December 2015	1 July 2008	Responsible for the e-commerce operation of our Group	None
Mr. Zhou Donggen (周冬根)	43	Production manager of Zhejiang Bonny	1 June 2016	24 January 2011	Responsible for production management and quality control of our Group	None
Mr. Zhang Wenhua (張文華)	34	Joint company secretary, deputy general manager and director of securities affairs	9 October 2017	9 October 2017	Responsible for the investment and financing and the investment relationship in the capital market for our Group	None

DIRECTORS

Executive Directors

Mr. Jin Guojun (金國軍), aged 42, is our chairman and was appointed as a Director on 19 July 2017 and was re-designated as an executive Director and appointed as the chief executive officer on 19 September 2018. He co-founded our Group with Ms. Gong on 21 August 2001 and is primarily responsible for overseeing the daily operational management and the business performance of our Group, as well as for the overall strategy planning and management of our Company's business. Mr. Jin is currently the director of each of our Company's subsidiaries (except Yiwu Bonny and Yiwu Leyishang), namely, Bonny HK, Zhejiang Bonny, Shanghai Bonny, Yiwu Fayue and Yiwu Sportswear. He is also the manager of Yiwu Fayue and Yiwu Sportswear. Mr. Jin is the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Jin has over 17 years of experience in the intimate wear manufacturing industry. Mr. Jin established our Group's business through Zhejiang Bonny on 21 August 2001 and has since been serving as the chairman of the board of Zhejiang Bonny. Prior to founding our Group, Mr. Jin worked at Yiwu Office of State Administration of Taxation (義烏市國家稅務局) of Zhejiang Province from October 1997 to September 2001. He co-founded Bode Holding in September 2007 with Ms. Gong, in which he has served as the chairman of the board. Mr. Jin has acted as the chairman of the board of the subsidiaries of Bode Holding, namely, Deshipu Polyamide,

DIRECTORS AND SENIOR MANAGEMENT

Deshipu New Materials and Yiwu Junhe Cross-Border Electronic Commerce Industrial Park Management Co., Ltd.* (義烏俊和跨境電商產業園管理有限公司) since December 2006, December 2010 and November 2016, respectively. Mr. Jin has also worked as the supervisor of Yiwu Junhe Intelligent Technology Co., Ltd.* (義烏俊和智能科技有限公司) since April 2011.

Mr. Jin has been the vice president of the 10th Executive Committee of Yiwu Association of Industry and Commerce* (義烏市工商業聯合會第十屆執行委員會) since July 2017 and the executive president of Zhejiang Seamless Knitting Association* (浙江省無縫織造行業協會) since December 2011.

Mr. Jin graduated from Correspondence College of the Party School of the Central Committee of C.P.C* (中共中央黨校函授學院) in the PRC majoring in economic management through distance learning in June 2001 and Chongqing University (重慶大學) in the PRC majoring in engineering management through distance learning in January 2014.

Mr. Jin is the spouse of Ms. Gong, our non-executive Director.

Mr. Jin, as the sole shareholder of Maximax, will be deemed to be interested in approximately 52.88% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised) by virtue of the SFO.

Mr. Zhao Hui (趙輝), aged 49, was appointed as a Director on 19 July 2017 and was re-designated as an executive Director on 19 September 2018. He joined our Group on 26 December 2007 and has acted as the chief financial officer of Zhejiang Bonny, and since November 2013, Mr. Zhao has acted as the secretary to the board and deputy general manager of Zhejiang Bonny. He is primarily responsible for overseeing our Group's financial strategies and management and internal compliance.

Mr. Zhao has over 27 years of experience in accounting and management in the textiles and clothing industry. Prior to joining our Group, from July 1990 to May 2003, he worked at Ezhou General Textiles Mill* (鄂州市針織總廠), which principally engages in the production and sale of socks and Mr. Zhao was primarily responsible for calculating wages and financial reporting of the company. From June 2003 to December 2007, Mr. Zhao served as the chief financial officer and deputy general manager of Zhejiang Hengxiang Cotton Textile Limited* (浙江恆祥棉紡織造有限公司), a company engages in the production and sale of cotton yarn and Mr. Zhao was primarily responsible for the financial management of the company.

Mr. Zhao graduated from Wuhan University of Technology (武漢理工大學) in the PRC majoring in accounting through distance learning in July 2013.

DIRECTORS AND SENIOR MANAGEMENT

Non-executive Directors

Ms. Gong Lijin (龔麗瑾), aged 40, was appointed as a Director on 19 July 2017 and re-designated as a non-executive Director on 19 September 2018. She co-founded our Group with Mr. Jin and is primarily responsible for providing strategic advice on the operations and management of our Group. She joined our Group as the general manager of the International Business Department of Zhejiang Bonny on 21 August 2001, and has served as the supervisor of Shanghai Bonny since December 2007 and the executive director and manager of Yiwu Leyishang in March 2016, respectively. Ms. Gong terminated these positions in Zhejiang Bonny and Yiwu Leyishang on 31 December 2013 and 6 February 2018, respectively.

Ms. Gong has nearly 17 years of experience in accounting and management. Prior to joining our Group, she worked as an accountant in Yiwu Zhicheng Accounting Firm* (義烏市至誠會計師事務所) from September 1995 to January 2002. Ms. Gong has been serving as the supervisor of Deshipu Polyamide, Bode Holding and Deshipu New Materials since December 2006, September 2007 and December 2010, respectively.

Ms. Gong graduated from Yiwu Industrial School* (義烏市工業學校) in the PRC majoring in computer accounting in June 1995 and Correspondence College of the Central Party School of the Communist Party of China* (中共中央黨校函授學院) in the PRC majoring in economic management through distance learning in June 2001.

Ms. Gong is the spouse of Mr. Jin, our executive Director.

Ms. Gong, as the spouse of Mr. Jin, will be deemed to be interested in approximately 52.88% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised) by virtue of the SFO.

Mr. Luo Weixing (駱衛星), aged 43, was appointed as a Director on 19 July 2017 and re-designated as a non-executive Director on 19 September 2018. He is primarily responsible for providing strategic advice on the operations and management of our Group.

Prior to joining our Group, from December 2010 to March 2017, Mr. Luo served as an executive director at Yiwu Yashi Accessories Co., Ltd.* (義烏市雅詩飾品有限公司), a company engages in the production and sale of accessories and crafts and in which he was primarily responsible for the overall operation of the company. In January 2011, he started his own business, Kunming Weixing Economic Information Consulting Co., Ltd.* (昆明偉興經濟資訊諮詢有限公司) in which he has served as the executive director and general manager since then. He has also been serving as the vice president of Yiwu Loving Commune Charity Association* (義烏市愛心公社公益協會) since October 2014.

Mr. Luo graduated from Yiwu Xialuozhai Middle School* (義烏市下駱宅初級中學) in the PRC in June 1991.

Mr. Luo, as the sole shareholder of Luo Weixing Holding Limited, will be deemed to be interested in approximately 1.125% of the issued share capital of our Company immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised) by virtue of the SFO.

DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Li Youxing (李有星), aged 56, was appointed as an independent non-executive Director on 19 March 2019. He is a member of the Audit Committee.

Mr. Li has been a professor at Zhejiang University Guanghua Law School (浙江大學光華法學院) since April 2003.

Mr. Li was appointed as an independent director of Zhejiang Bonny on 10 December 2013 until 21 June 2017 in view of restructuring of our Group.

Mr. Li has been the standing director of the Institution of Securities Law under China Law Society* (中國法學會證券法學研究會) from December 2008 to December 2013. Mr. Li was awarded the Zhejiang Outstanding Young and Middle-aged Jurists* (浙江省優秀中青年法學專家) in December 2009.

Mr. Li was an independent director of Zhejiang Sunriver Culture Co., Ltd* (浙江祥源文化股份有限公司) (SH stock code: 600576) from June 2012 to September 2018. He has been an independent director of Hangxiao Steel Structure Co., Ltd* (杭蕭鋼構股份有限公司) (SH stock code: 600477) since September 2013, and of Jack Sewing Machine Co., Ltd.* (傑克縫紉機股份有限公司) (SH stock code: 603337) since April 2017. All of the three companies above are listed on the Shanghai Stock Exchange.

Mr. Li obtained a bachelor of commercial electronic technology from Hangzhou College of Commerce* (杭州商學院) in the PRC in July 1984. He obtained a master of law and a doctor of economics from Zhejiang University (浙江大學) in the PRC in January 1996 and June 2007, respectively.

Mr. Wang Jian (王健), aged 57, was appointed as an independent non-executive Director on 19 March 2019. He is the chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee.

Mr. Wang served as a lecturer and an associate professor at the Physical Education Science and Technology Research Center of Hangzhou University (now known as Zhejiang University)* (杭州大學體育科學與技術研究所) from 1987 to 1998. From 1998 to 2017, he served as an associate professor and a professor at the College of Education of Zhejiang University* (浙江大學教育學院). He currently serves as the head of the Physical Education department of the College of Education of Zhejiang University (浙江大學教育學院體育學系) a professor of the Center for Psychological Sciences at Zhejiang University* (浙江大學心理科學研究中心) and head of Sports Science and Health Engineering Research Institute at Zhejiang University.

Mr. Wang has been the director of the Chinese Ergonomics Society (中國人類工效學學會) from 2012 to 2016. He has also been the vice chairman of the Health Industry Professional Committee* (健康產業專業委員會) of China International Exchange and Promotive Association for Medical and Health Care (中國醫療保健國際交流促進會) since August 2014

DIRECTORS AND SENIOR MANAGEMENT

and the vice chairman of Zhejiang Provincial Sports Reform and Development Committee* (浙江省體育改革發展委員會) since April 2016. Mr. Wang has also served as a member of the China Health Care Association* (中國保健協會), a member of the expert committee and the chairman of its Healthy Textile Branch* (健康紡織分會) of such association since December 2016 and the chairman of the Human-Computer Interaction Professional Committee of the Innovation Design Alliance of China* (中國創新設計產業聯盟) since November 2017.

Mr. Wang obtained a bachelor of exercise physiology from Shanxi University* (山西大學) in the PRC in August 1982. He obtained a master of education and a doctor of engineering from Hangzhou University* (杭州大學) in the PRC in September 1987 and June 1996, respectively.

Mr. Zhang Senquan (張森泉), aged 42, was appointed as an independent non-executive Director on 19 March 2019. He is the independent non-executive Director who has the qualifications and experience to meet the requirements under Rule 3.10(2) of the Listing Rules. Mr. Zhang is the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee.

Mr. Zhang has over 13 years of experience in accounting and auditing. Mr. Zhang served as an auditor of Deloitte Touche Tohmatsu from October 1999 to October 2000. He had worked for KPMG from November 2000 to February 2008, last position as senior manager. He was a partner of Ernst & Young from February 2008 to October 2012. Currently, Mr. Zhang is the chief executive officer of Zhong Rui Capital (Hong Kong) Limited (中瑞資本(香港)有限公司) a consultancy company.

Mr. Zhang was an independent non-executive director of Topchoice Medical Investment Co., Inc.* (通策醫療股份有限公司) (SH stock code: 600763), a company listed on the Shanghai Stock Exchange, from December 2014 to March 2017. He has also worked or is working for several companies listed on the Hong Kong Stock Exchange. He worked as the head of the Strategic Development Department of Goodbaby International Holdings Limited (好孩子國際控股有限公司) (stock code: 1086) from March 2013 to April 2014, the chief financial officer and joint company secretary of Huazhong In-Vehicle Holdings Company Limited (華眾車載控股有限公司) (stock code: 6830) from May 2014 to July 2015 and is currently the managing director of Southwest Securities International Securities Limited* (西證國際證券股份有限公司) (stock code: 812) from February 2016. From April 2015 to April 2018, he was an independent non-executive director of Casablanca Group Limited (卡薩天嬌集團有限公司) (stock code: 2223). He has been an independent non-executive director of Jiande International Holdings Limited (建德國際控股有限公司) (stock code: 865) since October 2016, of Beijing Digital Telecom Co., Ltd. (北京迪信通商貿股份有限公司) (stock code: 6188) since June 2018 and of Natural Food International Holding Limited (五谷磨房食品國際控股有限公司) (stock code: 1837) since November 2018.

Mr. Zhang obtained a bachelor of economics from Fudan University* (復旦大學) in the PRC in July 1999. He has been a member of the Chinese Institution of Certified Public Accountants (中國註冊會計師協會) since December 2001, the Hong Kong Institute of Certified Public Accountants since September 2011 and the American Institute of Certified Public Accountants since September 2015.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS' INTEREST

Each of our executive Directors has entered into a service contract with our Company on 19 March 2019, and we have issued letters of appointment to each of our non-executive Directors and independent non-executive Directors. The service contracts with each of our executive Directors and the letters of appointment with each of our non-executive Directors are for an initial term of three years commencing from Listing Date. The letters of appointment with each of our independent non-executive Directors are for an initial fixed term of three years commencing from Listing Date. The service contracts and the letters of appointment are subject to termination in accordance with their respective terms. The service contracts may be renewed in accordance with our Articles of Association and the applicable Listing Rules. Each of such service contracts and appointment letter contains an undertaking in favour of our Company that our Director will not engage in or have any interest in businesses, apart from the business of our Group, which competes or is likely to compete, directly or indirectly, with our business.

Save as disclosed in the section headed “Relationship with Our Controlling Shareholders – Independence from Our Controlling Shareholders – Management Independence” and the paragraphs headed “Directors” and “Senior Management” in this section, as at the Latest Practicable Date, each of our Directors (i) did not hold other positions in our Company or other members of our Group; (ii) had no other relationship with any other Directors, senior management, substantial or Controlling Shareholders of our Company; and (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. Save as disclosed in the section headed “Substantial Shareholders” and their respective interests or short positions (if any) as set out in “Statutory and General Information – C. Further Information about the Directors, Management and Staff and Expert” in Appendix V to this prospectus, there are no other matters in respect of each of our Directors that is required to be disclosed pursuant to Rule 13.51(2)(a) to (v) of the Listing Rules and there is no other material matter relating to our Directors that need to be brought to the attention of our Shareholders.

SENIOR MANAGEMENT

Mr. Jin, please see the section headed “Executive Directors” for details.

Mr. Zhao, please see the section headed “Executive Directors” for details.

Mr. Li Zhanhai (李占海), aged 39, joined our Group as the administration and human resource manager in August 2008 and has been the vice general manager of the corporate management centre of our Group since July 2012. He is primarily responsible for the administrative and human resource management of our Group.

Mr. Li has nearly 13 years of experience in administrative management. Prior to joining our Group, he was the office manager of Yiwu Huafeng Hotel Co., Ltd.* (義烏市華豐賓館有限公司) from July 2004 to June 2008. He subsequently worked for Zhejiang Gangmei Fashion Co., Ltd.* (浙江港美服飾有限公司) as the executive vice president (常務副總) from July 2011 to June 2012.

Mr. Li graduated from Longdong College* (隴東學院) in the PRC majoring in politics and history education in June 2004.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Gao Jiangpeng (高江鵬), aged 34, joined our Group as the manager of the Shanxi Office of Zhejiang Bonny on 21 March 2011. He subsequently worked as the director overseeing the northwest area of the PRC for Zhejiang Bonny from January 2014 to October 2016 and the director of the brand project department of Shanghai Bonny from November 2016 to July 2017. Since July 2017, he has been promoted as the deputy general manager of Shanghai Bonny. He is primarily responsible for the retail operation of our Group.

Mr. Gao has over 10 years of experience in the intimate apparel industry. Prior to joining our Group, he worked as the manager of the Xi'an Office at Embry (China) Fashion Co., Ltd.* (安莉芳(中國)服裝有限公司), a company engages in the production and sale of intimate wear from April 2006 to February 2011, and was responsible for the retail operation of the company.

Mr. Gao graduated from Xi'an University of Finance and Economics* (西安財經學院) in the PRC majoring in marketing in June 2006.

Ms. Dong Lan (董瀾), aged 40, joined our Group in August 2016 and has since acted as the technical director of the Shanghai research and development centre of our Group. She is primarily responsible for the research and development and design of the retail system of our Group.

Ms. Dong has over 7 years of experience in intimate apparel design. Prior to joining our Group, she worked at the business planning department at Wacoal Corp., a leading intimate apparel manufacturing company in Japan, from April 2005 to March 2006. She also worked at the business planning department at Wacoal (China) Apparel Co., Ltd.* (華歌爾(中國)時裝有限公司) from July 2006 to June 2007. She then worked at Wacoal (China) Apparel Co., Ltd. Shanghai Office* (華歌爾(中國)時裝有限公司上海分公司) from December 2007 to June 2009. Ms. Dong also served as a director of the intimate apparel business planning department of Yuxu Apparel (Shanghai) Co., Ltd.* (宇旭時裝(上海)有限公司), a company engages in the production and sale of apparel, accessories and fabric items, and she was responsible for corporate planning, from December 2009 to June 2010.

Ms. Dong obtained a master of clothing from Kyoritsu Women's University in Japan in March 2005. In July 2000, Ms. Dong obtained a diploma in fashion design from Donghua University* (東華大學).

Mr. Zhu Zhengxi (朱正喜), aged 34, joined our Group as the secretary to the chairman on July 2008 and has been working as the director of the cross-border e-commerce centre of Zhejiang Bonny since 16 December 2015. He is primarily responsible for the e-commerce operation of our Group.

Mr. Zhu has over seven years of experience in management. He has served as the executive director and manager of both Yiwu Jintuo Handicraft Co., Ltd.* (義烏市錦拓工藝品有限公司) and Shenzhen Jintuo Handicraft Co., Ltd.* (深圳市錦拓工藝品有限公司) from April 2011 and May 2015, respectively, both of which provides the sale of toys, bags and office supplies and he was primarily responsible for the retail operation of the companies.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhu obtained a bachelor of English from Chuzhou University* (滁州學院) in the PRC in July 2008.

Mr. Zhu owned 40% equity interest in Yiwu Leyishang, a non-wholly owned subsidiary of our Company.

Mr. Zhou Donggen (周冬根), aged 43, joined our Group on 23 January 2011 and has acted as the general manager of our intimate wear production centre of Zhejiang Bonny. Since June 2016, he has been promoted as the production manager of Zhejiang Bonny. He is primarily responsible for research and development, production and quality control of the company.

Mr. Zhou has over 15 years of experience in the intimate apparel industry. Prior to joining our Group, he worked as the director at Guangzhou Painter Clothing Co., Ltd.* (廣州市畫爾服飾有限公司) from March 2008 to January 2011. He worked as the assistant general manager at Shenzhen Yves Clothing Co., Ltd.* (深圳市伊維斯服裝有限公司), a company engages in the production and sale of intimate wear from June 2003 to June 2007. He also worked as the assistant general manager at Guangdong Dongguan Yongcheng Garment Co., Ltd.* (廣東省東莞永誠製衣有限公司) from June 1997 to August 2001.

Mr. Zhou graduated from Nanchang University* (南昌大學) in the PRC majoring in information economics in July 1996.

Mr. Zhang Wenhua (張文華), aged 34, joined our Group in October 2017 and has since acted as the deputy general manager and director of securities affairs of Zhejiang Bonny. He is primarily responsible for the capital market investment and financing and investment relationship for our Group. Mr. Zhang was appointed as a joint company secretary of our Group in September 2018.

Mr. Zhang has over ten years of experience in the management of corporate securities affairs. Prior to joining our Group, Mr. Zhang worked for Cosmo Lady (China) Holdings Company Limited (stock code: 2298), a company listed on the Main Board of the Hong Kong Stock Exchange, as the deputy director of securities affairs from October 2012 to October 2017.

Mr. Zhang obtained a bachelor of administration management from Jiangnan University* (江南大學) in the PRC in June 2008.

Save as disclosed in this section, each of our senior management has not been a director of any publicly listed company during the three years preceding the date of this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

JOINT COMPANY SECRETARIES

Mr. Zhang Wenhua and Ms. Chen Chun are our joint company secretaries.

Mr. Zhang has been appointed as one of our joint company secretaries since 19 September 2018. For Mr. Zhang's biography, please refer to the paragraph headed "Senior Management" in this section.

As Mr. Zhang does not possess the qualifications as stipulated under Rules 3.28 and 8.17 of the Listing Rules, we have applied for and have been granted a waiver by the Hong Kong Stock Exchange from strict compliance with the aforementioned Listing Rules. See section headed "Waivers from Strict Compliance with the Listing Rules" in this prospectus for details.

Ms. Chen Chun (陳淳), aged 30, was appointed as a joint company secretary of our Company on 19 September 2018. Ms. Chen joined SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited) in December 2013, and currently serves as a company secretarial executive providing support and advisory on listed companies' company secretarial work and compliance matters.

Ms. Chen was admitted Associate of The Hong Kong Institute of Chartered Secretaries and elected Associate of The Institute of Chartered Secretaries and Administrators in March 2016. She obtained a bachelor degree of economics from Shanghai Finance University* (上海金融學院) in July 2010.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a listing on the Main Board shall have a sufficient management presence in Hong Kong where at least two of its executive directors must ordinarily reside in Hong Kong. None of our executive Directors is a Hong Kong permanent resident or ordinarily resides in Hong Kong. Our Company has applied to the Hong Kong Stock Exchange for a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules in relation to the requirement of management presence in Hong Kong. For details, please refer to "Waivers from Strict Compliance with the Listing Rules" in this prospectus.

BOARD COMMITTEES

Audit Committee

Our Company established the Audit Committee on 19 March 2019 with its written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process and internal control system, to nominate and monitor external auditors and to provide advice and comments to our Board.

DIRECTORS AND SENIOR MANAGEMENT

Our Audit Committee consists of three members, being Mr. Zhang Senquan, Mr. Wang Jian and Mr. Li Youxing. Mr. Zhang Senquan currently serves as the chairman of our Audit Committee.

Remuneration Committee

Our Company established the Remuneration Committee on 19 March 2019 with its written terms of reference in compliance with Rule 3.25 of the Listing Rules and paragraph B.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Remuneration Committee are to evaluate the performance and make recommendations on the remuneration of our senior management and to recommend members of our Board.

Our Remuneration Committee consists of three members, being Mr. Wang Jian, Mr. Jin and Mr. Zhang Senquan. Mr. Wang Jian currently serves as the chairman of our Remuneration Committee.

Nomination Committee

Our Company established the Nomination Committee on 19 March 2019 with its written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The primary duties of the Nomination Committee are to make recommendations to our Board regarding candidates to fill vacancies on our Board and/or in senior management.

Our Nomination Committee consists of three members, being Mr. Jin, Mr. Wang Jian and Mr. Zhang Senquan. Mr. Jin currently serves as the chairman of our Nomination Committee.

CORPORATE GOVERNANCE CODE

Pursuant to code provision A.2.1 of the Corporate Governance Code, as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Mr. Jin is currently performing these two roles. With the extensive experience in the seamless intimate wear manufacturing industry, Mr. Jin is responsible for the overall strategic planning and general management of our Group and is instrumental to our growth and business expansion since our establishment in August 2001. Our Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the management of our Group. The balance of power and authority is ensured by the operation of the senior management and our Board, both of which comprises experienced and high-caliber individuals. Our Board currently comprises two executive Directors (including Mr. Jin), two non-executive Directors and three independent non-executive Directors, and therefore has a strong independence element in its composition.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed above, our Company intends to comply with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules after the Listing. Our Directors will review our corporate governance policies and compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules each financial year and comply with the “comply or explain” principle in our corporate governance report which will be included in our annual reports.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of fees, salaries, allowances, discretionary bonus, pension-defined contribution plans and other benefits in kind with reference to those paid by comparable companies, time commitment and the performance of our Company. Our Company also reimburses our Directors and senior management for expenses which are necessarily and reasonably incurred for the provision of services to our Company or executing their functions in relation to the operations of our Company. We regularly review and determine the remuneration and compensation packages (including incentive plans) of our Directors and senior management, by reference to, among other things, market level of remuneration and compensation paid by comparable companies, the respective responsibilities of our Directors and senior management and the performance of our Company.

COMPENSATION OF THE DIRECTORS AND SENIOR MANAGEMENT

For the years ended 31 December 2016, 2017 and 2018, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) paid by our Company to our Directors were approximately RMB460,000, RMB461,000 and RMB480,000, respectively. Our Directors’ remuneration is determined with reference to the salaries paid by comparable companies and the experience, responsibilities and performance of our Directors.

For the years ended 31 December 2016, 2017 and 2018, the aggregate amount of fees, salaries, allowances, discretionary bonus, contributions to defined contribution scheme and other benefits in kind (if applicable) payable by our Company to the top five highest paid individuals (including Directors) was approximately RMB1,869,000, RMB1,414,000 and RMB1,341,000, respectively.

Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We have also adopted the Share Option Scheme, which enable us to provide incentive or reward to our Directors, senior management and other selected participants. For details of the Share Option Scheme, please refer to “Statutory and General Information – D. Share Option Scheme” in Appendix V to this prospectus. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

DIRECTORS AND SENIOR MANAGEMENT

After Listing, our Remuneration Committee will review and recommend the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and senior management and performance of our Group.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors or the five highest-paid individuals as an inducement to join or upon joining our Company. No compensation was paid by us to, or receivable by, our Directors, past Directors or the five highest-paid individuals for the Track Record Period for the loss of any office in connection with the management of the affairs of any subsidiary of our Company.

None of our Directors had waived any remuneration during the Track Record Period. Save as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors or the five highest-paid individuals during the Track Record Period.

It is estimated that under the arrangements currently in force, the aggregate amount of compensation (including salaries, benefits in kind but excluding discretionary bonuses) payable to our Directors for the year ending 31 December 2019 will be approximately RMB1,500,000.

COMPLIANCE ADVISER

Our Company has appointed Innovax Capital Limited as our compliance adviser upon Listing pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including but not limited to share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of operation of our Group deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Hong Kong Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

The term of the appointment will commence on the Listing Date and end on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing. Such appointment may be subject to extension by mutual agreement.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), each of the following persons will have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group:

Name	Nature of interest and capacity	Shares/underlying		Shares held immediately following the completion of the Global Offering	
		Shares held as at the date of application proof of this prospectus Number	Percentage	Number	Percentage
Mr. Jin ^(Note 1)	Interest in controlled corporation	3,525,000	70.50%	634,500,000	52.88%
Maximax	Beneficial owner	3,525,000	70.50%	634,500,000	52.88%
Ms. Gong ^(Note 2)	Interest of spouse	3,525,000	70.50%	634,500,000	52.88%

Notes:

- (1) Immediately following the completion of the Capitalization Issue and Global Offering (without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme), Mr. Jin directly owns 100.00% of equity interest of Maximax, which will in turn hold approximately 52.88% of the issued share capital of our Company. Mr. Jin is deemed, or taken to be interested in, all the Shares held by Maximax for the purpose of the SFO.
- (2) Ms. Gong is the spouse of Mr. Jin and is deemed to be interested in the Shares which are interested by Mr. Jin under the SFO.

For those who are directly and/or indirectly interested in 10% or more of the voting shares of any other member of our Group, please refer to “Statutory and General Information – C. Further Information about the Directors, Management and Staff and Expert” in Appendix V to this prospectus.

Save as disclosed above, our Directors are not aware of any person who will, immediately following the completion of the Capitalization Issue and the Global Offering (assuming that the Over-allotment Option is not exercised), have an interest or a short position in the Shares or underlying Shares which will be required to be disclosed to our Company and the Hong Kong Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or will be, directly or indirectly, interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

SHARE CAPITAL

SHARE CAPITAL

The authorized and issued share capital of our Company is as follows:

Authorized share capital	US\$
3,000,000,000 Shares	30,000,000

Without taking into account any Share which may be issued upon exercise of any options that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the general mandate and the repurchase mandate granted to our Directors as described below, the share capital immediately following the Capitalization Issue and the Global Offering will be as follows:

Shares	US\$
<u>6,000,000</u> Shares in issue as at the date of this prospectus	<u>60,000</u>
<u>894,000,000</u> Shares to be issued pursuant to the Capitalization Issue	<u>8,940,000</u>
<u>300,000,000</u> Shares to be issued pursuant to the Global Offering	<u>3,000,000</u>
<u><u>1,200,000,000</u></u> Shares in total ^(Note)	<u><u>12,000,000</u></u>

Note: If the Over-allotment Option is exercised in full, 45,000,000 additional Shares will be issued resulting in an aggregate of 1,245,000,000 Shares to be in issue.

ASSUMPTION

The above table assumes that the Global Offering becomes unconditional and does not take into account any Shares which may be allotted and issued or repurchased pursuant to the general mandates given to the Directors described in “General mandate to issue Shares” and “General mandate to repurchase Shares”.

RANKING

The Offer Shares, including the additional Shares issuable pursuant to the Over-allotment Option, will rank pari passu in all respects with all other Shares in issue or to be issued as mentioned in this prospectus, and in particular, will qualify for all dividends and other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of this prospectus, except for the entitlements under the Capitalization Issue.

SHARE CAPITAL

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

The circumstances under which general meeting and class meeting are required are provided in the Articles of Association, a summary of which is set out in Appendix IV.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarized in “Statutory and General Information – D. Share Option Scheme” in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been conditionally granted a general unconditional mandate authorizing them to exercise all the powers of our Company to allot, issue and deal with the Shares with a total nominal value not exceeding 20% of the aggregate nominal value of our issued share capital immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option that may be granted under the Share Option Scheme), and the number of Shares repurchased by us, if any, pursuant to the repurchase mandate described below.

- i. 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option; and
- ii. the aggregate nominal amount of the share capital of our Company repurchased by us (if any) pursuant to the general mandate to repurchase Shares as described below.

This mandate will expire at the earliest of:

- i. the conclusion of our next annual general meeting;
- ii. the date by which our next annual general meeting is required by the Articles, the Companies Law or any applicable laws of the Cayman Islands to be held; or
- iii. the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors.

Particulars of this general mandate are set forth under “Statutory and General Information – A. Further information about our Company – 3. Resolutions in writing of all Shareholders passed on 19 March 2019” in Appendix V to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been conditionally granted a general unconditional mandate to exercise all the powers of our Company to repurchase the Shares with an aggregate nominal value of not more than 10% of the total nominal amount of our issued share capital immediately following completion of the Capitalization Issue and the Global Offering (without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or any option that may be granted under the Share Option Scheme).

This mandate relates only to repurchases made on the Stock Exchange or any other stock exchange on which the Shares may be listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in “Statutory and General Information – A. Further information about our Company – 7. Repurchase by our Company of our own securities” in Appendix V to this prospectus.

This mandate will expire at the earliest of:

- i. the conclusion of our next annual general meeting;
- ii. the date by which our next annual general meeting is required by the Articles, the Companies Law or any applicable laws in the Cayman Islands to be held; or
- iii. the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to our Directors.

Particulars of this general mandate are set forth under “Statutory and General Information – A. Further information about our Company – 3. Resolutions in writing of all Shareholders passed on 19 March 2019” in Appendix V to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis in conjunction with our consolidated financial information and notes thereto set forth in the Accountants' Report included as Appendix I and our selected historical consolidated financial information and operating data included elsewhere in this prospectus. Our consolidated financial information has been prepared in accordance with HKFRSs as adopted by the HKICPA.

The following discussion and analysis contain certain forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. 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. See the sections headed "Risk factors" and "Forward-looking statements" in this prospectus for discussions of those risks and uncertainties.

OVERVIEW

We manufacture and sell seamless and traditional intimate wear products. We focus on providing one-stop in-house intimate wear manufacturing solutions to our ODM customers, while we also sell our branded intimate wears mainly under our "Bonny" and "U+ Bonny" brands through our retail network in the PRC. We manufacture a wide range of seamless and traditional intimate wears, including bras, underpants, thermal clothes and loungewear, and we also produce functional sportswear. Majority of our seamless products are sold to our ODM customers, while we mainly sell traditional products in our branded sales in the PRC.

For our ODM sales, we manufacture seamless intimate wear products for our customers on an ODM basis and sell to over 20 countries including the United States, Germany, the Netherlands and the PRC. All our ODM products are seamless products. As at the Latest Practicable Date, we served over 50 ODM customers including famous apparel and retailer brands.

For our branded sales, we sell products mainly under our brands, namely "Bonny" and "U+ Bonny", through an extensive and structured nationwide retail network in the PRC which consists primarily of our self-operated retail outlets as well as franchised retail outlets, and does not involve distributors or multiple layers of franchisees. We sell mainly traditional intimate wear products in our branded sales. As at the Latest Practicable Date, our retail network comprised 153 self-operated retail outlets and 42 franchised retail outlets in 18 provinces, municipalities and autonomous regions in the PRC.

For the three years ended 31 December 2018, our revenue were approximately RMB326.5 million, RMB314.6 million and RMB333.7 million, respectively. We recorded profit of approximately RMB19.3 million, RMB18.4 million and RMB26.4 million for the three years ended 31 December 2018, respectively.

FINANCIAL INFORMATION

KEY FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Our financial conditions and results of operations have been and will continue to be affected by a number of factors, including those discussed below.

Demands for our products is largely dependent on demand from our ODM customers

Majority of our ODM customers are international and local sourcing agents that engaged in the sales of textiles products, and the majority of our ODM revenue is derived from sales to these customers. The number of sales orders received from these customers are largely dependent on the demand for intimate wear from the end-customers. Consequently, our business and results of operations are indirectly affected by changes in consumption patterns and consumer demand for our ODM customers' products globally and locally. According to the Frost & Sullivan Report, with the increasing demand from consumers in intimate wear, the global intimate wear production volume has been rising since 2013, growing from 16.40 billion units to 21.21 billion units in 2017, representing a CAGR of 6.64%. It is estimated that the global production volume of intimate wear will continue to rise in the next five years, reaching 28.41 billion units by the end of 2022.

Consumption patterns and consumer demand for our ODM customers' products are affected by, among other factors, reputation and popularity of our customers' brands, rapidly changing fashion trend for intimate wear, consumer preferences and tastes, consumer purchasing power, government policies, general and local economic conditions, weather conditions, urbanization rates and living standards, many of which are beyond our control. Therefore, our success largely depends on our ability as well as our ODM customers' ability to accurately anticipate and identify these factors and take them into account during the product planning and commercialization process. This requires a combination of various strategies, including, timely collection of consumer feedback, accurate analysis and prediction of market trends, strong design capability, appropriate inventory management and flexible product production.

In addition, our ability to continue to grow our business will depend on our ability to expand our product offerings such as functional sportswear. Leveraging on our strong research and development capabilities, we have commenced producing nursing bras since 2016. However, we cannot assure that our future product research and development projects will be successful or that our newly developed products will achieve anticipated sales target.

Our segment and product mix

We generate revenue from two segments, ODM sales and branded sales. Under both segments, we derived our revenue mainly from sales of intimate wear and functional sportswear. We believe that our different segment and product offerings enable us to capitalize on changing market trends and consumer preferences in China and different foreign countries. Our segment mix and product mix affects our financial performance as different segment and

FINANCIAL INFORMATION

product may have different gross profit margins, depending on factors such as the cost of materials, production costs, product positioning, pricing and marketing strategies. In general, during the Track Record Period, our branded sales segment has a relatively higher gross profit margin. According to the Frost & Sullivan Report, in the lingerie industry in China, ODMs could earn a profit margin of approximately 20%-50% by manufacturing for local or international brand owners. In general, brand owners, especially popular overseas brands, have higher bargaining power over ODMs, as ODMs rely on them to extend and secure sales channels. On the other hand, profit margins for brand owners (or retailers) can range from about 40%-80%, depending on the level of brand loyalty and consumer demand. If consumer demand and brand loyalty of a product are high, brands are more likely to charge higher. Therefore, profit margins for ODMs are usually lower than that of brand owners or retailers. However, a higher brand loyalty does not necessarily yield a higher profit margin all the time. It also depends on a brand's control over its operating costs. Sometimes, a famous brand tends to invest heavily on marketing and branding, which gives them a higher cost and lower margin. Due to the different gross profit margins associated with different business lines, if we adjust our segment mix to reflect prevailing market demand in the future, our gross profit margin could be affected.

During the Track Record Period, over half of our revenue was derived from our intimate wear products, including bras and underpants. The different product mix may have impact on our Group's profitability due to different selling prices and margins. In general, bras, as compared to underpants, require more complicated production techniques and hence longer time for production, but have higher selling price per unit. We intend to continuously enhance our revenue and profitability by actively promoting products with higher margin to our customers. However, in the event that our customers demand less of our higher specification products, our revenue and operating results may be adversely affected.

Fluctuations in the prices of raw materials

Our principal raw materials mainly include yarns, accessory clothing parts, dyes and packaging materials. The yarns we source for intimate wear are mainly made of nylon. Our cost of materials, which was the main component of cost of sales, accounted for approximately 56.0%, 61.8% and 63.1% of our total cost of sales for the three years ended 31 December 2018, respectively.

According to Frost & Sullivan Report, prices of certain of our principal raw materials such as nylon, acrylic, polyester and viscose staple fiber rose for the year ended 31 December 2017 in the range from 6.0% to 16.3%. Please refer to "Industry Overview – Costs of Major Raw Materials for Intimate Wear Manufacturing Industry in China" in this prospectus for more details.

During the Track Record Period, we were able to maintain the stability of selling price of our products in general. It was because we adopted a cost-plus pricing policy for our ODM sales and a market-oriented pricing approach with a higher degree of flexibility for our branded sales. In the event that our raw materials price shows a general increase, there is no assurance that we can pass on the increment to our customers and our trading results and financial position may be materially and adversely affected.

FINANCIAL INFORMATION

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our raw material costs on our profit before tax for each of the years ended 31 December 2016, 2017 and 2018.

	Increase/ (decrease) in percentage	2016		Year ended 31 December 2017		2018	
		(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000	(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000	(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000
		Cost of materials	-35%	36,412	59,043	37,847	63,800
	-25%	26,009	48,640	27,033	52,986	29,646	67,165
	-15%	15,605	38,236	16,220	42,173	17,788	55,307
	-5%	5,202	27,833	5,407	31,360	5,929	43,448
	0%	-	22,631	-	25,953	-	37,519
	+5%	(5,202)	17,249	(5,407)	20,546	(5,929)	31,590
	+15%	(15,605)	7,026	(16,220)	9,733	(17,788)	19,731
	+25%	(26,009)	(3,378)	(27,033)	(1,080)	(29,646)	7,873
	+35%	(36,412)	(13,781)	(37,847)	(11,894)	(41,505)	(3,986)

For illustrative purposes, for the three years ended 31 December 2018, it is estimated that we would achieve breakeven on our profit before taxation if our cost of materials increased by approximately 21.8%, 24.0% and 31.6% respectively, with all other variables remaining constant.

Fluctuations in the prices of direct labor costs

The steady and adequate supply of labor is essential to our manufacturing operation. Direct labor costs accounted for approximately 20.4%, 20.0% and 10.3% of our total costs of sales for the three years ended 31 December 2018, respectively. During the Track Record Period, our direct labor costs decreased by approximately RMB3.0 million or 7.9% for the year ended 31 December 2017 compared with the year ended 31 December 2016 and decreased by RMB15.4 million or 44% for the year ended 31 December 2018. Please refer to the section headed "Financial Information – Year-on-year comparison of results of operation" for more details of fluctuation analysis.

We in general aim to pass on increase in direct labor cost to our customers by adjusting the price of our products. If we are not able to pass on any increase in direct labor costs, fully or partially, to our customers, our business, results of operations, financial condition and development prospects may be materially and adversely affected.

FINANCIAL INFORMATION

The following sensitivity analysis illustrates the impact of hypothetical fluctuations in our labor costs on our profit before tax for each of the years ended 31 December 2016, 2017 and 2018.

	Increase/ (decrease) in percentage	Year ended 31 December					
		2016		2017		2018	
		(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000	(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000	(Decrease)/ increase in profit before tax RMB'000	Adjusted profit/ (loss) before tax RMB'000
Direct labor costs	-20%	7,581	30,212	6,985	32,938	3,896	41,415
	-15%	5,685	28,316	5,239	31,192	2,922	40,441
	-10%	3,790	26,421	3,493	29,446	1,948	39,467
	-5%	1,895	24,526	1,746	27,699	974	38,493
	0%	-	22,631	-	25,953	-	37,519
	+5%	(1,895)	20,736	(1,746)	24,207	(974)	36,545
	+10%	(3,790)	18,841	(3,493)	22,460	(1,948)	35,571
	+15%	(5,685)	16,946	(5,239)	20,714	(2,922)	34,597
	+20%	(7,581)	15,050	(6,985)	18,968	(3,896)	33,623

For illustrative purposes, for the three years ended 31 December 2018, it is estimated that we would achieve breakeven on our profit before taxation if our direct labor costs increased by approximately 59.7%, 74.3% and 192.6% respectively, with all other variables remaining constant.

Fluctuations in foreign exchange rates

For the three years ended 31 December 2018, approximately 51% and 44% and 44% of our revenue was denominated in foreign currencies, being primarily US\$ and a small portion of EUR. Therefore, fluctuations in exchange rates between RMB and US\$ could materially impact our profit margin and overall result of operations, and there will be gains or losses resulting from fluctuations in foreign exchange rates.

While we adopted RMB as our reporting currency, some of our assets and liabilities such as trade receivables and payables arising from export sales were denominated in other foreign currencies, mainly in US\$. As at 31 December 2016, 2017 and 2018, our net monetary assets or liabilities denominated in US dollar amounted to net monetary assets of approximately RMB17.3 million, RMB28.8 million and RMB2.6 million, respectively. Due to the appreciation of US dollar against RMB in 2016 and 2018, our Group recorded gain on foreign exchange of approximately RMB0.8 million and RMB0.1 million for the year ended 31 December 2016 and 2018, respectively. We recorded a foreign exchange loss of approximately RMB2.0 million for the year ended 31 December 2017. The fluctuations were mainly due to the appreciation or depreciation of US dollar against RMB during the Track Record Period.

Our Group will continue to monitor the economic situation and our foreign exchange risk profile and will consider appropriate hedging measure in the future should the need arise. Please refer to “Financial risk management objectives and policies – Foreign currency risk” in Note 36 to the Accountant’s Report for details of the sensitivity analysis in relation to foreign currency risk.

FINANCIAL INFORMATION

Production capacity and efficiency

Our growth highly depends on our ability to continue expanding our production capacity and enhancing our operating efficiency. We believe that the scale of our operations has been essential to our business development by enabling us to (i) be flexible in accepting sales orders of various size and fulfilling large orders in a timely manner; and (ii) achieve economies of scales through centralizing our raw material purchases and enhancing the effectiveness of our fixed overheads. For the three years ended 31 December 2018, our estimated average utilization rate of our production facilities (namely our seamless circular knitting machines) for our seamless products were approximately 81%, 82% and 82%, respectively. Since the utilization rate of our production facilities is persistently high, we need to expand our production capacity to cater for our future business growth.

In this regard, we have implemented an expansion plan in the Beiyuan Production Site to expand our seamless production capacity and relevant research and development purpose. Construction of phase I of our Beiyuan Production Site, consisting of two blocks of production buildings, was completed in September 2016 and phase II of Beiyuan Production Site is under construction and will comprise two blocks of buildings, being a production building and a staff dormitory. We will also acquire and implement additional production equipment including a total of 200 new seamless circular knitting machines at the production buildings of Beiyuan Production Site. Apart from seamless circular knitting machines, we will also acquire other ancillary facilities including additional sewing machines, compressors and related utilities. The expansion plan at Beiyuan Production Site will be funded by proceeds from the Global Offering and our internal and external resources. By the end of 2019, we expect our production capacity for seamless products will increase by approximately 80% (as compared to that for the year ended 31 December 2018). If our current or future expansion plan fails to materialise or experience delay, we may not be able to increase our production capacity, thereby limiting our ability to take on further production orders from our customers and restricting our revenue growth, which would have an adverse impact on our business, financial condition, results of operations and development prospects.

Business performance of our retail network

The coverage of our retail network has affected, and will continue to affect, our branded sales business. The table below sets forth the number of our outlets, broken down by self-operated retail outlets and franchised retail outlets, as of the dates indicated.

	As at 31 December		
	2016	2017	2018
Self-operated retail outlets	206	175	153
Franchised retail outlets	18	40	45

FINANCIAL INFORMATION

During that Track Record Period, we have strategically optimized and streamlined our retail network by closing retail outlets with less satisfactory financial or operational performance while becoming more selective in opening new retail outlets. As part of our business strategies, we have also shifted our focus from self-operated retail outlets to franchised retail outlets, as we believe that the franchise business model provides an asset-light and cost effective to maintain an effective retail network.

We expect that the continual optimization of our retail network as well as improvements of the financial performance of our existing retail outlets will continue to be a driving factor of our success of our branded sales business.

Seasonality

Our operating results vary due to the seasonality of ODM sales and are historically stronger in the second half of the year. This variation primarily results from higher demands of our customers toward the year-end festive season, and stronger demands for thermal wear products during autumn/winter season. These seasonality fluctuations may affect our sales revenue and the utilization rate of our manufacturing facilities.

BASIS OF PREPARATION AND PRESENTATION

Pursuant to the Reorganization, our Company became the holding company of the companies now comprising our Group on 20 November 2017. The companies now comprising the Group were under the common control of the controlling shareholder before and after the Reorganization. Accordingly, for the purpose of this report, our historical financial information has been presented as a continuation of the existing company using the pooling of interests method as if the Reorganization had been completed at the beginning of the Track Record Period.

Accordingly, our consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of our Group are prepared as if the current group structure had been in existence throughout the Track Record Period. The consolidated statements of financial position of our Group as at 31 December 2016, 2017 and 2018 have been prepared to present the assets and liabilities of the companies now comprising our Group, as if the current group structure had been existence at those dates.

The historical financial information has been prepared under the historical cost convention, except for an investment property which has been measured at fair value. The historical financial information is presented in Renminbi and all values are rounded to the nearest thousand, except where otherwise indicated.

FINANCIAL INFORMATION

SIGNIFICANT ACCOUNTING POLICIES, JUDGEMENT AND ESTIMATES

Critical accounting policies and estimates refer to those accounting policies and estimates that entail significant uncertainty and judgement, and could yield materially different results under different conditions and/or assumptions. The preparation of the financial information in conformity with HKFRSs requires our management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The methods and approach that we use in determining these items are based on our experience, the nature of our business operations, the relevant rules and regulations and the relevant circumstances. These underlying assumptions and estimates are reviewed regularly as they may have a significant impact on our operational results as reported in our consolidated financial statements included elsewhere in this prospectus.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Software

Purchased software are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 5 years.

Patent and License

Purchased patents and licenses are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years. Our patents and licenses registered in China have an effective period of 10 years. Considering that the effective term of the patents and licenses is shorter than the period over which the patents and licenses is expected to generate net cash inflows from the commercialization of product, we are of the view that the useful economic life of patents and licenses of 10 years is reasonable.

FINANCIAL INFORMATION

Trademarks

Purchased trademarks are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 years. Our trademarks registered in China and other countries have an effective period of 10 years. Considering that the effective term of the registered trademark is shorter than the period over which the trademark is expected to generate net cash inflows from the commercialization of product, we are of the view that the useful economic life of trademark of 10 years is reasonable.

The other significant accounting policies, judgements and estimates are set forth in notes 2 and 3 to the Accountants' Report in Appendix I to this prospectus. Of all the significant accounting policies, judgements and estimates, those that are the most critical in preparing our Group's consolidated financial statements include (a) revenue recognition; (b) property, plant and equipment; (c) inventories; (d) trade and other receivables; (e) trade and other payables; and (f) borrowing costs. Our Directors confirm that the relevant estimates or underlying assumptions made in the past have been generally in line with actual results during the Track Record Period and that we have consistently applied these estimates or underlying assumptions during the Track Record Period. We will continuously assess our assumptions and estimates going forward.

APPLICATION OF HKFRS 9 AND HKFRS 15

HKFRS 9 "Financial Instruments" replaces the previous standard HKAS 39 "Financial Instruments: Recognition and Measurement". The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. We applied HKFRS 9 prospectively, with an initial application date of 1 January 2018. We have not restated financial information from 1 January 2016 to 31 December 2017 for financial instruments in the scope of HKFRS 9, which continues to be reported under HKAS 39 and is not comparable to the information presented for 2018. The principal effects of adopting HKFRS 9 on 1 January 2018 are disclosed in Note 2.2 to the Accountants' Report in Appendix I.

HKFRS 15 "Revenue from contracts with customers" replaces the previous revenues standards HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. We have consistently applied HKFRS 15 throughout the Track Record Period.

The adoption of HKFRS 9 and HKFRS 15 did not have significant impact on our financial position and performance during the Track Record Period.

SUMMARY OF RESULTS OF OPERATIONS

The following table sets forth our consolidated statements of profit or loss during the Track Record Period as extracted from the Accountants' Report included in Appendix I to this prospectus. Potential investors should read this section in conjunction with the Accountant's Report and not rely merely on the information contained in this section.

FINANCIAL INFORMATION

Consolidated Statements of Profit or Loss

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	326,535	314,583	333,725
Cost of sales	<u>(185,877)</u>	<u>(174,900)</u>	<u>(188,285)</u>
Gross profit	140,658	139,683	145,440
Other income and gains	1,966	2,593	5,033
Selling and distribution expenses	(74,687)	(63,691)	(59,926)
Administrative expenses	(21,087)	(27,157)	(29,291)
Other expenses	(16,062)	(19,121)	(18,173)
Finance costs	<u>(9,395)</u>	<u>(11,458)</u>	<u>(12,744)</u>
Profit before tax	21,393	20,849	30,339
Income tax expense	<u>(2,097)</u>	<u>(2,440)</u>	<u>(3,964)</u>
Profit for the year	<u>19,296</u>	<u>18,409</u>	<u>26,375</u>
Profit attributable to:			
Owners of the parent	19,268	18,403	26,702
Non-controlling interests	<u>28</u>	<u>6</u>	<u>(327)</u>
	<u>19,296</u>	<u>18,409</u>	<u>26,375</u>

Non-HKFRS measures

We recognized non-recurring items in the Track Record Period. To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also presented the adjusted net profit (loss) before tax, adjusted net profit for the year and adjusted profit margin as non-HKFRS measures.

We present these additional financial measures as these were used by our management to evaluate our financial performance by eliminating the impact of non-recurring items including listing expenses and fair value gain on investment property, which are considered not indicative for evaluation of the actual performance of our business. We believe that these non-HKFRS measures provide additional information to investors and others in understanding and evaluating our consolidated results of operations in the same manner as our management and in comparing financial results across accounting periods and to those of our peer companies.

FINANCIAL INFORMATION

The table below sets forth the adjusted profit before tax, adjusted net profit and adjusted profit margin in each respective year during the Track Record Period:

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	21,393	20,849	30,339
Profit for the year	19,296	18,409	26,375
Adjusted for:			
– Listing expense ^(Note)	1,238	5,150	7,938
– Fair value gain on investment property ^(Note)	–	(46)	(758)
	22,631	25,953	37,519
Adjusted profit before tax	22,631	25,953	37,519
Adjusted profit for the year	20,534	23,513	33,555
Adjusted profit margin for the year	6.3%	7.5%	10.1%

Note:

- The impact of Enterprise Income Tax on these items have not been taken into consideration. If such impact is taken into consideration, the amount of these items will be as follows:

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Listing expense	1,052	4,378	6,747
Fair value gain on investment property	–	(39)	(644)

FINANCIAL INFORMATION

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue by business segments and product categories

During the Track Record Period, we generated our revenue from two segments, ODM sales and branded sales. Under both segments, we derived our revenue mainly from the manufacture and sales of intimate wear products and functional sportswear.

The following table sets forth a breakdown of our revenue, sales volume and average selling price of our principal products under the two segments for the Track Record Period:

	Year ended 31 December										
	2016			2017			2018				
	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)	% of revenue	Revenue RMB'000	% of revenue	Sales volume ('000 units)	Average selling price (RMB per unit)
ODM sales											
<i>Seamless products</i>											
Intimate wear and others	50.8	19,687	8.4	47.6	16,045	9.3	51.8	172,862	51.8	13,345	13
– Nursing bras	0.1	5	16.6	8.3	1,280	20.5	25.6	85,570	25.6	3,629	23.6
– Other bras	19.0	5,389	11.5	19.0	5,090	11.8	14.2	47,397	14.2	5,021	9.4
– Underpants	21.6	11,213	6.3	15.2	8,357	5.7	8.8	29,391	8.8	3,868	7.6
– Others	10.1	3,080	10.8	5.1	1,318	11.9	3.2	10,504	3.2	827	12.7
Functional sportswear	15.9	3,660	14.1	16.2	3,580	14.2	21.2	70,643	21.2	4,320	16.4
Subtotal	66.7	23,347	9.3	63.8	19,625	10.2	73.0	243,505	73.0	17,665	13.8

FINANCIAL INFORMATION

	Year ended 31 December											
	2016		2017		2018							
	% of Revenue	Sales volume (<i>'000</i>)	Average selling price (<i>RMB</i> <i>per unit</i>)	Revenue	% of Revenue	Sales volume (<i>'000</i>)	Average selling price (<i>RMB</i> <i>per unit</i>)	Revenue	% of Revenue	Sales volume (<i>'000</i>)	Average selling price (<i>RMB</i> <i>per unit</i>)	
	RMB '000			RMB '000				RMB '000				
Branded Sales												
<i>Seamless Products</i>												
Intimate wear and others	4,908	1.5	68	72.2	5,411	1.7	89	60.8	7,338	2.2	145	50.6
Functional sportswear	-	-	-	-	47	0.1	2	23.5	82	0.1	5	16.4
<i>Traditional Products</i>												
Intimate wear and others	101,357	31.0	1,412	71.8	105,167	33.4	1,580	66.6	80,614	24.1	1,294	62.3
Functional sportswear	2,722	0.8	51	53.4	3,281	1.0	87	37.7	2,186	0.6	45	48.6
Subtotal	108,987	33.3	1,531	71.2	113,906	36.2	1,758	64.8	90,220	27.0	1,489	60.6
Total	326,535	100.0	24,878	13.1	314,583	100.0	21,383	14.7	333,725	100.0	19,154	17.4

Note: Intimate wear and others include sales of intimate wear, loungewear, thermal clothes and other products

Being a seamless intimate wear manufacturer, our revenue is limited by our production capacity. Our revenue during the Track Record Period remains relatively stable, which was consistent with our stable utilization rate, being 81%, 82% and 82% for three years ended 31 December 2018, respectively.

FINANCIAL INFORMATION

ODM sales

For the three years ended 31 December 2018, revenue from ODM sales were approximately RMB217.5 million, RMB200.7 million and RMB243.5 million, and accounted for approximately 66.7%, 63.8% and 73.0% of our total revenue, respectively.

For our ODM sales, we manufacture seamless intimate wear products for our customers on an ODM basis and sell to over 20 countries including the United States, Germany, the Netherlands and the PRC. Our major ODM customers include sourcing agents for apparel brands and brand holding companies themselves.

There is a change in product mix during the Track Record Period. During the year ended 31 December 2016, underpants represented the largest proportion of our total ODM sales revenue at approximately 32.4%. Such proportion began to drop since 2017 to 23.8% for the year ended 31 December 2017 and further to approximately 12.1% for the year ended 31 December 2018. Instead, bras (including nursing bras and other bras) became the largest product type by proportion at approximately 42.9% and approximately 54.6% of total ODM sales revenue for the year ended 31 December 2017 and 2018, respectively. In general, bras, as compared to underpants, require more complicated production techniques and hence longer time for production, but have higher selling price per unit. Due to different manufacturing complexity involved in production, to the best estimates by the Directors, the production processes required for manufacturing one unit of bra are much complicated than that of one unit of underpants, with the number of steps ranging from 28 to 33 and 18 generally involved for producing one unit of bra and one unit of underpants, respectively. As a result, based on the statistics collected from the production of our top 5 product types, whilst manufacturing one unit of underpants typically takes only approximately 400 seconds on average, the production time required for manufacturing one unit of bras ranges from approximately 680 seconds for bras to approximately 1,030 seconds for nursing bras on average, depending on the manufacturing complexity involved as determined by the product structure, product function, material and style specifications required by individual orders. As a result, notwithstanding the decrease in sales volume, the average selling price of our Group's ODM sales increased from RMB9.3 per unit for the year ended 31 December 2016 to RMB10.2 per unit for the year ended 31 December 2017, and further to RMB13.8 per unit for the year ended 31 December 2018.

In particular, since 2016, our Group began to penetrate into the nursing bras segment which requires specialized skills in product design. Driven by the strong demand from Muxi Clothing, which operates a leading brand for maternity products in China with its products highly popular amongst Chinese mothers on Tmall, our Group's sales volume of nursing bras increased significantly from approximately 5,000 units for the year ended 31 December 2016 to approximately 1.3 million units for the year ended 31 December 2017, and further to approximately 3.6 million units for the year ended 31 December 2018. In view of the constraint on the production capacity, taking into account various factors including (i) profitability; (ii) business scale, reputation, future potentials, management and quality control of our customers; (iii) industry outlook; (iv) risk of over-reliance on a few customers and/or products; (v) delivery schedules; and (vi) overall business strategies of our Group, our Group had to continuously adjust its allocation of production capacity for the changes in product mix to satisfy demands of our new and existing customers accordingly.

FINANCIAL INFORMATION

Branded sales

For our branded sales, we sell products mainly under our “Bonny” and “U+ Bonny” brands. We sell mainly traditional intimate wear products in our branded sales. We have an extensive and structured nationwide retail network in the PRC, which consists primarily of our self-operated retail outlets as well as franchised retail outlets. No distributors or multiple layers of franchisees are involved.

For the three years ended 31 December 2018, revenue from branded sales were approximately RMB109.0 million, RMB113.9 million and RMB90.2 million, and accounted for approximately 33.3%, 36.2% and 27.0% of our total revenue, respectively.

Revenue of branded sales by sales channel

The following table sets forth the breakdown of our revenue of branded sales by sales channel for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Self-operated stores and counters	84,454	77.5	73,934	64.9	62,751	69.6
Sales of aged stocks	17,173	15.8	29,934	26.3	15,087	16.7
E-commerce platforms	4,828	4.4	5,488	4.8	6,435	7.1
Franchised concession counters	<u>2,532</u>	2.3	<u>4,550</u>	4.0	<u>5,947</u>	6.6
	<u><u>108,987</u></u>	100.0	<u><u>113,906</u></u>	100.0	<u><u>90,220</u></u>	100.0

We generated majority of our revenue of branded sales through self-operated stores and counters, which accounted for 77.5%, 64.9% and 69.6% of our branded sales for the three years ended 31 December 2018, respectively.

Sales through other channels accounted for 22.5%, 35.1% and 30.4% of our branded sales for the three years ended 31 December 2018, respectively. Other channels of branded sales include:

- (i) Sale of aged stocks, representing sale of aged stocks hoarded from previous seasons through internal sales and third-party sales with a lower margin. However, during the Track Record Period, we had not recorded overall loss in the sales of aged stocks;
- (ii) E-commerce platforms, representing mainly sales through third-party e-commerce platforms such as Tmall and JD.com; and
- (iii) Franchised retail outlets.

FINANCIAL INFORMATION

Revenue by geographical location

The following table sets forth the breakdown of our revenue by geographical location of our customers for the years indicated:

	Year ended 31 December											
	2016				2017				2018			
	Revenue	% of revenue	Sales volume	Average selling price	Revenue	% of revenue	Sales volume	Average selling price	Revenue	% of revenue	Sales volume	Average selling price
RMB'000	%	('000 units)	(RMB per unit)	RMB'000	%	('000 units)	(RMB per unit)	RMB'000	%	('000 units)	(RMB per unit)	
PRC	162,848	49.8	8,677	18.8	177,180	56.3	8,709	20.3	184,614	55.3	7,892	23.4
ODM	53,861	16.5	7,146	7.5	63,274	20.1	6,951	9.1	94,394	28.3	6,403	14.7
Branded	108,987	33.3	1,531	71.2	113,906	36.2	1,758	64.8	90,220	27.0	1,489	60.6
Overseas^(Note 1)												
United states	63,695	19.5	6,926	9.2	60,844	19.4	5,982	10.2	39,953	12.0	3,868	10.3
Germany	51,327	15.7	5,187	9.9	25,943	8.2	2,948	8.8	29,027	8.7	2,806	10.3
Netherlands	32,848	10.1	1,854	17.7	27,438	8.7	1,331	20.6	46,373	13.9	1,840	25.2
Other countries ^(Note 2)	15,817	4.9	2,234	7.1	23,178	7.4	2,413	9.6	33,758	10.1	2,748	12.3
	163,687	50.2	16,201	10.1	137,403	43.7	12,674	10.8	149,111	44.7	11,262	13.2
Total	326,535	100.0	24,878	13.1	314,583	100.0	21,383	14.7	333,725	100.0	19,154	17.4

Notes:

- Overseas revenue wholly represents ODM sales.
- Including Canada, U.K., Australia, Guatemala, Cambodia, Vietnam and other countries.

During the Track Record Period, our revenue generated from the PRC and overseas contributed similar weighting to our revenue. For the three years ended 2018, our revenue generated from the PRC accounted for approximately 49.8%, 56.3% and 55.3% of our total revenue, respectively, while our revenue generated from overseas accounted for approximately 50.2%, 43.7% and 44.7% of our total revenue, respectively.

With the high estimated utilization rate of approximately 81%, 82% and 82% for the three years ended 31 December 2018 respectively, our acceptance of orders and revenue had been directly limited by our seamless production capacity.

Having considered the growing business demand in the PRC and the robust growth potential in the nursing bra market, we penetrated into the niche market of nursing bras and became the sole and exclusive ODM supplier of nursing bras for Muxi Clothing since 2017 and further entered into a strategic cooperation framework agreement with Muxi Clothing in September 2018. However, due to the constraint on our production capacity, in order to capture

FINANCIAL INFORMATION

the business development opportunities from the PRC, in particular, Muxi Clothing, we reallocated our production capacity previously reserved for overseas orders to produce seamless products for domestic ODM customers. As a result, we recorded a gradual decrease in overseas sales but an increase in PRC ODM sales.

During the Track Record Period, our overseas ODM sales gradually reduced from approximately RMB163.7 million for the year ended 31 December 2016 to approximately RMB149.1 million for the year ended 31 December 2018 while our PRC ODM sales increased from approximately RMB53.9 million to approximately RMB94.4 million during the same period.

Cost of sales

For the three years ended 31 December 2018, our cost of sales was approximately RMB185.9 million, RMB174.9 million and RMB188.3 million, respectively. Our cost of sales mainly included cost of materials, direct labor costs and production costs.

The following table sets forth the breakdown of our cost of sales for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB\$'000</i>	%	<i>RMB\$'000</i>	%	<i>RMB\$'000</i>	%
Cost of materials	104,035	56.0	108,133	61.8	118,585	63.1
Yarns:						
– Nylon yarns	36,167	19.5	39,154	22.2	46,722	24.8
– Cotton yarns	2,221	1.2	1,743	1.0	1,989	1.1
– Other yarns	13,560	7.3	10,767	6.2	18,403	9.8
Dyes	5,340	2.9	6,790	3.9	6,714	3.6
Packaging	6,524	3.5	10,242	5.9	8,756	4.7
Accessory clothing parts	28,502	15.3	31,287	17.9	28,746	15.3
Others	11,721	6.3	8,150	4.7	7,255	3.8
Production costs	43,939	23.6	31,841	18.2	50,219	26.6
Direct labor costs	37,903	20.4	34,926	20.0	19,481	10.3
Total cost of sales	185,877	100.0	174,900	100.0	188,285	100.0

Our cost of material represents the amounts paid and payable to our suppliers for raw materials include yarns, accessory clothing parts, dyes and packaging materials. The yarns we source for intimate wear are mainly made of nylon.

Our production costs mainly include, among others, (i) subcontracting fee; (ii) depreciation expense and (iii) utilities expenses including water and electricity fee.

FINANCIAL INFORMATION

Gross profit and gross profit margin

For the three years ended 31 December 2018, our gross profit amounted to approximately RMB140.7 million, RMB139.7 million and RMB145.4 million, respectively.

The following table sets forth our gross profit and gross profit margin by business segments and product categories for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
ODM						
Intimate wear and others	56,710	34.2	59,364	39.7	66,098	38.2
– <i>Nursing bras</i>	41	49.4	8,634	32.9	38,028	44.4
Functional sportswear	21,320	41.2	20,999	41.2	27,704	39.2
	78,030	35.9	80,363	40.0	93,802	38.5
Branded sales						
Intimate wear and others	61,347	57.7	58,408	52.8	51,200	58.2
Functional sportswear	1,281	47.1	912	27.4	438	19.3
	62,628	57.5	59,320	52.1	51,638	57.2
Total gross profit	140,658	43.1	139,683	44.4	145,440	43.6

During the Track Record Period, the gross profit margin of our branded sales was higher than that of ODM sales. Gross profit margin of branded sales was approximately 57.5%, 52.1% and 57.2%, while the gross profit margin of ODM sales was approximately 35.9%, 40.0% and 38.5% for the three years ended 31 December 2018, respectively.

FINANCIAL INFORMATION

Other income and gains

Our other income and gains mainly comprised (i) foreign exchange gains; (ii) government grants; (iii) rental income; and (iv) interest income from bank deposits and other loans. For the three years ended 31 December 2018, our other income and gains amounted to approximately RMB2.0 million, RMB2.6 million and RMB5.0 million, respectively.

The following table sets forth a breakdown of our other income and gains for the years indicated:

	2016		Year ended 31 December 2017		2018	
	RMB'000	%	RMB'000	%	RMB'000	%
Bank interest income	258	13.1	1,148	44.3	168	3.3
Other interest income	397	20.2	–	–	–	–
Government grants	454	23.1	526	20.3	2,073	41.2
Rental income	–	–	822	31.7	1,807	35.9
Foreign exchange gains, net	849	43.2	–	–	125	2.5
Fair values gains on investment properties	–	–	46	1.7	758	15.1
Gains on disposal of items of property, plant and equipment	–	–	51	2.0	–	–
Others	8	0.4	–	–	102	2.0
	<u>1,966</u>	<u>100.0</u>	<u>2,593</u>	<u>100.0</u>	<u>5,033</u>	<u>100.0</u>

Bank interest income are generated from bank deposits, while other interest income was generated from interest-bearing loans to Bode Holding with an annual interest rate ranged of 4.35% per annum. These loans were unsecured and repayable on demand. As advised by our PRC Legal Adviser, these loans do not contravene the relevant laws in the PRC on the basis that that each loan represents a short-term loan agreement between enterprises to satisfy ordinary funding needs for its operation. The Provisions of the Supreme People's Court on Several Issues Concerning the Application of Laws in the Trial of Private Lending Cases (《最高人民法院關於審理民間借貸案件適用法律若干問題的規定》) clearly stipulates that a loan agreement to satisfy funding needs for ordinary operations between legal entities is valid, except if it violates mandatory provisions of laws and administrative regulations and provided that the interest rate charged is below 24.0% per annum.

Government grants mainly represent incentives awarded by the local governments to support our Group's operation in Yiwu City, the PRC, mainly relating to foreign trade, research and development. There were no unfulfilled conditions or contingencies attached to these government grants. Our government grants are non-recurring in nature. They are usually granted on a case-by-case basis by the relevant government authorities in accordance with the applicable national and local policies.

FINANCIAL INFORMATION

Rental income arises from our investment property, which represents a portion of our Beiyuan Production Site leased out to Independent Third Parties under operating leases.

Foreign exchange gains primarily arise from the translation of our trade receivables denominated in USD to RMB, our Group's functional currency.

Selling and distribution expenses

Our selling and distribution expenses primarily comprised (i) staff costs for our employees involved in the selling and distribution activities; (ii) store concession fees for department store concession counters spaces; (iii) freight and transportation expenses; (iv) depreciation charge; (v) rental expenses for our self-operated stores; and (vi) advertising and promotion expenses. For the three years ended 31 December 2018, our selling and marketing expenses represented approximately 22.9%, 20.2% and 18.0% of our revenue, respectively.

The following table sets forth the breakdown of our selling and distribution expenses for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff costs	32,382	43.3	28,101	44.2	23,347	39.0
Store concession fees	30,071	40.3	25,490	40.0	21,292	35.5
Depreciation charge	2,077	2.8	2,011	3.2	2,641	4.4
Freight and transportation expenses	4,668	6.3	4,291	6.7	4,067	6.8
Rental expenses	2,377	3.2	1,812	2.8	2,090	3.5
Advertising and promotion expenses	1,745	2.3	575	0.9	3,896	6.5
Others	1,367	1.8	1,411	2.2	2,593	4.3
	<u>74,687</u>	<u>100.0</u>	<u>63,691</u>	<u>100.0</u>	<u>59,926</u>	<u>100.0</u>

The store concession fees are calculated monthly as a percentage of the gross sales proceeds from department store concession counters. In addition, we also incurred certain promotion expenses directly in relation to our promotion and marketing activities with respect to department store concession counters, and other related fees and expenses charged by the department stores.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses primarily comprised (i) staff costs for our administrative staff; (ii) rental expenses for our offices; (iii) depreciation and amortization charges; (iv) listing expenses; (v) bank charges; (vi) provisions for bad debts; and (vii) office and other administrative expenses. For the three years ended 31 December 2018, our administrative expenses represented approximately 6.5%, 8.6% and 8.8% of our total revenue, respectively.

The following table sets forth the breakdown of our administrative expenses for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Staff costs	10,171	48.1	9,900	36.5	7,933	27.1
Depreciation and amortisation charges	3,340	15.8	4,250	15.6	3,818	13.0
Office expenses	1,318	6.3	1,398	5.1	1,538	5.3
Listing expenses	1,238	5.9	5,150	19.0	7,938	27.1
Rental expenses	908	4.3	1,065	3.9	1,005	3.4
Bank charges	1,070	5.1	919	3.4	959	3.3
Bad debts provisions/ (Reversal of bad debts provisions)	362	1.7	817	3.0	206	0.7
Tax and surcharges	981	4.7	2,066	7.6	2,104	7.2
Consulting fee	474	2.2	413	1.5	910	3.1
Subcontracting fee	–	–	–	–	773	2.6
Others	1,699	5.9	1,592	4.4	2,107	7.2
	<u>21,087</u>	<u>100.0</u>	<u>27,157</u>	<u>100.0</u>	<u>29,291</u>	<u>100.0</u>

Bad debts provisions were resulted from the impairment of trade and other receivables, which were made based on an assessment of the recoverability for such. For periods prior to 1 January 2018, the identification of impairment required management's judgements and estimates based on the ultimate realization of these receivables. For periods beginning on or after 1 January 2018, our Group uses a provision matrix to calculate the expected credit losses for trade and other receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns.

Tax and surcharges mainly represented property taxes, land use fees and stamp duty.

Consulting fees represented fees paid to professionals for preparation of statutory audit accounts, valuation report and background search.

FINANCIAL INFORMATION

Other expenses

Our other expenses mainly comprised (i) research and development costs associated with the development of our products; and (ii) foreign exchange loss arising from the translation of our trade receivables denominated in USD to RMB. Our other expenses amounted to approximately RMB16.1 million, RMB19.1 million and RMB18.2 million, for the three years ended 31 December 2018, respectively.

The following table sets forth a breakdown of our other expenses for the years indicated:

	Year ended 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Research and development costs:						
Staff cost	7,365	45.9	8,392	43.9	10,021	55.1
Sampling cost	5,605	34.9	6,078	31.8	6,256	34.4
Depreciation and amortisation	1,177	7.3	999	5.2	761	4.2
Outsourcing cost	1,100	6.8	200	1.0	–	–
Other R&D costs	740	4.6	833	4.4	863	4.8
	<u>15,987</u>	<u>99.5</u>	<u>16,502</u>	<u>86.3</u>	<u>17,901</u>	<u>98.5</u>
Foreign exchange loss, net	–	–	2,035	10.6	–	–
Others	75	0.5	584	3.1	272	1.5
	<u>16,062</u>	<u>100.0</u>	<u>19,121</u>	<u>100.0</u>	<u>18,173</u>	<u>100.0</u>

Research and development costs incurred mainly represent staff costs, sampling cost, depreciation and amortization cost. Our research and development are mainly done internally by our own staffs with some projects being outsourced to third parties.

Included in our other expenses during the year ended 31 December 2017 was a one-off surcharge on overdue payments to tax authorities of RMB0.6 million. Due to a timing difference in the recognition of production cost noted after our financial statements for the years ended 31 December 2014 and 2015 being subsequently audited, a cut-off adjustment was subsequently put through which leads to a higher taxable income in both years. Upon knowing the subsequently audited results, we proactively contacted the tax authorities to perform a voluntary upward adjustment of profits in our previously submitted tax return which leads to extra tax payments of approximately RMB2.2 million for the corresponding financial year and resulted to the one-off surcharge on overdue payments. Our Group had settled all additional tax payable and outstanding surcharges in June 2017.

FINANCIAL INFORMATION

Finance costs

Our finance costs represent interest expenses from bank loans and other borrowings, net of interest expenses capitalized. Interest capitalized represented the cost of borrowing in relation to phase II construction of our Beiyuan Production Site. For the three years ended 31 December 2018, our finance costs amounted to approximately RMB9.4 million, RMB11.5 million and RMB12.7 million, respectively.

The following table sets forth a breakdown of our finance costs:

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans	11,203	11,387	12,427
Interest on other borrowings	–	184	317
Less: Interest capitalized	(1,808)	(113)	–
	<u>9,395</u>	<u>11,458</u>	<u>12,744</u>

Income tax expenses

Our income tax expenses represent our total current and deferred tax expenses under the relevant PRC income tax rules and regulations. For the three years ended 31 December 2018, our income tax expenses amounted to approximately RMB2.1 million, RMB2.4 million and RMB4.0 million, respectively.

Our Company and subsidiaries were incorporated in different jurisdictions, with different taxation requirements illustrated as follows:

Cayman Islands

Pursuant to the rules and regulations of the Cayman Islands, our Group is not subject to any income tax in the Cayman Islands.

Hong Kong

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits. No Hong Kong profits tax has been provided as the subsidiary in Hong Kong did not have assessable profits which are subject to Hong Kong profits tax during the Track Record Period.

FINANCIAL INFORMATION

PRC

The provision for PRC current income tax is based on the statutory rate of 25% of the assessable profits of our PRC subsidiaries as determined in accordance with the PRC EIT Law except for Zhejiang Bonny which qualified as a High and New Technology Enterprise (高新技術企業) and was subject to a preferential income tax rate of 15% for the Track Record Period.

Our effective tax rate for the three years ended 31 December 2018 was 9.8%, 11.7% and 13.1%, respectively. Our low effective tax rates during the Track Record Period were due to (i) preferential tax rates of 15%; and (ii) additional 50% or 75% deductible allowance on qualifying research and development expenses. Relevant details are set forth below:

Pursuant to the EIT Law which became effective on 1 January 2008, our PRC subsidiaries are subject to enterprise income tax at a statutory rate of 25% on the assessable income derived during the Track Record Period. Nonetheless, our principal operating subsidiary, Zhejiang Bonny, was qualified as a High and New Technology Enterprise, and was entitled a preferential income tax rate of 15% for the Track Record Period. The High and New Technology Enterprise Certificate (高新技術企業證書) was first obtained in 2012 and subsequently renewed on 30 November 2018, which will expire in 2021.

Pursuant to the EIT Law, the expenses of an enterprise for the research and development of new technologies, new products and new process may be additionally calculated and deducted when calculating the taxable amount of incomes. Pursuant to the implementation rules of the EIT Law, the term “additional deduction of research and development expenses” refers to an additional 50% deduction of the research and development expenses incurred from the research and development of new technologies, new products, and new process on the basis of the actual deductions where the enterprise when no intangible asset has been formed and calculated into the current gains and losses. If intangible assets have been formed, they shall be amortized at 150% of the cost of the intangible assets. Zhejiang Bonny is eligible to enjoy additional 50% deductible allowance during the years ended 31 December 2016 and 2017. Pursuant to the Notice on Increasing the Ratio of the Additional Deduction of Research and Development Expenses, during the period from 1 January 2018 till 31 December 2020, such expenses may be amortized at 175% of the costs of the intangible asset. Zhejiang Bonny is eligible to enjoy an additional 75% deductible allowance during the year ended 31 December 2018. For the three years ended 31 December 2018, our Group’s qualifying research and development expenses were approximately RMB15.8 million, RMB16.4 million and RMB16.7 million, respectively.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we have paid all relevant taxes applicable to us and had no disputes or unresolved tax issues with relevant tax authorities.

FINANCIAL INFORMATION

YEAR-ON-YEAR COMPARISON OF RESULTS OF OPERATION

Year ended 31 December 2018 compared to year ended 31 December 2017

Revenue

Our total revenue increased by approximately RMB19.1 million, or 6.1%, from approximately RMB314.6 million for the year ended 31 December 2017 to approximately RMB333.7 million for the year ended 31 December 2018.

Being a seamless intimate wear manufacturer, our revenue is limited by our production capacity. Our revenue during the two years ended 31 December 2017 and 2018 remains relatively stable, which was consistent with our stable utilization rate, being 82% and 82% for the two years ended 31 December 2017 and 2018, respectively.

ODM Sales segment

Our revenue from ODM sales segment increased by approximately RMB42.8 million, or 21.3%, from approximately RMB200.7 million for the year ended 31 December 2017 to approximately RMB243.5 million for the year ended 31 December 2018. The increase in revenue was mainly attributable to the following:

- (i) the significant increase in revenue from nursing bras by approximately RMB59.4 million, or 2.3 times, from approximately RMB26.2 million for the year ended 31 December 2017 to approximately RMB85.6 million for the year ended 31 December 2018. The increase was mainly due to the robust growth from the production of nursing bras for Muxi Clothing, one of the PRC online maternity products retailers;
- (ii) the significant increase in revenue from functional sportswear by approximately RMB19.6 million, or 38.4%, from approximately RMB51.0 million for the year ended 31 December 2017 to approximately RMB70.6 million for the year ended 31 December 2018. The increase was primarily due to the expansion of product portfolio to increase the Group's competitiveness by cooperating with Customer A, one of our top five customers for the years ended 31 December 2017 and 2018, to produce new ski clothing products; and
- (iii) net off by the decrease in revenue from underpants by approximately RMB18.5 million, or 38.6%, from approximately RMB47.9 million for the year ended 31 December 2017 to approximate RMB29.4 million for the year ended 31 December 2018. The decrease was mainly as a result that part of our production capacity had been shifted to produce more functional sportswear and nursing bras during the year. For the year ended 31 December 2018, the estimated average utilization rate of our seamless production was already 82%, in order to meet the purchase order of functional sportswear and nursing bras as discussed above, our Group reallocated our production capacity from the production of the underpants to produce bras (nursing bras in particular) and functional sportswear.

FINANCIAL INFORMATION

Branded sales segment

Our revenue from branded sales segment decreased by approximately RMB23.7 million, or 20.8%, from approximately RMB113.9 million for the year ended 31 December 2017 to approximately RMB90.2 million for the year ended 31 December 2018. The decrease was mainly attributable to the following:

- (i) the decrease in revenue from self-operated stores and counters by approximately RMB11.1 million, or 15.0%, from approximately RMB73.9 million for the year ended 31 December 2017 to approximately RMB62.8 million for the year ended 31 December 2018. The decrease was mainly due to our strategy to streamline our self-operated retail outlet by closing down retail outlets with less satisfactory financial or operational performance to ensure the cost-effectiveness of our self-operated retail outlets and to optimize our profits. The total number of self-operated stores and counters decreased from 175 as at 31 December 2017 to 153 as at 31 December 2018. Owing to the success of the strategy, the weighted average monthly sales revenue per outlet increased by 0.6% from RMB30,870 for the year ended 31 December 2017 to RMB31,100 for the year ended 31 December 2018; and
- (ii) the decrease in revenue from sales of aged stocks by approximately RMB14.8 million, or 49.5%, from approximately RMB29.9 million for the year ended 31 December 2017 to approximately RMB15.1 million for the year ended 31 December 2018 as a large amount of aged stocks had already been sold during the year ended 31 December 2017; net off by
- (iii) the increase in revenue from franchised concession counters by RMB1.3 million, or 28.3%, from approximately RMB4.6 million for the year ended 31 December 2017 to approximately RMB5.9 million for the year ended 31 December 2018. The increase was mainly due to the increase in number of franchised retail outlets from 40 as at 31 December 2017 to 45 as at 31 December 2018.

Cost of sales

Our cost of sales increased by approximately RMB13.4 million, or 7.7%, from approximately RMB174.9 million for the year ended 31 December 2017 to approximately RMB188.3 million for the year ended 31 December 2018. The increase was mainly attributable to the following:

- (i) the increase in cost of materials by approximately RMB10.5 million, or 9.7%, from approximately RMB108.1 million for the year ended 31 December 2017 to approximately RMB118.6 million for the year ended 31 December 2018. The increase was mainly due to the significant increase in average unit price of nylon, our major raw material, which contributed to approximately 36.2% and 39.4% of cost of materials for the two years ended 31 December 2017 and 2018, respectively. The average cost per unit of nylon increased by 30.9%, from RMB26.5 per unit for

FINANCIAL INFORMATION

the year ended 31 December 2017 to RMB34.7 per unit for the year ended 31 December 2018. Our Company provides sales quotation to our customers taking into account the latest cost of materials. However, the price of materials can only be secured when our Company ordered the raw materials after finalizing the sales order. There is an average of one-month time lag between our sales quotation and the finalization of sales order. As a result, the adjustments in our sales price usually lag behind the increase in our material costs. We could not fully and timely pass the increased purchase cost of materials to our customers;

- (ii) the increase in production costs by approximately RMB18.4 million, or 57.9%, primarily as a result of the increase in subcontracting fees by RMB24.8 million to rectify the non-compliance on labor dispatch arrangements, as well as to satisfy our actual production needs, since January 2018, we have commenced to engage production subcontractors to provide on-site subcontracting staff to replace some of the dispatched staff; and
- (iii) net off by the decrease in direct labor costs by approximately RMB15.4 million and salary of factory management staffs in production costs of approximately RMB3.8 million, mainly due to the reduced number of staffs, including factory workers employed by us, dispatched workers and factory management staffs from an average of approximately 767 for the year ended 31 December 2017 to approximately 520 for the year ended 31 December 2018 related to the rectifying action discussed above.

Gross profit and gross profit margin

Our gross profit increased slightly by approximately RMB5.7 million, or 4.1%, from approximately RMB139.7 million for the year ended 31 December 2017 to approximately RMB145.4 million for the year ended 31 December 2018. The increase was primarily attributable to the increase in gross profit in the ODM sales segment by approximately RMB13.4 million, or 16.7%, from RMB80.4 million for the year ended 31 December 2017 to approximately RMB93.8 million for the year ended 31 December 2018. The increase was mainly due to the increase in revenue as discussed above, net off by (i) the increase in cost of materials as discussed above; and (ii) Chinese New Year was in February during 2018 so that most workers were on leave during January and February. Our revenue for the year ended 31 December 2018, and in turn gross profit, was thus lowered as less workers were available during the period for production. Chinese New Year was in January during 2017, so that it was only a one-month effect for the year ended 31 December 2017.

Our gross profit margin remained stable for the years ended 31 December 2017 and 2018.

FINANCIAL INFORMATION

Other income and gains

Our other income and gains increased by approximately RMB2.4 million, or 92.3%, from approximately RMB2.6 million for the year ended 31 December 2017 to approximately RMB5.0 million for the year ended 31 December 2018. The increase is mainly attributable to (i) the receipt of government grants of a total of approximately RMB2.1 million, mainly related to a financial subsidy on transforming from the use of coal to natural gas in some of our machines in our production process and other financial subsidies provided by the local government to support our Group's research and development and also operations; (ii) the increase in fair value gains on investment properties; and (iii) an increase in rental income of approximately RMB1.0 million due to the full period impact for the year ended 31 December 2018 as we leased out part of our Beiyuan Production Site since May 2017.

Selling and marketing expenses

Our selling and marketing expenses decreased by approximately RMB3.8 million, or 6.0%, from approximately RMB63.7 million for the year ended 31 December 2017 to approximately RMB59.9 million for the year ended 31 December 2018. The decrease is mainly attributable to (i) the decrease in store concession fees of approximately RMB4.2 million due to the reduced number of self-operated concession counters from a total of 175 as at 31 December 2017 to a total of 153 as at 31 December 2018; and (ii) the decrease in staff costs of approximately RMB4.8 million due to the reduced number of sales and marketing staffs by 210, from an average of 642 for the year ended 31 December 2017 to an average of 432 for the year ended 31 December 2018.

Administrative expenses

Our administrative expenses increased by approximately RMB2.1 million, or 7.7%, from approximately RMB27.2 million for the year ended 31 December 2017 to approximately RMB29.3 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in listing expense of approximately RMB2.7 million recognised during the year, net-off by the decrease in staff costs of approximately RMB2.0 million due to the reduced number of administrative staffs from an average of 142 for the year ended 31 December 2017 to average of 99 for the year ended 31 December 2018.

Other expenses

Our other expenses decreased slightly by approximately RMB0.9 million, or 4.7%, from approximately RMB19.1 million for the year ended 31 December 2017 to approximately RMB18.2 million for the year ended 31 December 2018. The decrease was mainly attributable to the net foreign exchange loss recorded for the year ended 31 December 2017 of approximately RMB2.0 million, while net foreign exchange gain was recorded in other income for the year ended 31 December 2018.

FINANCIAL INFORMATION

Finance costs

Our finance costs increased by approximately RMB1.2 million, or 10.4%, from approximately RMB11.5 million for the year ended 31 December 2017 to approximately RMB12.7 million for the year ended 31 December 2018. The increase was mainly attributable to the increase in average outstanding bank borrowings.

Income tax expense

Our income tax expense increased from approximately RMB2.4 million for the year ended 31 December 2017 to approximately RMB4.0 million for the year ended 31 December 2018. Our effective tax rates were 11.7% for the year ended 31 December 2017 and 13.1% for the year ended 31 December 2018. The change was due to the increase in profit before tax of our Group for the year ended 31 December 2018.

Profit and net profit margin for the year

As a result of the foregoing, our net profit increased from RMB18.4 million for the year ended 31 December 2017 to RMB26.4 million for the year ended 31 December 2018, which our net profit margin remained stable at 5.9% and 7.9%, respectively.

Year ended 31 December 2017 compared to year ended 31 December 2016

Revenue

Our total revenue decreased slightly by approximately RMB11.9 million, or 3.6%, from approximately RMB326.5 million for the year ended 31 December 2016 to approximately RMB314.6 million for the year ended 31 December 2017.

ODM sales segment

Our revenue and also sales volume from ODM sales segment decreased slightly by approximately 7.7% and 15.9%, respectively, from approximately RMB217.5 million and 23.3 million units for the year ended 31 December 2016 to approximately RMB200.7 million and 19.6 million units for the year ended 31 December 2017, respectively. The slight decrease of revenue from ODM sales was mainly due to:

- (i) the decrease in revenue generated from overseas ODM sales by approximately 16.1%, as a result of the Group allocating resources and production capacity to develop new products (i.e. nursing bras) for Muxi Clothing, one of the domestic online maternity products retailers to which we became its sole and exclusive ODM nursing bras supplier in 2017, with which the Group considers to have substantial potential in business cooperation; net-off by

FINANCIAL INFORMATION

- (ii) the increase in revenue generated from PRC ODM sales driven by the increase in sales of nursing bras, which was mainly due to the change in the Group's strategy to penetrate into the niche market of nursing bras by strengthening its cooperation with Muxi Clothing in view of the growing business demand in the PRC and the robust growth potential in the nursing bra market. Such strategy is supported by industry data in the Frost & Sullivan Report that China recorded the highest CAGR in terms of per capita spending on intimate wear among the major economies in the world. Between 2013 and 2017, the CAGR in China was 8.68%, which was substantially higher than its overseas counterparts. Consequently, the Group had to reallocate its production capacity previously reserved for overseas orders to produce seamless products for domestic ODM customers in view of the constraint on its production capacity in order to capture the business development opportunities from the PRC. Due to the increasing sales orders of Muxi Clothing, sales of nursing bras increased substantially from approximately RMB0.1 million for the year ended 31 December 2016 to approximately RMB26.2 million for the year ended 31 December 2017.

Branded sales segment

Our revenue from branded sales segment increased by approximately RMB4.9 million, or 4.5%, from approximately RMB109.0 million for the year ended 31 December 2016 to approximately RMB113.9 million for the year ended 31 December 2017. The increase was mainly attributable to the following:

- (i) the increase in revenue from sales of aged stocks by approximately RMB12.7 million, or 73.8%, from approximately RMB17.2 million for the year ended 31 December 2016 to approximately RMB29.9 million for the year ended 31 December 2017. The increase represents our effort to clear part of the aged stocks with aging over 365 days, which was accumulated as we closed down our retail outlets with less satisfactory financial or operational performance; and
- (ii) net off by the decrease in revenue from self-operated stores and counters by approximately RMB10.6 million, or 12.5%, mainly due to our strategy to streamline our self-operated retail outlets by closing down retail outlets with less satisfactory financial or operational performance to ensure cost-effectiveness and to optimize our profits. The total number of self-operated stores and counters decreased from 206 as at 31 December 2016 to 175 as at 31 December 2017. Owing to the success of the strategy, the weighted average monthly sales revenue per outlet increased by 9.3% from RMB28,250 in 2016 to RMB30,870 in 2017.

FINANCIAL INFORMATION

Cost of sales

Our cost of sales decreased by approximately RMB11.0 million, or 5.9%, from approximately RMB185.9 million for the year ended 31 December 2016 to approximately RMB174.9 million for the year ended 31 December 2017. The decrease was a result of the following:

- (i) the decrease in direct labor cost of approximately RMB3.0 million, driven by the decrease in total revenue with reasons aforesaid; and
- (ii) the decrease in production cost which was mainly due to the decrease in depreciation provided during the year of approximately RMB3.2 million as some of the property, plant and equipment were fully depreciated before or during the year ended 31 December 2017, and the decrease in utility expenses of approximately RMB2.0 million driven by the decrease in sales as mentioned above.

Gross profit and gross profit margin

Both our gross profit and our gross profit margin remained stable for the years ended 31 December 2016 and 2017, with gross profit of RMB140.7 million and gross profit margin of 43.1% for the year ended 31 December 2016 and gross profit of RMB139.7 million and gross profit margin of 44.4% for the year ended 31 December 2017.

Other income and gains

Our other income and gains increased by approximately RMB0.6 million, or 30.0%, from approximately RMB2.0 million for the year ended 31 December 2016 to approximately RMB2.6 million for the year ended 31 December 2017. The increase was mainly attributable to (i) the increase in rental income of approximately RMB0.8 million due to the leasing of part of our Group's investment properties, our Beiyuan Production Site, to independent third parties since May 2017; (ii) the increase in bank interest income of RMB0.8 million due to a time deposit since December 2016; and net off by (iii) foreign exchange gains of RMB0.8 million for the year ended 31 December 2016.

Selling and marketing expenses

Our selling and marketing expenses decreased by approximately RMB11.0 million, or 14.7%, from approximately RMB74.7 million for the year ended 31 December 2016 to approximately RMB63.7 million for the year ended 31 December 2017. The decrease was mainly attributable to (i) the decrease in store concession fees by RMB4.6 million due to the reduced number of self-operated concession counters from 203 as at 31 December 2016 to 169 as at 31 December 2017; and (ii) the decrease in staff costs of approximately RMB4.3 million due to the reduced number of sales and marketing staffs by 135, from an average of 777 for the year ended 31 December 2016 to an average of 642 for the year ended 31 December 2017 as a result of the closing of self-operated retail outlets.

FINANCIAL INFORMATION

Administrative expenses

Our administrative expenses increased by approximately RMB6.1 million, or 28.9%, from approximately RMB21.1 million for the year ended 31 December 2016 to approximately RMB27.2 million for the year ended 31 December 2017. The increase was mainly attributable to (i) the increase in listing expense of approximately RMB4.0 million; and (ii) the increase in depreciation and amortisation charges of RMB1.0 million due to the whole-year effect of depreciation charges of our Beiyuan Production Site, which was partially completed and in use since September 2016.

Other expenses

Our other expenses increased by approximately RMB3.0 million, or 18.6%, from approximately RMB16.1 million for the year ended 31 December 2016 to approximately RMB19.1 million for the year ended 31 December 2017. The increase was mainly attributable to a foreign exchange loss of RMB2.0 million for the year ended 31 December 2017, while we recorded a foreign exchange gain for the year ended 31 December 2016.

Finance costs

Our finance costs increased by approximately RMB2.1 million, or 22.3%, from approximately RMB9.4 million for the year ended 31 December 2016 to approximately RMB11.5 million for the year ended 31 December 2017. The increase was mainly attributable to a decrease in interest capitalized of RMB1.7 million, relating to the construction of phase I of our new Beiyuan Production Site which was completed in September 2016.

Income tax expense

Our income tax expense increased by approximately RMB0.3 million, or 14.3%, from approximately RMB2.1 million for the year ended 31 December 2016 to approximately RMB2.4 million for the year ended 31 December 2017. During the year ended 31 December 2017, one of our subsidiaries recorded a loss before tax for the year ended 31 December 2017, but no deferred tax assets had been recognised as there was uncertainty on whether there will be sufficient taxable income in the future to utilize the tax loss. Our effective tax rate increased from 9.8% for the year ended 31 December 2016 to 11.7% for the year ended 31 December 2017. Such increase was mainly due to tax losses not recognised of approximately RMB0.5 million for the year ended 31 December 2017.

Profit and net profit margin for the year

As a result of the foregoing, our profit for the year decreased by approximately RMB0.9 million, or 4.7% from approximately RMB19.3 million for the year ended 31 December 2016 to approximately RMB18.4 million for the year ended 31 December 2017. Our net profit margin remained stable at approximately 5.9% for both the two years ended 31 December 2016 and 2017.

FINANCIAL INFORMATION

SUMMARY OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	As at 31 December		
	2016 RMB'000	2017 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	162,344	141,158	133,495
Advance payments for property, plant and equipment	1,207	1,127	19,675
Investment properties	–	18,262	42,750
Prepaid land lease payments	28,421	27,788	27,155
Intangible assets	3,095	2,277	1,764
Deferred tax assets	2,532	1,791	–
Other non-current assets	5,170	5,170	5,170
Total non-current assets	202,769	197,573	230,009
CURRENT ASSETS			
Inventories	136,634	113,119	132,819
Trade receivables	67,424	96,325	93,694
Prepayments, deposits and other receivables	8,600	23,163	26,319
Due from a director	–	300	–
Due from related parties	–	15,328	11,844
Time deposits with original maturity of over three months	1,000	–	–
Pledged deposits	16,615	13,598	16,876
Cash and cash equivalents	58,386	28,770	25,438
Total current assets	288,659	290,603	306,990
CURRENT LIABILITIES			
Trade and bills payables	51,634	57,666	63,747
Advances from customers, other payables and accruals	41,811	98,277	44,703
Interest-bearing bank borrowings and other borrowings	224,113	248,662	248,680
Due to related parties	10,261	100,895	46
Due to a director	–	2,311	–
Tax payable	3,850	2,462	3,293
Total current liabilities	331,669	510,273	360,469
NET CURRENT LIABILITIES	(43,010)	(219,670)	(53,479)
TOTAL ASSETS LESS CURRENT LIABILITIES	159,759	(22,097)	176,530
NON-CURRENT LIABILITIES			
Interest-bearing other borrowings	–	–	4,413
Deferred tax liabilities	–	–	910
Total non-current liabilities	–	–	5,323
Net assets/(liabilities)	159,759	(22,097)	171,207
EQUITY			
Equity attributable to owners of the parent			
Share capital	–	337	400
Share premium	–	–	147,602
Other reserves	158,531	(23,668)	22,278
	158,531	(23,331)	170,280
Non-controlling interests	1,228	1,234	927
Total equity	159,759	(22,097)	171,207

FINANCIAL INFORMATION

PRINCIPAL FINANCIAL POSITION ITEMS

Property, plant and equipment

The following table sets forth our property, plant and equipment as at the dates indicated:

	As at 31 December					
	2016		2017		2018	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Buildings	115,309	71.0	97,478	69.1	84,699	63.4
Machinery and equipment	36,952	22.8	31,939	22.6	35,445	26.6
Construction in progress	4,830	3.0	6,302	4.5	6,871	5.1
Motor vehicles	737	0.5	797	0.6	607	0.5
Computer and office equipment	2,543	1.6	2,685	1.9	2,478	1.9
Leasehold improvement	1,973	1.1	1,957	1.3	3,395	2.5
Total	<u>162,344</u>	<u>100.0</u>	<u>141,158</u>	<u>100.0</u>	<u>133,495</u>	<u>100.0</u>

Our property, plant and equipment principally consisted of buildings, machinery and equipment and construction in progress. Our buildings are depreciated fully on a straight line basis over their estimated useful lives of 30 years, and our machinery and equipment, motor vehicles, computer and office equipment and leasehold improvement are depreciated with useful life ranging from 2 to 10 years. Our construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated.

Our property, plant and equipment decreased by approximately RMB21.1 million or 13.0% from approximately RMB162.3 million as at 31 December 2016 to approximately RMB141.2 million as at 31 December 2017, primarily due to (i) the transfer of buildings to be classified as investment properties of approximately RMB14.2 million as part of Beiyuan Production Site was subsequently leased to independent third parties; and (ii) the depreciation of property, plant and equipment of approximately RMB13.6 million, partially offset by the additions of (i) approximately RMB2.5 million to construction in progress relating to our new production facilities, (ii) approximately RMB1.8 million to leasehold improvement associated with the renovation of our outlets; and (iii) approximately RMB1.9 million to our machinery and equipment for the purchase of production machine such as gluing machines and gas boiler during the year.

Our property, plant and equipment then decreased by approximately RMB7.7 million, or approximately 5.5%, from approximately RMB141.2 million as at 31 December 2017 to approximately RMB133.5 million as at 31 December 2018. The decrease was mainly due to (i) the depreciation of property, plant and equipment of approximately RMB13.3 million; (ii) the transfer of buildings to be classified as investment properties of approximately RMB9.0 million as part of Beiyuan Production Site was subsequently leased to independent third parties; partly net-off by the addition of (iii) approximately RMB11.5 million to our machinery and equipment mainly for the purchase of 30 new seamless circular knitting machines.

FINANCIAL INFORMATION

Advance payments for property, plant and equipment

Our advance payments for property, plant and equipment mainly represented advance payments for our construction projects in progress. The amount of advanced payments will be transferred to be classified as property, plant and equipment after completion of the respective construction.

Our advance payments for property, plant and equipment remained at a stable level of approximately RMB1.2 million and RMB1.1 million as at 31 December 2016 and 2017 respectively.

Our advance payments for property, plant and equipment then increased significantly by RMB18.6 million, or 16.9 times, from approximately RMB1.1 million as at 31 December 2017 to RMB19.7 million as at 31 December 2018. The increase was due to advance payment for the construction phase II of our Beiyuan Production Site in June 2018.

Investment property

Our investment property represented the properties held by our Group for generating rental income. Portion of our Beiyuan Production Site were leased to independent third parties since May 2017. Our investment property increased by RMB24.5 million, or 133.9%, from RMB18.3 million as at 31 December 2017 to RMB42.8 million as at 31 December 2018. The increase was due to the further transfer of our new production facilities from buildings to investment properties, as four more properties were leased to independent third parties. The fair value of our investment properties amounted to approximately RMB18.3 million and RMB42.8 million as at 31 December 2017 and 2018, respectively. The amount recorded was based on the fair value arrived at by AVISTA Valuation Advisory Limited, an independent valuer, and were accounted for in accordance with applicable accounting standards. Please refer to “Property Valuation Report” as set out in Appendix III to this prospectus for details of the valuation.

Prepaid land lease payments

Prepaid land lease payments represent payments made in connection with the acquisitions of land parcels for which the land use right certificates have been obtained.

Our prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Our long-term prepaid land lease payments decreased from approximately RMB28.4 million as at 31 December 2016 to approximately RMB27.8 million as at 31 December 2017, and further decreased to RMB27.2 million as at 31 December 2018. The decreasing trend were because of the amortization charge of the land during the respective periods. Our current portion of prepaid land lease payments maintained stable at approximately RMB0.6 million as at 31 December 2016, 2017 and 2018, respectively.

FINANCIAL INFORMATION

Other non-current assets

Other non-current assets are non-interest-bearing and represent guarantees paid to the Yiwu Municipal Bureau of Land and Resources for the construction of Beiyuan Production Site and will be repaid back when the construction completes and passes the inspection of related government bureau. Our non-current assets remained stable at approximately RMB5.2 million as at 31 December 2016, 2017 and 2018, respectively.

Inventories

Our inventories were one of the principal components of our current assets. Our inventories consist of raw materials, work in progress and finished goods. To minimize the risk of inventory build up, we review our inventory levels on a monthly basis. We believe that maintaining appropriate levels of inventories can help us better plan our raw material procurement and deliver our products to meet customer and market demand in a timely manner without straining our liquidity. The value of our inventories accounted for approximately 47.3%, 38.9% and 43.3% of our current assets as at 31 December 2016, 2017 and 2018, respectively.

The following table sets forth a summary of our inventory balances as of the dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	15,662	14,637	18,626
Work in progress	14,039	14,390	34,683
Finished goods	115,567	90,752	84,799
	<u>145,268</u>	<u>119,779</u>	<u>138,108</u>
Impairment	(8,634)	(6,660)	(5,289)
	<u><u>136,634</u></u>	<u><u>113,119</u></u>	<u><u>132,819</u></u>

The movements in provision for impairment of inventories are as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	8,951	8,634	6,660
Impairment losses recognised	–	–	–
Reversal	(317)	(1,974)	(1,371)
	<u>8,634</u>	<u>6,660</u>	<u>5,289</u>
At end of year	<u><u>8,634</u></u>	<u><u>6,660</u></u>	<u><u>5,289</u></u>

FINANCIAL INFORMATION

The decrease in our inventory balance from approximately RMB136.6 million as at 31 December 2016 to approximately RMB113.1 million as at 31 December 2017 was mainly due to the decrease in finished goods of approximately RMB24.8 million as a result that we managed to sell a large portion of aged stocks through various promotional activities.

Our inventories then increased to approximately RMB132.8 million as at 31 December 2018, mainly due to the increase in work in progress of RMB20.3 million. Our Company had a number of ODM orders to be delivered in January 2019, thus a large number of products were under production as at 31 December 2018 and resulted in an increased level of work in progress.

Our Group reviews the inventory ageing analysis at the end of the reporting period in order to identify slow-moving inventory items, for example, for raw materials with aging of over three years and finished goods with aging of over five years, full impairment losses will be recognised. Our Group estimate the net realisable value for inventories based primarily on the latest market prices and current market conditions. In addition, we carry out an inventory review on a product-by-product basis at the end of each reporting period and provides necessary allowance if the net realizable value is estimated to be below the cost.

The table below sets out our average inventory turnover days for the relevant years indicated.

	Year ended 31 December		
	2016	2017	2018
Average inventory turnover days (<i>Note</i>)	<u>290.1</u>	<u>260.6</u>	<u>238.4</u>

Note: Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales for that year, multiplied by 365 days.

Our Directors believe that our relatively long inventory turnover days was mainly due to the relatively large inventory of finished goods we held as we generally stored a wide range of our products with different colours, sizes and styles in each retail store so as to cater for the needs of our customers. Our average inventory turnover days decreased from 290.1 days for the year ended 31 December 2016 to 260.6 days for the year ended 31 December 2017 and further to 238.4 days for the year ended 31 December 2018. The decreasing trend in our average inventory turnover days was mainly due to the Company's strategy to streamline our self-operated retail outlets to ensure the cost-effectiveness and to optimize our profits. Our total number of self-operated retail outlets decreased over the track record period and thus the same trend for our inventory of finished goods held at our retail stores. Additionally, the Company managed to sell the aged stocks through various promotional activities during the Track Record Period. This further decreased our inventory levels and average inventory turnover days.

FINANCIAL INFORMATION

As at 31 March 2019, approximately RMB55.3 million, or 41.6% of our inventories as at 31 December 2018 had been subsequently utilized.

Trade receivables

The table below sets forth the breakdown of our trade receivables.

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	70,189	99,907	97,289
Impairment	(2,765)	(3,582)	(3,595)
	<u>67,424</u>	<u>96,325</u>	<u>93,694</u>

Our trade receivables represents outstanding balance due from our customers and franchisees under cooperative arrangements for sales of our products. We typically grant our customers a credit period of 30 to 90 days.

Our trade receivables increased from approximately RMB67.4 million as at 31 December 2016 to approximately RMB96.3 million as at 31 December 2017. The increase in our trade receivables as at 31 December 2017 as compared to 31 December 2016 was mainly due to (i) increase in ODM sales made close to the end of the year ended 31 December 2017; and (ii) increase in sales of aged stocks during second half of the year. Our trade receivables then remained relatively stable at RMB93.7 million as at 31 December 2018.

The following tables sets forth the ageing analysis of trade receivables that are past due but not impaired, based on invoice date, as at the respective financial position dates:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	43,486	83,955	89,952
Less than 3 month past due	11,788	9,577	3,067
Over 3 months past due	12,150	2,793	675
	<u>67,424</u>	<u>96,325</u>	<u>93,694</u>

FINANCIAL INFORMATION

As at 31 December 2016, 2017 and 2018, we had trade receivables amounting to approximately RMB23.9 million, RMB12.4 million and RMB3.7 million, respectively, which were past due but not impaired. Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with us. Our Directors are of the view that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality of those customers and the balances are considered to be fully recoverable.

The table below sets out our average trade receivable turnover days for the relevant years indicated.

	Year ended 31 December		
	2016	2017	2018
Average trade receivable turnover days (Note)	<u>69.8</u>	<u>95.0</u>	<u>103.9</u>

Note: Average trade receivable turnover days is calculated as the average of the beginning and ending trade receivable balances for the year, divided by the revenue for that year, multiplied by 365 days.

We generally grant a credit period of 30 to 90 days to our customers during the Track Record Period, and may extend up to six months for major customers. Our average trade receivable turnover days for the three years ended 31 December 2018 were 69.8 days, 95.0 days and 103.9 days, respectively.

Our average trade receivable turnover days increased from 69.8 days for the year ended 31 December 2016 to 95.0 days for the year ended 31 December 2017 and further increased to 103.9 days for the year ended 31 December 2018. The increasing average trade receivable turnover days in our Track Record Period were mainly attributable to the increase of trade receivables balance for the year ended 31 December 2017 and 2018 as a result of the increased sales made close to the end of the year end of both years due to the reasons discussed above.

During the Track Record Period, our Group had not experienced any material bad debt problems and material difficulties in collecting payments from our five largest customers.

As at 31 March 2019, approximately RMB52.8 million, or 56.4%, of the outstanding trade receivables as at 31 December 2018 have been subsequently settled.

FINANCIAL INFORMATION

Prepayments, deposits and other receivables

Our prepayments, deposits and other receivables mainly comprised (i) prepayments to our suppliers; (ii) prepaid expenses for rental and utility services; (iii) deferred listing fees and (iv) other receivables.

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Prepayments	1,656	6,070	12,343
Prepaid expenses	1,472	2,607	3,947
Other receivables	4,426	4,826	5,014
Deferred listing expenses	413	2,140	4,340
Loan to the then shareholders of a subsidiary	–	6,850	–
Tax recoverable	–	37	42
Current portion of prepaid land lease payments	633	633	633
	8,600	23,163	26,319
	8,600	23,163	26,319

Our prepayments, deposits and other receivables increased from approximately RMB8.6 million as at 31 December 2016 to approximately RMB23.2 million as at 31 December 2017, mainly attributable to (i) the increase in prepayments to suppliers of approximately RMB4.4 million; (ii) the increase in deferred listing expenses of approximately RMB1.7 million; and (iii) an interest-free loan of RMB6.9 million to a then shareholders of a subsidiary, which will be settled prior to the Listing.

Our prepayments, deposits and other receivables then increased to approximately RMB26.3 million as at 31 December 2018. The increase was mainly due to (i) the increase in prepayments to suppliers of approximately RMB6.2 million; (ii) the increase in deferred listing expenses of approximately RMB2.2 million; net-off by (iii) the settlement of interest-free loan to the then shareholders of a subsidiary of approximately RMB6.9 million.

FINANCIAL INFORMATION

Pledged deposits

Pledged deposit represents a deposit pledged to a bank to secure bills payable granted to major customers. The pledged bank deposit carried fixed interest rate at 1.55% per annum for the three years ended 31 December 2018, respectively. Pledged bank deposit amounted to approximately RMB16.6 million, RMB13.6 million and RMB16.9 million as at 31 December 2016, 2017 and 2018, respectively.

Trade and bills payables

Our trade payables represented outstanding balance due to our suppliers and our bills payable was mainly related to the use of bank bills to pay for some of our purchases. The following table sets forth the breakdown of our trade and bills payables as the respective financial position dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	19,295	35,050	30,454
Bills payable	32,339	22,616	33,293
	<u>51,634</u>	<u>57,666</u>	<u>63,747</u>

In general, we either prepaid to our suppliers or our suppliers grant us a credit period of 90 to 180 days. We mainly settle our payments by bank transfer or bills. The following table sets forth the ageing analysis of our trade and bills payables as at the respective financial position dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	27,618	52,284	38,761
3 to 6 months	22,644	2,971	24,016
6 to 12 months	726	1,784	171
Over 12 months	646	627	799
	<u>51,634</u>	<u>57,666</u>	<u>63,747</u>

FINANCIAL INFORMATION

The table below sets out our average trade payable turnover days for the relevant years indicated:

	Year ended 31 December		
	2016	2017	2018
Average trade payables turnover days			
– excluding bills payable	34.3	56.7	63.5
– including bills payable	92.3	114.0	117.7

Note: Average trade payable turnover days is calculated as the average of the beginning and ending trade payable balances for the year, divided by the cost of sales for that year, multiplied by 365 days.

Our trade payables turnover days excluding bills payable increased from 34.3 days for the year ended 31 December 2016 to 56.7 days for the year ended 31 December 2017, and further to 63.5 days for the year ended 31 December 2018. The increase was due to the better utilization of our credit term.

Our trade and bills payables turnover days increased from 92.3 days for the year ended 31 December 2016 to 114.0 days for the year ended 31 December 2017. The increase was primarily due to the better utilization of our credit term. The turnover days then remained stable at 117.7 days for the year ended 31 December 2018.

As at 31 March 2019, approximately RMB35.8 million, or 56.2%, of the trade and bills payables as at 31 December 2018 was subsequently settled. Our bills payable will be settled within the credit period of 180 days granted by the bank.

Advances from customers, other payables and accruals

Our advances from customers, other payables and accruals mainly comprised (i) advances from customers, (ii) payroll payables, and (iii) other payables which comprised mainly payables for utilities and other services used. The following table sets forth a breakdown of our other payables and accruals as at the respective financial position dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Advances from customers	7,896	8,673	5,366
Payroll payables	10,146	13,194	7,375
Tax payable other than income tax	10,247	12,448	10,133
Accrued listing expense	1,273	3,636	1,228
Payable for property, plant and equipment and other intangible assets	8,505	3,700	4,419
Payable for acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization	–	50,832	–
Interest payable	320	409	392
Other payables	3,424	5,385	15,790
	<u>41,811</u>	<u>98,277</u>	<u>44,703</u>

FINANCIAL INFORMATION

Advances from customers, other payables and accruals increased significantly from approximately RMB41.8 million as at 31 December 2016 to approximately RMB98.3 million as at 31 December 2017, mainly attributable to (i) a payable for acquisition of equity interests by Bonny HK from Barry Trading and the then 12 Individual Shareholders except for Mr. Luo Weixing, whose acquisition payable was recognized as amount due to director of Zhejiang Bonny, of approximately RMB50.8 million, resulted from our Group's Reorganization in the preparation of the Listing; and (ii) the increase in payroll payables of approximately RMB3.1 million, as the monthly salaries of November and December 2017 was not settled until January and February 2018.

Our advances from customers, other payables and accruals then decreased to approximately RMB44.7 million as at 31 December 2018. The decrease was mainly due to the settlement of payable for acquisition of Zhejiang Bonny of RMB50.8 million in April 2018.

Amount due from/(to) related parties

During the Track Record Period, we purchased polyamide from two of our related companies, Deshipu New Materials and Deshipu Polyamide, and provided loans to Bode Holding, Maximax and Luo Weixing Holding Limited which resulted in amount due from and due to these related parties during the Track Record Period. We had a net payable to these related parties of approximately RMB10.3 million and RMB85.6 million as at 31 December 2016 and 2017, respectively, and a net receivable from these related parties of approximately RMB11.8 million as at 31 December 2018. The following table sets forth our amount due from/(to) related parties at dates indicated:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due from			
Deshipu New Materials	–	1,619	11,597
Bode Holding	–	13,412	–
Maximax	–	230	242
Luo Weixing Holding Limited	–	5	5
Deshipu Polyamide	–	62	–
	–	15,328	11,844
	<u>–</u>	<u>15,328</u>	<u>11,844</u>

FINANCIAL INFORMATION

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Due to			
Deshipu New Materials	8,621	–	–
Bode Holding	1,640	100,895	46
	<u>10,261</u>	<u>100,895</u>	<u>46</u>
Net balances	<u>(10,261)</u>	<u>(85,567)</u>	<u>11,798</u>

Amount due to Bode Holding of approximately RMB100.9 million as at 31 December 2017 represented the amount payable for the acquisition of shares of Zhejiang Bonny by Bonny HK which was a step of our Group's Reorganization. The amount was fully settled in April 2018.

Our Directors confirm that amount due from/(to) related parties, except for the balance in trading nature with Deshipu New Materials due to the continuing connected transactions as disclosed in the section headed "Continuing Connected Transactions" in this prospectus, would be fully settled prior the Listing.

Amount due from/(to) a Director

During the Track Record Period, amount due from a Director represented an interest-free loan to a Director and amount due to a Director represented the consideration paid by Bonny HK for acquisition of equity interest from Mr. Luo Weixing. The amount due to/from the Director are unsecured, interest-free and repayable on demand.

The amount due to/from the director had already been fully settled as at 31 December 2018.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period, we principally financed our working capital and other liquidity requirements through a combination of cash flow from operations and financing activities.

FINANCIAL INFORMATION

Net current liabilities

The table below sets out selected information for our net current liabilities as at 31 December 2016, 2017 and 2018 and 28 February 2019, being the latest practicable date for determining our Group's indebtedness, respectively:

	As at 31 December			As at
	2016	2017	2018	28 February
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
				<i>(unaudited)</i>
Current Assets				
Inventories	136,634	113,119	132,819	140,815
Trade receivables	67,424	96,325	93,694	111,731
Prepayments, deposits and other receivables	8,600	23,163	26,319	18,013
Due from a director	–	300	–	–
Due from related parties	–	15,328	11,844	6,807
Time deposits with original maturity of over three months	1,000	–	–	–
Pledged deposits	16,615	13,598	16,876	13,721
Cash and cash equivalents	58,386	28,770	25,438	2,300
Total current assets	288,659	290,603	306,990	293,387
Current liabilities				
Trade and bills payables	51,634	57,666	63,747	38,536
Advance from customers, other payables and accruals	41,811	98,277	44,703	57,431
Interest-bearing bank and other borrowings	224,113	248,662	248,680	246,849
Due to related parties	10,261	100,895	46	46
Due to a director	–	2,311	–	–
Tax payable	3,850	2,462	3,293	2,272
Total current liabilities	331,669	510,273	360,469	345,134
Net current liabilities	(43,010)	(219,670)	(53,479)	(51,747)

FINANCIAL INFORMATION

We recorded net current liabilities of approximately RMB43.0 million, RMB219.7 million, RMB53.5 million and RMB51.7 million as at 31 December 2016, 2017, 2018 and 28 February 2019, respectively.

As at 31 December 2016, 2017 and 2018, we incurred net current liabilities primarily due to the interest-bearing bank and other borrowings of approximately RMB224.1 million, RMB248.7 million and RMB248.7 million as at 31 December 2016, 2017 and 2018, respectively. As at 28 February 2019, the balance of interest-bearing bank and other borrowings was of RMB246.8 million.

Our net current liabilities increased from approximately RMB43.0 million as at 31 December 2016 to approximately RMB219.7 million as at 31 December 2017. Our net current liabilities position was particularly large as at 31 December 2017 because of our (i) amount due to related parties of RMB100.9 million; (ii) due to a director (Mr. Luo Weixing) of RMB2.3 million; and (iii) other payables of RMB50.8 million to Barry Trading and the then 12 Individual Shareholders except for Mr. Luo Weixing arising from the acquisition of Zhejiang Bonny by Bonny HK (the “**Acquisition Payables**”). As part of our Group’s Reorganization, Bonny HK, being our wholly owned subsidiary, acquired Zhejiang Bonny, which was previously directly held by Bode Holding and the 12 Individual Shareholders, all of which were also shareholders of our Company, at a total consideration of approximately HK\$184.3 million or RMB155.9 million (based on the exchange rate on the day of transaction). Such Acquisition Payables to our shareholders was therefore considered as an equity transaction with our shareholders. As a result, our Group (i) assumed liabilities arising from the Acquisition Payables of approximately RMB154.0 million as at 31 December 2017; (ii) recorded an exchange rate difference of approximately RMB1.9 million in the exchange fluctuation reserve in equity as the payment was made in Hong Kong dollars; and (iii) correspondingly reduced capital reserve in equity by approximately RMB155.9 million as at 31 December 2017. Upon settlement of the aforementioned Acquisition Payables in April 2018 by way of cash, our net current liabilities improved significantly from RMB219.7 million as at 31 December 2017 to RMB53.5 million as at 31 December 2018.

As at 28 February 2019, being the latest practicable date to determine indebtedness, our net current liabilities further decreased to approximately RMB51.7 million. The decrease was mainly attributable to (i) the increase in trade receivables of approximately RMB18.0 million due to timing difference in settlement before Chinese new year; net-off by (ii) the increase in advance from customers, other payables and accruals of approximately RMB12.7 million due to the increase in accrued listing expense; and (iii) the decrease in amount due from related parties of approximately RMB5.0 million. This amount is non-trading in nature and would be fully settled before Listing.

Our net current liabilities positions were primarily attributable to the increase in our interest-bearing bank and other borrowings and decrease in cash and cash equivalents during the year ended 31 December 2016, 2017 and 2018. Our increase in bank borrowings were primarily to (i) meet the funding needs for the acquisition of land located in Yiwu City of Zhejiang Province and construction fee of our Beiyuan Production Site; and (ii) to support our working capital given our long inventory turnover days as a result of our need to store inventory for our retail business to meet our customers’ needs.

FINANCIAL INFORMATION

Our Directors have given careful consideration to the going concern of our Group in light of the fact that we had net current liabilities of approximately RMB53.5 million as at 31 December 2018. Our ability to continue as a going concern is dependent on the ongoing availability of funds to our Group. Based on the fact as discussed in “Financial Information – Working Capital Sufficiency”, our Directors are of the opinion that we will have the necessary funds to finance our working capital and to meet our capital expenditure requirements.

Cash flows

The following table sets forth a summary of our cash flows during the Track Record Period:

	Year ended 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash flows generated from operating activities	59,717	40,193	33,377
Net cash flows used in investing activities	(6,513)	(32,852)	(28,308)
Net cash flows used in financing activities	<u>(34,702)</u>	<u>(36,933)</u>	<u>(8,434)</u>
Net increase/(decrease) in cash and cash equivalents	18,502	(29,592)	(3,365)
Cash and cash equivalents at beginning of year	39,809	58,386	28,770
Effect of foreign exchange rate changes, net	<u>75</u>	<u>(24)</u>	<u>33</u>
Cash and cash equivalents at end of year	<u><u>58,386</u></u>	<u><u>28,770</u></u>	<u><u>25,438</u></u>

Net cash flows generated from operating activities

Our net cash flows generated from operating activities primarily represented cash receipts in respect of sales of our products and payments for purchase of raw materials, and expenses such as selling and distribution expenses and administrative expenses.

FINANCIAL INFORMATION

For the year ended 31 December 2016, our Group had net cash flows generated from operating activities of approximately RMB59.7 million mainly as a result of the profit before tax of approximately RMB21.4 million, adjusted for (i) the decrease in inventories of RMB22.6 million; (ii) the depreciation of property, plant and equipment of RMB15.1 million; (iii) finance cost of RMB9.4 million; which was partially offset by (iv) the decrease in amount due to related parties of RMB16.6 million.

For the year ended 31 December 2017, our Group had net cash flows generated from operating activities of approximately RMB40.2 million mainly as a result of the profit before tax of approximately RMB20.8 million, adjusted for (i) the decrease in inventories of RMB25.5 million; (ii) the depreciation of property, plant and equipment of RMB13.6 million; (iii) finance cost of RMB11.5 million; which was partially offset by (iv) the increase in trade receivables of RMB29.7 million.

For the year ended 31 December 2018, we had net cash flows generated from operating activities of approximately RMB33.4 million mainly as a result of the profit before tax of approximately RMB30.3 million, adjusted for (i) the depreciation of property, plant and equipment of RMB13.3 million; (ii) finance cost of RMB12.7 million; which was partially offset by (iii) the increase in inventories of RMB18.3 million.

Explanations of fluctuations of the aforesaid items from the consolidation statements of financial position are set out in earlier paragraphs in this section.

Net cash flows used in investing activities

Our cash flows used in investing activities primarily represented cash used for advance of loans to a related party and acquisition of property, plant and equipment and cash received from repayment of loans by a related party.

For the year ended 31 December 2016, our net cash used in investing activities amounted to approximately RMB6.5 million, which was mainly derived from (i) advance of loans to third parties of approximately RMB144.0 million; (ii) advance of loans to related parties of approximately RMB136.8 million; (iii) purchase of items of property, plant and equipment of approximately RMB15.1 million and partially offset by (iv) repayment of loans from third parties of approximately RMB146.9 million; and (v) repayment of loans from related parties of approximately RMB143.5 million.

FINANCIAL INFORMATION

For the year ended 31 December 2017, our net cash used in investing activities amounted to approximately RMB32.9 million, which was mainly derived from (i) advance of loans to related parties of approximately RMB164.2 million; (ii) purchase of items of property, plant and equipment of approximately RMB11.0 million; (iii) advance of loans to third parties of approximately RMB83.0 million; partially offset by (iv) repayment of loans from related parties of approximately RMB148.6 million; and (v) repayment of loans from third parties of approximately RMB76.4 million.

For the year ended 31 December 2018, our net cash used in investing activities amounted to approximately RMB28.3 million, which was mainly derived from (i) advance of loans to related parties of approximately RMB147.4 million; (ii) purchase of items of property, plant and equipment of approximately RMB34.4 million; (iii) advance of loans to third parties of approximately RMB13.6 million; partially offset by (iv) repayment of loans from related parties of approximately RMB148.4 million; and (v) repayment of loans from third parties of approximately RMB17.4 million.

Net cash flows used in financing activities

Our cash flows used in financing activities primarily consisted of repayment and drawdown of bank loans, distribution of dividends and interest payments of bank loans.

For the year ended 31 December 2016, our net cash used in financing activities amounted to approximately RMB34.7 million, which was mainly derived from (i) repayment of bank loans of approximately RMB360.3 million; and (ii) interest payment of approximately RMB11.5 million; and partially offset by (iii) proceeds from new bank loans of approximately RMB335.9 million.

For the year ended 31 December 2017, our net cash used in financing activities amounted to approximately RMB36.9 million, which was mainly derived from (i) repayment of bank loans of approximately RMB386.9 million; (ii) dividend payment of RMB50.0 million; and (iii) interest payment of approximately RMB11.5 million; and partially offset by (iv) proceeds from new bank loans of approximately RMB411.5 million.

For the year ended 31 December 2018, our net cash used in financing activities amounted to approximately RMB8.4 million, which was mainly derived from (i) repayment of bank loans of approximately RMB81.8 million; (ii) acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganisation of RMB147.8 million; and (iii) repayment of other borrowings of approximately RMB97.8 million, and partially offset by (iv) proceeds from new bank loans of approximately RMB377.8 million; (v) proceeds from issue of shares of approximately RMB147.7 million; and (vi) proceeds from other borrowings of approximately RMB108.4 million.

FINANCIAL INFORMATION

WORKING CAPITAL SUFFICIENCY

Notwithstanding our net current liabilities position of RMB53.5 million as at 31 December 2018, our Directors are of the view that we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus after considering the following factors:

- (i) Based on the written confirmations provided by banks from which we obtained total banking facility of RMB326.5 million as at 31 December 2018, the banks confirmed that, if there is no material adverse change to our Group, it will continue to provide credit support upon the expiry of the banking facility;
- (ii) We had a total banking facilities of RMB326.5 million, in which RMB67.3 million remained unutilized as at 31 December 2018;
- (iii) We recorded positive net cash generated from operating activities during the Track Record Period; and
- (iv) We had no material default in the repayment of bank borrowings and we had not experienced any withdrawal of facilities nor request for early repayment of bank borrowings during the Track Record Period.

Our Directors confirm that, having considered the above and taking into consideration the financial resources presently available to us, which is primarily our internal resources, and the estimated net proceeds from the Global Offering, we have sufficient working capital for our present requirements and for at least the next 12 months commencing from the date of this prospectus.

Our Directors are not aware of any other factors that would have a material impact on our Group's liquidity. Details of the funds necessary to meet our existing operations and to fund our future plans are set out in "Future Plans and Use of Proceeds" in this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

Bank borrowings

The following table sets forth our indebtedness as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	28 February 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>
Interest-bearing				
bank borrowings	224,113	248,662	244,613	246,849
Finance lease payables	–	–	8,480	7,825
Amount due to related parties	10,261	100,895	46	46
Amount due to a director	–	2,311	–	–
	<u>234,374</u>	<u>351,868</u>	<u>253,139</u>	<u>254,720</u>

The amount due to related parties and amount due to a director were unsecured, interest-free and repayable on demand.

As at 31 December 2016, 2017 and 2018, our bank borrowings amounted to approximately RMB224.1 million, RMB248.7 million and RMB244.6 million, respectively. The ranges of effective interest rates on the borrowing as at 31 December 2016, 2017 and 2018 range from approximately 2.00% to 5.66%, 2.30% to 6.13% and 3.80% to 6.96% per annum, respectively.

Our bank borrowings are secured by:

- (i) our buildings and equipment situated in the PRC, which had aggregate net carrying values of RMB77.6 million, RMB79.9 million and RMB74.0 million as at 31 December 2016, 2017 and 2018, respectively;
- (ii) our leasehold lands situated in the PRC, which had aggregate net carrying values of RMB29.1 million, RMB28.4 million and RMB27.8 million as at 31 December 2016, 2017 and 2018, respectively;
- (iii) mortgages over leasehold lands and buildings situated in the PRC of a related company; and
- (iv) mortgages over leasehold lands and buildings situated in the PRC of Mr. Jin and Ms. Gong.

As at 28 February 2019, our bank borrowings amounted to approximately RMB246.8 million. The ranges of effective interest rates on the borrowings range from approximately 3.80% to 6.96% per annum.

FINANCIAL INFORMATION

Several personal guarantees and corporate guarantees were provided by our Groups' connected person on our borrowings, for the details, please refer to Note 23 to the Accountant's Report in Appendix I to this prospectus. These personal guarantees and corporate guarantees provided will be released upon Listing.

Several personal guarantees and corporate guarantees were provided by certain third parties on our borrowings during the Track Record Period. For details, please refer to Note 23 to the Accountant's Report in Appendix I to this prospectus. Except for Mr. Cheng Jianqiang, who was a minority shareholder of one of our subsidiaries until 12 May 2016, the remaining entities are Independent Third Parties which are intimate wear manufacturers located in Yiwu or the major shareholders thereof. These third party entities on the one hand and our Controlling Shareholders and their close associates on the other are in a mutual guarantee relationship by providing cross guarantees to each other's borrowings. While personal guarantees and corporate guarantees were provided by these third party entities on our borrowings, Bode Holding and/or Mr. Jin and Ms. Gong, also provided reciprocal guarantees for the borrowings of these third party entities. Our Directors confirm that it is a common practice among manufacturing companies in Yiwu to provide cross guarantees to one another for mutual benefit. As confirmed by our Directors, the aforementioned guarantees provided by the third party entities will be released upon Listing.

As at 28 February 2019, being the latest practicable date of our indebtedness statement, except as disclosed in the table above, we did not have any outstanding debt securities, borrowings, indebtedness, or mortgages on a combined basis. Save as disclosed, there is no material adverse change in our indebtedness.

Some of the loan agreements we entered into contained customary undertakings, warranties and covenants. Other than otherwise disclosed, the agreements under our bank borrowings do not contain any material undertakings, warranties and covenants that may have a material adverse effect on our ability to make additional borrowings or issue debt or equity securities in the future. Our Directors confirm that we have not defaulted in the repayment of the principal bank borrowings and relevant interest expenses during the Track Record Period.

During the Track Record Period, we were in breach of two of the covenants contained in several bank borrowing agreements which required us to maintain (i) the gearing ratio at no less than certain percentages; and (ii) the current ratio at no less than certain percentages. Our Group has conducted interview with the bank and the relevant bank official has verbally confirmed that (i) the Group had regularly submitted their financial statements to the bank; (ii) the aforementioned breaches were not considered material; and (iii) the bank had not and would not request early repayment of the loans due to the aforementioned breaches. Furthermore, a written confirmation has been obtained from the same bank confirming that in the event that there is no material adverse change to our Group, it would continue to provide credit support to our Group. Having considered (i) the aforesaid; (ii) our Group has maintained business relationship with the bank throughout the Track Record Period and up to the Latest Practicable Date; and (iii) our Group was able to renew the short term loans with the banks throughout the Track Record Period, our Directors believe that the likelihood of our Group being sued for breach of contracts is relatively remote.

FINANCIAL INFORMATION

Contingent liabilities

As at 31 December 2016, 2017 and 2018, we had no significant contingent liabilities.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as at the Latest Practicable Date, we did not have outstanding loans, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances, trade receivables or acceptable credits, debentures, mortgages, charges, finance leases or hire purchases commitments, guarantees, material covenants, or other material contingent liabilities. As at the Latest Practicable Date, we did not have any external financing plans.

CONTRACTUAL OBLIGATION AND COMMERCIAL COMMITMENTS

Operating lease commitments

(a) *Our Group as Lessor*

We lease our investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to prepay rents for a year.

At 31 December 2016, 2017 and 2018, we had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at December 31		
	2016	2017	2018
	RMB'000	RMB'000	RMB'000
Within one year	–	1,018	406
In the second to fifth years, inclusive	–	–	488
	<u>–</u>	<u>1,018</u>	<u>894</u>

(b) *Our Group as Lessee*

We lease certain of retail shops and office properties under operating lease arrangements. Leases for the retail shops are negotiated for terms ranging from one to five years, and those for office properties are for terms ranging from one to five years.

FINANCIAL INFORMATION

At 31 December 2016, 2017 and 2018, we had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,228	1,360	3,012
In the second to fifth years, inclusive	346	580	1,670
	<u>1,574</u>	<u>1,940</u>	<u>4,682</u>

Capital Commitments

In addition to the operating lease commitments above, we had the following capital commitments at the end of each of the Track Record Period:

	As at 31 December		
	2016	2017	2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for:			
Land and buildings	5,658	607	43,662
Plant and machinery	–	–	9,559
	<u>5,658</u>	<u>607</u>	<u>53,221</u>

Our capital commitment as at 31 December 2018 mainly related to the committed construction cost of phase II of Beiyuan Production Site, which will consist of two buildings.

INVESTMENT PROPERTY VALUATION

Details relating to our Group's property interests are set out in Appendix III to this prospectus. AVISTA Valuation Advisory Limited, an independent property valuer, has valued the properties owned and leased by our Group as at 28 February 2019. The text of its letter, summary of values and valuation certificates are set out in Appendix III to this prospectus.

FINANCIAL INFORMATION

The table below shows the reconciliation of aggregate amounts of land and buildings under construction from our Group's audited consolidated financial statements as at 31 December 2018 to the unaudited net book value of our Group's property interests as at 28 February 2019:

	<i>RMB'000</i>
Net book value of our Group's property interests included in the followings as at 31 December 2018 as sets out in the Accountants' Report in Appendix I to this prospectus	
– Property, plant and equipment	84,699
– Investment properties	42,750
– Prepaid land lease payments (include current portion)	<u>27,788</u>
	155,237
Less: depreciation and amortisation for the two months ended 28 February 2019 (unaudited)	<u>(794)</u>
Net book value of our Group's property interests as at 28 February 2019 (unaudited)	154,443
Net valuation surplus	<u>28,372</u>
Valuation of our Group's property interests as at 28 February 2019 as sets out in the property valuation report in Appendix III to this prospectus	<u><u>182,815</u></u>

CAPITAL EXPENDITURE

Throughout the Track Record Period, we have made capital expenditures, typically in connection with construction of buildings, the purchases of plant and equipment, and the addition of intangible asset. These capital expenditures amounted to approximately RMB15.1 million, RMB11.0 million and RMB34.4 million for the three years ended 31 December 2018, respectively. Our capital expenditure during the Track Record Period mainly represented the construction cost for our Beiyuan Production Site.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements during the Track Record Period. We do not engage in trading activities involving non-exchange traded contracts. In the course of our normal business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

FINANCIAL INFORMATION

SUMMARY OF FINANCIAL RATIOS

The following table sets forth a summary of our key financial ratios during the Track Record Period and should be read in conjunction with the Accountants' Report included as Appendix I to this prospectus.

	As at/For the year ended		
	31 December		
	2016	2017	2018
Current ratio ^(Note 1)	0.9	0.6	0.9
Quick ratio ^(Note 2)	0.5	0.3	0.5
Return on assets ^(Note 3)	3.9%	3.8%	4.9%
Return on equity ^(Note 4)	12.1%	N/A	15.4%
Interest coverage ratio ^(Note 5)	3.3	2.8	3.4
Net debt to equity ratio ^(Note 6)	103.7%	N/A	133.0%
Gearing ratio ^(Note 7)	140.3%	N/A	147.8%
 <i>For illustrative purpose:</i>			
Adjusted interest coverage ratio ^(Note 8)	3.4	3.3	3.9
Adjusted return on assets ^(Note 9)	4.2%	4.8%	6.2%
Adjusted return on equity ^(Note 10)	12.9%	N/A	19.6%

Notes:

1. Current ratio is calculated by dividing total current assets by total current liabilities as at the end of respective year.
2. Quick ratio is calculated by dividing total current assets less inventories by total current liabilities as at the end of respective year.
3. Return of assets is calculated by dividing net profit by total assets as at the end of the respective year and multiplied by 100%.
4. Return on equity is calculated by dividing net profit by total equity as at the end of the respective year and multiplied by 100%.
5. Interest coverage ratio is calculated by dividing profit before interest and tax by interest expenses for the respective year.
6. Net debt to equity ratio is calculated by dividing net debt by total equity as at the end of the respective year and multiplied by 100%. Net debt includes all bank borrowings and finance lease liabilities, net of cash and cash equivalents.
7. Gearing ratio is calculated by dividing total interest-bearing liabilities by total equity as at the end of the respective year and multiplied by 100%.
8. Adjusted interest coverage ratio is calculated by dividing profit before interest, tax and Listing expenses by interest expenses for the respective year.
9. Adjusted return on assets is calculated by dividing net profit excluding Listing expenses by total assets as at the end of the respective year and multiplied by 100%.
10. Adjusted return on equity is calculated by dividing net profit excluding Listing expenses by total equity as at the end of the respective year and multiplied by 100%.

FINANCIAL INFORMATION

Current ratio and quick ratio

Our current ratio decreased from 0.9 times for the year ended 31 December 2016 to 0.6 times for the year ended 31 December 2017 while quick ratio decreased from 0.5 times for the year ended 31 December 2016 to 0.3 times for the year ended 31 December 2017, mainly due to the increase in amount due to related parties and other payables and accruals primarily as a result of our Reorganization. Our current ratio then increased to 0.9 times while quick ratio increased to 0.5 times for the year ended 31 December 2018, mainly to due to the settlement of amount due to related parties and other payables and accrual relating to our Reorganization.

Return on assets

Our return on assets remained stable at 3.9% and 3.8% for the year ended 31 December 2016 and 2017, respectively. Excluding listing expenses of approximately RMB1.2 million and RMB5.2 million for the year ended 31 December 2016 and 2017, respectively, our adjusted return on assets would be 4.2% and 4.8%. The increase was mainly due to the increase in our adjusted net profit margin over the years. Our return on assets then increased to 4.9% while our adjusted return on assets increased to 6.2% for the year ended 31 December 2018. The increases were mainly due to the increase in our adjusted net profit margin over the years.

Return on equity

Our return on equity was 12.1% for the year ended 31 December 2016. Excluding listing expenses, our adjusted return on equity was 12.9% for the year ended 31 December 2016.

Our return on equity and adjusted return on equity in the year ended 31 December 2017 were not applicable, as we had a negative equity position of RMB22.1 million as at 31 December 2017, mainly due to the increase in amount due to related parties and other payables and accruals primarily as a result of our Reorganization. Please refer to the section headed “Financial Information – Liquidity and Capital Resources – Net current liabilities” for detailed analysis of our negative equity as at 31 December 2017.

Our return on equity was 15.4% and adjusted return on equity was 19.6% for the year ended 31 December 2018.

Interest coverage ratio

Our interest coverage ratio was relatively stable at 3.3 times, 2.8 times and 3.4 times for the year ended 31 December 2016 and 2017 and 2018, respectively. Excluding the listing expenses during the Track Record Period, the adjusted interest coverage ratio would be 3.4 times, 3.3 times and 3.9 times for the year ended 31 December 2016, 2017 and 2018, respectively.

Gearing ratio and net debt to equity ratio

Our gearing ratio was 140.3% as at 31 December 2016, while our net debt to equity ratio was 103.7% as at 31 December 2016.

FINANCIAL INFORMATION

The gearing ratio and net debt to equity ratio were not applicable as at 31 December 2017 as we had a negative total equity position of RMB22.1 million as at 31 December 2017, mainly due to the increase in amount due to related parties and other payables and accruals primarily as a result of our Reorganization. Please refer to the section headed “Financial Information – Liquidity and Capital Resources – Net current liabilities” for detailed analysis of our negative equity as at 31 December 2017.

Our gearing ratio then increased to 147.8% while net debt to equity ratio increased to 133.0% as at 31 December 2018.

QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISKS

We are exposed to a variety of financial risks such as foreign exchange risk, interest rate risk, credit risk and liquidity risk. Our overall risk management program focuses on the unpredictability of the financial markets and how to minimize potential adverse effects on our financial performance.

Foreign currency risk

In the three years ended 31 December 2018, approximately 51%, 44% and 44% of our sales were denominated in currencies other than our functional currencies, including US\$ and EUR. Such exposures arisen from sales or purchases to foreign customers or from foreign suppliers. Whilst approximately 1%, 1% and 1% of costs were denominated in currencies other than the units’ functional currencies for the three years ended 31 December 2018 respectively. At present, we do not intend to hedge our exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and our foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

For details of the sensitivity analysis in relation to foreign currency risk, please refer to “Financial risk management objectives and policies – Foreign currency risk” in Note 36 to the Accountant’s Report.

Interest rate risks

Interest rate risk is the risk that the fair value or future cash flows of our financial instruments will fluctuate because of changes in market interest rates. Our interest rate risk mainly arises from our interest-bearing bank borrowings with floating interest rates. For the three years ended December 2018, if interest rates were to increase or decrease by 100 basis points and all other variables were held constant, our profit before tax for the three years ended 31 December 2018 would decrease or increase by approximately RMB120,000, RMB21,000 and RMB421,000, respectively, as a result of increase or decrease in net interest expense. We manage our interest cost by using a mix of fixed and floating rate debts.

For details of the sensitivity analysis in relation to interest rate risk, please refer to “Financial risk management objectives and policies – Interest rate risk” in Note 36 to the Accountant’s Report.

FINANCIAL INFORMATION

Credit risk

Our exposure to credit risk arises primarily from trade and other receivables. The credit risk of our other financial assets, which comprise cash and cash equivalents, time deposits with original maturity of over three months, pledged deposits, amounts due from the related parties, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. We minimize credit risk by dealing exclusively with recognised and creditworthy third parties.

Since we trade only with recognized and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region.

For further quantitative data in respect of our exposure to credit risk arising from trade receivables and prepayments, deposits and other receivables, please refer to Note 18 and note 19 to the Accountant's Report.

Liquidity risk

Liquidity risk is the risk that we will encounter difficulty in meeting financial obligations due to shortage of funds. Our exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. Our objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

We monitor our risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

For the maturity profile of our financial liabilities as at the end of year ended 31 December 2016, 2017 and 2018, based on the contractual undiscounted payments, please refer to "Financial risk management objectives and policies – Liquidity risk" in Note 36 to the Accountant's Report.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had entered into certain related party transactions, details of which are set out in note 33 to the Accountants' Report included as Appendix I to this prospectus. Our related party transactions mainly represent purchase of material, primarily polyamide, from Deshipu New Materials over the Track Record Period. The purchase amounted to approximately RMB13.9 million, RMB16.6 million and RMB20.9 million for the three years ended 31 December 2018, respectively. Our Directors are of the view that the related party transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interests of us and our Shareholders as a whole. For further details, please refer to the section headed "Continuing Connected Transactions" in this prospectus.

FINANCIAL INFORMATION

LISTING EXPENSES

Assuming the Over-allotment Option is not exercised and assuming the Offer Price of HK\$0.53 per Offer Share, being the mid-point of the indicative range of the Offer Price stated in this prospectus, the total estimated listing expenses (including the underwriting commission), which are non-recurrent in nature, are estimated to be approximately HK\$42.4 million.

During the Track Record Period, listing expenses of approximately RMB14.3 million (equivalent to HK\$16.8 million) was charged to the consolidated statements of profit or loss and other comprehensive income. For the year ending 31 December 2019, we estimate that Listing expenses of HK\$12.4 million will be charged to profit or loss and HK\$13.2 million will be accounted for as a deduction from equity upon successful Listing under relevant accounting standards.

Our Directors would like to emphasise that the listing expenses stated above are the current estimation for reference purpose and the actual amount to be recognised is subject to adjustments based on audit and the then changes in variables and assumptions. Prospective investors should note that the financial performance of our Group for the year ending 31 December 2019 would be materially and adversely affected by the listing expenses mentioned above.

DISTRIBUTABLE RESERVES

Our Company was incorporated in the Cayman Islands on 19 July 2017 as an investment holding company and had no distributable reserve available for distribution to our Shareholders as at the Latest Practicable Date.

DIVIDENDS

For each of the three years ended 31 December 2018, our Group declared and paid dividends of nil, RMB50.0 million and nil, respectively.

Our Board does not have a pre-determined a dividend payout ratio. The payment and the amount of any dividends, if paid, will depend on our results of operations, cash flows, financial condition, future prospects, capital expenditure, expansion plans and other factors that our Board may consider relevant. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Company in the future.

Any distributable profits that are not distributed in any given year will be retained and available for distribution in subsequent years. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

An unaudited pro forma statement of adjusted net tangible assets of our Group, which was based on the net tangible assets attributable to equity shareholders of our Company as at 31 December 2018 and prepared in accordance with Rule 4.29 of the Listing Rules, is set out in Appendix II to this prospectus.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors confirmed that as at the Latest Practicable Date, there were no circumstances that would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, save for the adverse impact from the listing expenses, there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2018 and there is no event since 31 December 2018, including any shortfall of working capital or deteriorating cash position after the Track Record Period, which would materially affect the information shown in the Accountant's Report.

CORNERSTONE INVESTORS

THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with three cornerstone investors (the “**Cornerstone Investors**”, and each a “**Cornerstone Investor**”) who have agreed to subscribe, or cause their designated entities to subscribe, for Offer Shares (rounded down to the nearest whole board lot of 5,000 Shares) which may be purchased for an aggregate amount of HK\$40 million at the Offer Price (exclusive of the brokerage, the SFC transaction levy and the Stock Exchange trading fee) (the “**Cornerstone Placing**”).

Assuming the Offer Price of HK\$0.46, being the low-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 86,945,000 Shares, representing approximately 22.2% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 5.6% of our total issued share capital immediately upon the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming the Offer Price of HK\$0.53 being the mid-point of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 75,465,000 Shares, representing approximately 19.9% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 5.0% of our total issued share capital immediately upon the Global Offering (assuming the Over-allotment Option is not exercised).

Assuming the Offer Price of HK\$0.60, being the high-end of the indicative Offer Price range set out in this prospectus, the total number of Shares to be subscribed by the Cornerstone Investors would be 66,665,000 Shares, representing approximately 18.0% of the Offer Shares (assuming the Over-allotment Option is not exercised) and approximately 4.5% of our total issued share capital immediately upon the Global Offering (assuming the Over-allotment Option is not exercised).

The Cornerstone Placing will form part of the International Placing. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, each of the Cornerstone Investors and their respective ultimate beneficial owners is an Independent Third Party, is not our connected person, is independent of each other, our Group, its connected person(s) and respective associate(s) and is not an existing shareholder or close associate of our Group. The Shares to be subscribed for by the Cornerstone Investors will be counted towards the public float of our Company and will rank *pari passu* with the Shares then in issue and to be listed on the Hong Kong Stock Exchange. Immediately following the completion of the Global Offering, the Cornerstone Investors will not have any Board representation in our Company, nor will it become substantial shareholder or connected person of our Company. None of the Cornerstone Investors has any preferential rights compared with other public shareholders pursuant to the cornerstone investment agreements. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering – Basis of Allocation of the Offer Shares”.

Details of allocation to the Cornerstone Investors will be disclosed in the announcement of allotment results of our Company to be published on or about Thursday, 25 April 2019.

CORNERSTONE INVESTORS

THE CORNERSTONE INVESTORS

We set out below a brief description of each of the Cornerstone Investors:

Chemtax Industrial Company Limited (香港中大實業有限公司)

Our Company, Innovax Capital Limited and Innovax Securities have entered into a cornerstone investment agreement on 3 January 2019 with Chemtax Industrial Company Limited (香港中大實業有限公司) (“**Chemtax Industrial**”), pursuant to which Chemtax Industrial agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 5,000 Shares) which may be purchased with an aggregate amount of HK\$15 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price. Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$0.46, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Chemtax Industrial would subscribe for would be 32,605,000 Shares, representing approximately 10.2% of the total number of the Offer Shares and 2.7% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$0.53, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Chemtax Industrial would subscribe for would be 28,300,000 Shares, representing approximately 9.4% of the total number of the Offer Shares and 2.4% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$0.60, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Chemtax Industrial would subscribe for would be 25,000,000 Shares, representing approximately 8.3% of the total number of the Offer Shares and 2.1% of our total shares in issue immediately following completion of the Global Offering. The number of Shares to be subscribed by Chemtax Industrial should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Chemtax Industrial is a limited company incorporated in Hong Kong. Founded and headquartered in Hong Kong, Chemtax Industrial is an agent for quality textile machinery and is principally engaged in trading of textile machinery of advanced and high-precision technology of famous European brands.

Mr. Xing Zhicun

Our Company, Innovax Capital Limited and Innovax Securities have entered into a cornerstone investment agreement on 8 March 2019 with Mr. Xing Zhicun (邢志存) (“**Mr. Xing**”), pursuant to which Mr. Xing agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 5,000 Shares) which may be purchased with an aggregate amount of HK\$10 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price. Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$0.46, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Xing would subscribe for would be 21,735,000 Shares, representing approximately 7.2% of the total number of the Offer Shares and 1.8% of our total shares in issue immediately following completion of the Global Offering;

CORNERSTONE INVESTORS

at the Offer Price of HK\$0.53, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Xing would subscribe for would be 18,865,000 Shares, representing approximately 6.3% of the total number of the Offer Shares and 1.6% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$0.60, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Xing would subscribe for would be 16,665,000 Shares, representing approximately 5.6% of the total number of the Offer Shares and 1.4% of our total shares in issue immediately following completion of the Global Offering. The number of Shares to be subscribed by Mr. Xing should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Mr. Xing is the controlling shareholder of Muxi Clothing, one of our major customers. Muxi Clothing is a private company incorporated in the PRC on 28 April 2014 and a domestic online maternity products retailer through e-commerce platforms, and principally engages in sales of maternity and nursing clothing, which operates a leading brand, Emxee (嫚熙) for maternity products sold on Tmall. Mr. Xing and Muxi Clothing are Independent Third Parties.

Mr. Gao Baolin

Our Company, Innovax Capital Limited and Innovax Securities have entered into a cornerstone investment agreement on 23 March 2019 with Mr. Gao Baolin (高寶霖) (“**Mr. Gao**”), pursuant to which Mr. Gao agreed to subscribe for, such number of Shares (rounded down to the nearest whole board lot of 5,000 Shares) which may be purchased with an aggregate amount of HK\$15 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at the Offer Price. Assuming that the Over-allotment Option is not exercised, at the Offer Price of HK\$0.46, being the low-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Gao would subscribe for would be 32,605,000 Shares, representing approximately 10.2% of the total number of the Offer Shares and 2.7% of our total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK\$0.53, being the mid-point of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Gao would subscribe for would be 28,300,000 Shares, representing approximately 9.4% of the total number of the Offer Shares and 2.4% of our total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK\$0.60, being the high-end of the Offer Price range set out in this prospectus, the total number of Shares that Mr. Gao would subscribe for would be 25,000,000 Shares, representing approximately 8.3% of the total number of the Offer Shares and 2.1% of our total shares in issue immediately following completion of the Global Offering. The number of Shares to be subscribed by Mr. Gao should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Mr. Gao has over 18 years of experience in the industry of socks manufacturing and sales, and is the controlling shareholder of Shanghai Zhonghao Knitting Co., Ltd.* (上海中昊針織有限公司) (“**Zhonghao Knitting**”). Zhonghao Knitting is a private company incorporated in the PRC on 6 April 2000 and a domestic manufacturer of socks and other related products such as stockings, which sells all its products overseas, including the U.S., Japan and the EU. Mr. Gao and Zhonghao Knitting are Independent Third Parties.

CORNERSTONE INVESTORS

CONDITIONS PRECEDENT

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent: (i) the Hong Kong Underwriting Agreement and the International Underwriting Agreement having been entered into and having become unconditional (in accordance with their respective original terms or as subsequently waived or varied by agreement of the parties thereto) and not having been terminated; and (ii) the Listing Committee of the Stock Exchange having granted the Listing of, and permission to deal in, the Shares and that such approval or permission not having been revoked.

RESTRICTIONS ON THE INVESTMENTS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of each of our Company, the Sole Sponsor and the Sole Global Coordinator, it will not at any time during the period of six months following the Listing Date (a) offer, pledge, charge, sell, lend, transfer, mortgage, contract to sell, sell any options or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (as defined in the cornerstone investment agreement), either directly or indirectly, conditionally or unconditionally, any legal or beneficial interests in the Shares to be subscribed pursuant to the cornerstone investment agreement (the “**Relevant Shares**”) or any securities convertible into or exercisable or exchangeable for, or that represent any rights to receive, the Relevant Shares; (b) enter into any swaps or other arrangements that transfer to another, in whole or in part, any economic consequences of ownership of the Relevant Shares; (c) enter into any transactions directly or indirectly with the same economic effect as any transactions described in sub-paragraphs (a) and (b) above; and (d) agree or contract to, or publicly announce any intention to enter into, any transactions described in sub-paragraphs (a) and (b) above.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

Please refer to “Business – Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$116.6 million from the Global Offering, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming that the Over-allotment Option is not exercised and assuming an Offer Price of HK\$0.53 per Share, being the mid-point of the indicative Offer Price range set in this prospectus. We intend to use such net proceeds from the Global Offering for the purposes and in the amounts set forth below:

- approximately 80%, or approximately HK\$93.2 million, will be used for funding our investment in relation to our Beiyuan Production Site for expansion of our seamless production capacity, of which:
 - (i) approximately 20%, or approximately HK\$23.2 million, for construction of phase II of our Beiyuan Production Site with a total GFA of approximately 40,296.16 sq.m. comprising a production building of approximately 26,693.55 sq.m. and a staff dormitory of approximately 13,602.61 sq.m. Phase II of our Beiyuan Production Site is under construction and will complete in around November 2019; and
 - (ii) approximately 60%, or approximately HK\$70.0 million, for acquisition and implementation of additional production equipment at our Beiyuan Production Site which include, based on the quotations we obtained and/or recent purchase orders we placed with machinery suppliers, approximately RMB74.0 million for acquisition of a total of 200 additional seamless circular knitting machines, RMB6.0 million for acquisition of compressors and other ancillary facilities, RMB4.5 million for acquisition of additional sewing machines, RMB3.0 million for installation expenses. Installation of the said 200 additional seamless circular knitting machines and ancillary equipment is expected to complete by end of 2019 and is estimated to increase our production capacity for seamless products by approximately 80% (as compared to that for the year ended 31 December 2018).

For details of our capacity expansion plan, please see “Business – Production – Capacity Expansion Plan” in this prospectus;

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10%, or approximately HK\$11.7 million, will be used for enhancing our product design, research and development capability. We intend to install 20 additional seamless circular knitting machines at our Beiyuan Production Site specifically designated for product research and development purposes and recruit additional research and development personnel; and
- approximately 10%, or approximately HK\$11.7 million, will be used for our working capital and general corporate purposes.

If the Over-allotment Option is exercised in full, we estimate that the additional net proceeds from the offering of these additional Shares will be approximately HK\$23.1 million, after deducting the underwriting commissions and other estimated expenses payable by us in connection with the Global Offering, assuming an Offer Price of HK\$0.53 per Share, being the mid-point of the indicative Offer Price range. We intend to use such additional net proceeds primarily for construction of phase II of our Beiyuan Production Site.

If the Offer Price is fixed at HK\$0.60 per Offer Share, being the high end of the indicative Offer Price range stated in this prospectus, we will receive additional net proceeds of approximately HK\$20.4 million. If the Offer Price is fixed at HK\$0.46 per Offer Share, being the low end of the indicative Offer Price range stated in this prospectus, the net proceeds we receive will be reduced by approximately HK\$20.4 million. If the Offer Price is set above the mid-point of the indicative Offer Price range, we intend to apply the additional amounts construction of our Beiyuan Production Site. If the Offer Price is set below the mid-point of the indicative Offer Price range, we intend to reduce the amounts allocated to construction of Phase II of our Beiyuan Production Site.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the net proceeds into interest-bearing bank accounts with licensed banks and/or financial institutions in Hong Kong.

REASONS FOR LISTING

The followings are our main purposes for seeking the Listing:

- **Genuine funding needs**

According to the Frost & Sullivan Report, the production value of seamless intimate wear market in China is expected to grow at a CAGR of 13.02% between 2018 and 2022. Not only can seamless technology be used in intimate wear, but also there are unlimited market potentials in this technology both locally in China and globally. It can be applied to all types of clothing for different purposes such as swimwear, active wear, sleepwear and even protective wear providing safety and support for workers.

FUTURE PLANS AND USE OF PROCEEDS

However, our business development and profitability is limited by our production capacity. We currently only operate the Suxi Production Site for production which produces most of our seamless and some of our traditional intimate wear products. A majority of the products manufactured in our Group's production facility are seamless products which accounts for more than 90% of overall sales volume and 60% of overall sales revenue are mostly sold to our customers on an ODM basis. Our utilization rate for seamless intimate wear production has been persistently high and maintained at around 80% during the Track Record Period. The Group's high utilization rate of its production capacity would in turn affect the willingness of its customers to place new orders with the Group.

Taking into account the limitations in our existing production capacity, our Directors believe that in order to satisfy the growing demand of seamless intimate wear both locally and globally and to sustain our Group's persistent future growth, it is essential to increase our production capacity for production of seamless products through investing in the capacity expansion plan of our Beiyuan Production Site.

The total investment amount of approximately RMB147.5 million (equivalent to approximately HK\$173.5 million) with respect to our planned capacity expansion alone (without taking into consideration our future plans in enhancing our product design, research and development capability) together with our net debt position of approximately RMB227.7 million (equivalent to approximately HK\$267.9 million) as at 31 December 2018 are significantly larger than our unutilized banking facilities of approximately RMB67.3 million (equivalent to approximately HK\$79.2 million) as at 31 December 2018.

As a result, we have a genuine funding need. Through the Listing, not only can we raise funds from the Global Offering and apply them to its expansion plans (i.e. the Beiyuan Production Site), but also gain access to the capital market for future secondary fund raisings for our further expansion plans as and when necessary through the issuance of equity and/or debt securities, with relatively lower financing cost as compared with similar financing that can be obtained by a private company.

In view of our funding needs, we have considered the following advantages of equity financing over debt financing, and our Directors considered that our Company, without a listing status, would have difficulties in obtaining bank borrowings at more commercially favorable terms:

- (i) Having considered our Group's high gearing ratio at 147.8% as at 31 December 2018 and the net current liabilities and net debt position throughout the Track Record Period, our Directors consider that further undue reliance on bank borrowings to finance our Group's capital and cash flow requirements would not be commercially feasible as it would place considerable financial burden on our Group as well as our Controlling Shareholders, which would in turn curtail our long-term sustainability and room for business development. In addition, in view of the fact that the current benchmark lending rate formulated by the People's Bank of China for medium and long-term loans being the lowest in the past ten years, which had fluctuated between 4.75% and 6.65%, our Directors believe that the local interest rate for debt financing, and the costs of borrowings, is likely to rise in the near future. As such, equity fund raising therefore allows us to reduce our interest rate risks;

FUTURE PLANS AND USE OF PROCEEDS

- (ii) The permanent nature of equity capital does not involve recurring interest expenses and the subsequent fund raising process (such as private placement and rights issue) is usually simpler than negotiations with banks and other financial institutions (which generally involve (a) the lenders conducting detailed and lengthy due diligence and analysis on our Group's financial position; (b) a lengthy approval process prior to approving/providing such loans; and (c) the lenders demanding for security to secure such loans). Equity fund raising would also allow our Group to react more promptly to the changing market conditions and business opportunities which present themselves from time to time due to the high trading liquidity of the Hong Kong stock market which facilitates future issuance of equity and debt securities, such as convertible debt instruments and bonds.

Our Directors also believe that the listing status will allow our Group to gain leverage in obtaining bank financing on more favorable terms (such as the provision of a corporate guarantee by our Company rather than personal guarantees by our Controlling Shareholders), thus offering us more flexibility in financing our operations; and

- (iii) As at 31 December 2018, our Group had approximately RMB59.5 million of property, plant and equipment as unpledged collateral which may be pledged for bank borrowing, but the exact amount of borrowing that could be obtained is uncertain, as this depends on the valuation and the quality of the assets, and even if (i) our Group is able to borrow RMB59.5 million, being the full amount of the value of the unpledged collateral, together with (ii) our cash and cash equivalent of RMB25.4 million as at 31 December 2018; and (iii) unutilized banking facilities of RMB67.3 million as at 31 December 2018, which are significantly lower than the Group's capital needs for the capacity expansion plan of RMB147.5 million and the repayment of interest-bearing bank and other borrowings of RMB253.1 million as at 31 December 2018. Therefore, the Group will still fall short significantly by RMB248.4 million.

- **Enhancing corporate profile**

Following the Listing, our Directors believe that our Group will be able to obtain higher bargaining power in negotiating terms with our business partners. In addition, our Directors believe that customers may prefer to conduct business with a listed company in Hong Kong given its reputation, listing status, public financial disclosures and general regulatory supervision by relevant regulatory bodies. We also consider that the Listing will enhance our Group's corporate profile, market reputation and brand awareness which will strengthen our customers' confidence in our Group and in turn boost our business. Our products will also be better known by new potential local and overseas customers.

FUTURE PLANS AND USE OF PROCEEDS

- **Broadening shareholder base and enhancing liquidity**

Through the Listing, we will be able to broaden our shareholder base and enhance the liquidity of the Shares, as compared to the limited liquidity of the Shares that are privately held before the Listing. Our Company is applying for listing in Hong Kong because it has a high level of internationalization and maturity in the global financial market with sufficient institutional capital and funds which focus on market investments in companies listed in Hong Kong. Therefore, our Directors believe that there will be higher liquidity and valuation, and greater exposure to a broader analyst and investment community, which would facilitate our future fund raising should such need arise.

- **Enhancing employee incentive and commitment**

Human resources and talents are vital to our business, being a listed company can help to attract, recruit and retain our valued management personnel, employees and skilled professionals to provide additional incentive. To this end, we have also put in place the Share Option Scheme for our employees in order to attract and retain talents. Please see “Statutory and General Information – D. Share Option Scheme” in Appendix V to this prospectus for a summary of principal terms of the scheme.

UNDERWRITING

HONG KONG UNDERWRITERS

Innovax Securities Limited
HGNH International Securities Co., Limited
Yue Xiu Securities Company Limited
Zhongtai International Securities Limited
Pulsar Capital Limited
BMI Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we are offering our Hong Kong Offer Shares for subscription by members of 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 of and permission to deal in our Shares in issue and to be issued as mentioned in this prospectus being granted by the Listing Committee of the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers, for our Hong Kong Offer Shares.

Grounds for termination

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) (the “**Termination Time**”) on the Listing Date if any of the following events shall occur prior to the Termination Time:–

- (a) there shall develop, occur or come into force:–
 - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC, Hong Kong, the BVI, the Cayman Islands or any other jurisdiction(s) relevant to any member of our Group or the Global Offering (the “**Relevant Jurisdictions**”) or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or

UNDERWRITING

- (ii) any change (whether or not permanent) in national, regional, international, financial, military, industrial or economic conditions or prospects, stock market, fiscal or political conditions, any of regulatory or market conditions and matters and/or disasters in the Relevant Jurisdictions or any other similar event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the business or financial conditions or prospects of our Group or which may be expected to adversely affect the business or financial condition or prospects of our Group in a material way; or
- (iii) without prejudice to paragraph (i) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God or accident) would or might have a material adverse effect on any member of our Group or its present or prospective shareholders in their capacity as such; or
- (v) any change or development occurs involving a prospective change in taxation or in exchange control in any of the Relevant Jurisdictions to which any member of our Group is subject or the implementation of any exchange controls which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group or our present or prospective shareholders in their capacity as such in a material way; or
- (vi) any litigation or claim of material importance to the business, financial or operations of our Group being threatened or instituted against any member of our Group which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group or our present or prospective shareholders in their capacity as such; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, in any of the Relevant Jurisdictions which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might have a material adverse effect on any member of our Group or our present or prospective shareholders in their capacity as such; or

UNDERWRITING

- (viii) any governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organisation or other non-government regulatory authority, or any court, tribunal or arbitrator, whether national, central, federal, provincial, state, regional, municipal, local, domestic or foreign, or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any members of our Group or Director which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) makes it inadvisable or impracticable to proceed with the Global Offering; or

- (ix) order or petition for the winding up of any members of our Group or any composition or arrangement made by any members of our Group with its creditors or a scheme of arrangement entered into by any members of our Group or any resolution for the winding up of any members of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any members of our Group or anything analogous thereto occurring in respect of any members of our Group; or

- (x) and any such event, which, individually, or in the aggregate, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), (i) has or may have a material adverse effect on the success of the Global Offering, or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing; or (ii) has or will or may have a material adverse effect on the assets, liabilities, business, prospects, trading or financial position of our Group as a whole; or (iii) makes it inadvisable or impracticable to proceed with the Global Offering; or (iv) has or will or may have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

- (b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing (i) any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate in any material respect or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or (ii) any of the obligations or undertakings expressed to be assumed by or imposed on our Company or the covenantors under the Hong Kong Underwriting Agreement (the “**Covenantors**”) not to have been complied with in any respect considered in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) to be material; or

UNDERWRITING

- (c) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any breach on the part of our Company or any of the Covenantors of any provisions of the Hong Kong Underwriting Agreement in any respect which is considered in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) to be material; or
- (d) any statement contained in this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal adviser to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
- (e) matters have arisen or have been discovered which would, if this prospectus, notices, advertisements, announcements, application proof prospectus, post hearing information pack, was to be issued at that time, constitute, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) a material omission of such information; or
- (f) there is any material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of our Group which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material; or
- (g) the approval of the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue, the Shares to be issued or sold under the Global Offering and the Shares to be issued pursuant to the Capitalization Issue is refused or not granted, other than subject to customary conditions, on or before 8:00am. (Hong Kong time) on the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (h) any expert, who has given opinion or advice which are contained in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, opinions or advices and references to its name included in the form and context in which it respectively appears prior to the issue of this prospectus; or
- (i) our Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

UNDERWRITING

- (j) there comes to the notice of the Sole Global Coordinator or any of the Underwriters any information, matter or event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):
 - (i) is inconsistent in any material respect with any information contained in the Declaration and Undertaking with regard to Directors (Form B) given by any Directors pursuant to the Global Offering; or
 - (ii) would cast any serious doubt on the integrity or reputation of any Director or the reputation of our Group.

Undertakings to the Stock Exchange pursuant to the Listing Rules

Undertakings by our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (including warrants or other convertible securities) (whether or not a class already listed) may be issued, allotted or formed the subject of any agreement to such an issue by our Company within six months from the date on which our Shares first commence dealing on the Stock Exchange (whether or not such issue of our Shares or securities will be completed within six months from the commencement of dealing), except (a) pursuant to the Capitalization Issue, the Global Offering, the exercise of the Overallotment Option and the exercise of any options which may be granted under the Share Option Scheme; or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

Undertakings by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that, except pursuant to the Capitalization Issue, the Global Offering, the Stock Borrowing Agreement, the Over-allotment Option and the grant of options or exercise of options to be granted under the Share Option Scheme, he/it will not and will procure that the registered holder(s) of the Shares controlled by him/it will not:

- (a) in the period commencing on the date by reference to which disclosure of their shareholding in our Company is made in the Prospectus (the “**Reference Date**”) and ending on the date which is six months from the Listing Date (the “**End Date**”), dispose of, nor enter into any agreement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or a charge as security in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the securities of our Company in respect of which he/it is shown by this prospectus to be the beneficial owner (“**Relevant Securities**”); or

UNDERWRITING

- (b) in the period of six months from the End Date, dispose of, nor enter into any agreement to dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save as pursuant to a pledge or charge as security in favour of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that he/it would cease to be the controlling shareholder of our Company.

In addition, pursuant to Note 3 to Rule 10.07(2) of the Listing Rules, each of our Controlling Shareholders has further irrevocably and unconditionally undertaken to the Stock Exchange and our Company that within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, he/it shall:

- (a) when he/it pledges or charges any Shares or securities of our Company beneficially owned by him/it in favour of an authorized institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong), pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares or securities of our Company will be disposed of, immediately inform our Company in writing of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the matters referred to in paragraphs (a) and (b) above by any of our Controlling Shareholders and make a public disclosure in relation to such information by way of an announcement in accordance with the Listing Rules.

Undertakings pursuant to the Hong Kong Underwriting Agreement

Each of the Controlling Shareholders hereby jointly and severally undertakes to each of our Company, the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters that except pursuant to the Global Offering (including the exercise of the Over-allotment Option) the arrangement pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and 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:

- (i) he/it will not, and will procure that his/its close associates will not, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer

UNDERWRITING

or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable). The foregoing restriction is expressly agreed to include the Controlling Shareholders engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the Controlling Shareholders. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares; or (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares); or (c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above; or (d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above, in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

- (ii) he/it will not, and will procure that his/its close associates will not, during the period of six months commencing on the date on which the First Six-Month Period expires and including, the date that is six months after the end of the First Six-Month Period (the “**Second Six-Month Period**”), enter into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, he/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him/it and/or any of his/its close associate which owns such Shares or interests as aforesaid; and

- (iii) in the event that he/it or any of his/its close associates enters into any of the transactions specified in (a), (b) or (c) under paragraph (i) above or offers to or agrees to or announces any intention to effect any such transaction, he/it will, and will procure that his/its close associates will, take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

UNDERWRITING

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option), the allotment and issue of Shares pursuant to the Capitalization Issue and upon the exercise of the options which may be granted under the Share Option Scheme, during the First Six-Month Period, our Company hereby undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters not to, and to procure each member of our Group not to, without the prior written consent of the Sole Sponsor and 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:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an encumbrance over, or agree to transfer or dispose of or create an encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other members of our Group, as applicable), or deposit any Shares or other securities of our Company, as applicable, with a depository in connection with the issue of depository receipts; or repurchase any Shares or other securities of our Company, as applicable; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other members of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such members of our Group, as applicable); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) and (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such members of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period). In the event that, during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of our Company, our Controlling Shareholders and our executive Directors undertakes to each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters to procure our Company to comply with the undertakings in this paragraph.

UNDERWRITING

Voluntary undertakings by the 12 Individual Shareholders (save for Mr. Yu Xiongjian, Mr. Luo Weixing, Mr. Luo Yi and Ms. Yang Shi Ying)

Each of the 12 Individual Shareholders (save for Mr. Yu Xiongjian, Mr. Luo Weixing, Mr. Luo Yi and Ms. Yang Shi Ying) has voluntarily undertaken to our Company, the Sole Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) that it shall not and shall procure that the registered holder(s) controlled by it shall not in the period commencing on 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 six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares in respect of which it is shown by this prospectus to be the beneficial owners.

The International Placing

In connection with the International Placing, it is expected that our Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, our Company will offer our International Placing Shares for subscription and purchase by professional, institutional and other investors at the Offer Price payable in full on subscription and purchase in Hong Kong dollars, on and subject to the terms and conditions set out in the International Underwriting Agreement and the placing documents. It is expected that the International Underwriters will agree to severally underwrite for our International Placing Shares.

Commission and expenses

The Hong Kong Underwriters will receive a commission of 3.0% of the aggregate Offer Price of our Hong Kong Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriters will receive a commission of 3.0% of the aggregate of the Offer Price of our International Placing Shares underwritten by the International Underwriters, out of which they will pay any sub-underwriting commissions.

The Sole Sponsor will in addition receive sponsorship and documentation fees. 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\$0.53 (being the mid-point of Offer Price range between HK\$0.46 per Offer Share and HK\$0.60 per Offer Share), are estimated to amount to approximately HK\$42.4 million in total (assuming that the Over-allotment Option is not being exercised).

Indemnity

We have undertaken to indemnify and keep indemnified on demand (on an after-tax basis) and hold harmless each of the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriters (for itself and on trust for its directors, officers, employees, agents, assignees and

UNDERWRITING

affiliates) from and against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Restrictions on the Offer Shares

No action has been taken to permit a public offering of the Offer Shares, other than in Hong Kong, or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any 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.

Underwriters' interests in our Company

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Underwriting Agreement or as otherwise disclosed in this prospectus, as of the Latest Practicable Date, none of the Underwriters was interested directly or indirectly in any of our Shares or securities or any shares or securities of any other member of our Group or had any right or option (whether legally enforceable or not) to subscribe for, or to nominate persons to subscribe for, any of our Shares or securities or any shares or securities of any other member of our Group.

Following the completion of the Global Offering, the Underwriters and their affiliated companies may hold a certain portion of our Shares as a result of fulfilling their respective obligations under the Hong Kong Underwriting Agreement and International Underwriting Agreement.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum of 25% of the total Shares in issue in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Capitalization Issue and the Global Offering.

THE SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Placing (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 stabilizing process.

UNDERWRITING

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 stabilizing period described in the section headed “Structure of the Global Offering” in this prospectus. Such activities may affect the market price or value of our Shares, the liquidity or trading volume in our Shares and the volatility of the price of our Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Syndicate Members will be subject to certain restrictions, including the following:

- (a) the Syndicate Members (other than the Stabilizing 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 stabilizing 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

The Global Offering comprises the International Placing and the Hong Kong Public Offering. A total of initially 300,000,000 Offer Shares will be made available under the Global Offering. Among these Offer Shares, 270,000,000 International Placing Shares (subject to adjustment and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 30,000,000 Hong Kong Offer Shares (subject to adjustment), representing 10% of the Offer Shares, will initially be offered to the public in Hong Kong under the Hong Kong Public Offering.

The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional, professional and other investors. The International Placing will involve selective marketing of our International Placing Shares to institutional and professional investors and other investors outside the United States. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our International Placing Shares in the International Offering. Prospective investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for Offer Shares under the International Placing, but may not do both. Reasonable steps will be taken to identify and reject: (a) applications in the Hong Kong Public Offering from investors who have applied for Offer Shares under the International Placing; and (b) applications or indications of interest in the International Placing from investors who have applied for Hong Kong Offer Shares under the Hong Kong Public Offering.

The number of Offer Shares to be offered under the Global Offering respectively may be subject to adjustment and, in the case of the International Placing only, the Over-allotment Option as set out in the paragraph headed “Over-allotment Option” in this section below. References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

International Placing

Our Company is expected to offer initially 270,000,000 International Placing Shares (subject to adjustment and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. Subject to any reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the number of International Placing Shares will represent 22.5% of our Company’s enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming that the Over-allotment Option is not exercised. The International Placing is subject to the same conditions set out in the paragraph headed “Conditions of the Hong Kong Public Offering” in this section below.

STRUCTURE OF THE GLOBAL OFFERING

The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$0.60 per Share plus a brokerage of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.0027% of the Offer Price.

It is expected that the International Underwriters, or selling agents nominated by them, on behalf of our Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private 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 Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing 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 Placing 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 Placing Shares are offered will be required to undertake and confirm in the Application Form that he/she has not applied 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 Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offering.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

Hong Kong Public Offering

Our Company is initially offering 30,000,000 Hong Kong Offer Shares for subscription (subject to adjustment and assuming that the Over-allotment Option is not exercised) by the public in Hong Kong under the Hong Kong Public Offering, representing 10% of the total number of Offer Shares offered under the Global Offering. Subject to any reallocation of Offer Shares between the Hong Kong Public Offering and the International Placing, the number of Hong Kong Offer Shares will represent 2.5% of our Company's enlarged issued share capital immediately after completion of the Capitalization Issue and the Global Offering, assuming

STRUCTURE OF THE GLOBAL OFFERING

that the Over-allotment Option is not exercised. Completion of the Hong Kong Public Offering is subject to the conditions set out in the paragraph headed “Conditions of the Hong Kong Public Offering” in this section below. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to professional, institutional and individual investors. Professional investors generally include brokers, dealers companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Offer Shares are required on application to pay the maximum Offer Price of HK\$0.60 per Share plus a brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%.

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 Form submitted by him/her that he/she has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant’s application under the Hong Kong Public Offering is liable to be rejected.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Sole Global Coordinator so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

For allocation purposes only, the number of the Hong Kong Offer Shares will be divided equally into two pools: 15,000,000 Shares in pool A and 15,000,000 Shares in pool B. The Hong Kong Offer Shares in pool A 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 (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the 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 pool is under-subscribed, 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 100% of the Hong Kong Offer Shares initially available under pool A or pool B will be rejected.

STRUCTURE OF THE GLOBAL OFFERING

No application will be accepted from applicants for more than 15,000,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

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.

DETERMINATION OF THE OFFER PRICE

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\$0.60 per Offer Share and is expected to be not less than HK\$0.46 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 International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International Placing. Prospective investors will be required to specify the number of Offer Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about the Price Determination Date.

The final Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company on 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 or about Wednesday, 17 April 2019, and in any event, not later than Tuesday, 23 April 2019.

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 Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed and will lapse.

Announcement of the final Offer Price, together with the level of indications of interests in the International Placing 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 Thursday, 25 April 2019.

STRUCTURE OF THE GLOBAL OFFERING

REDUCTION IN OFFER PRICE RANGE AND/OR NUMBER OF OFFER SHARES

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 professional, institutional and private investors during a book-building process, and with the consent of our Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, 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, cause there to be published on our Company's website at www.bonnychina.com and the Stock Exchange's website at www.hkexnews.hk notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised 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. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in "Summary" in this Prospectus, and any other financial information which may change as a result of such reduction. As soon as practicable of such reduction of the number of Offer Shares and/or the indicative Offer Price range, we will also issue a supplemental prospectus updating investors of such reduction together with an update of all financial and other information in connection with such change, where appropriate, extend the period under which the Hong Kong Public Offering was open for acceptance, and give potential investors who had applied for the Offer Shares the right to withdraw their applications unless positive confirmations from the potential investors to proceed are received. In the absence of any such notice and supplemental prospectus published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon with our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

In the event of a reduction in the number of the Offer Shares, the Sole Global Coordinator may, at their discretion, reallocate the number of Offer Shares to be offered in the Hong Kong Public Offering and the International Placing, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering. The Offer Shares to be offered in the Hong Kong Public Offering and the Offer Shares to be offered in the International Placing may, in certain circumstances, be reallocated between these offerings solely in the discretion of the Sole Global Coordinator.

If applications for the Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, such applications can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

STRUCTURE OF THE GLOBAL OFFERING

PRICE PAYABLE ON APPLICATION

Applicants under the Hong Kong Public Offering should pay, on application, the maximum price of HK\$0.60 per Offer Share plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.0027%. That means a maximum of HK\$3,030.23 is payable for every board lot of 5,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$0.60 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 “How to Apply for Hong Kong Offer Shares” in this prospectus.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of the application for the Offer Shares pursuant to the Hong Kong Public Offering is conditional upon, among others:

1. Listing

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.

2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated in accordance with the terms thereof; and
- (ii) the execution and delivery of the International Underwriting Agreement prior to or on the Price Determination Date.

3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on or around the Price Determination Date.

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 monies” in the relevant Application Forms.

We will publish a notice of the lapse of the Hong Kong Public Offering on the next business day following such lapse on the Stock Exchange’s website at www.hkexnews.hk and our Company’s website at www.bonnychina.com.

STRUCTURE OF THE GLOBAL OFFERING

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment. Assuming that the Over-allotment Option is not exercised, the allocation of the Offer Shares shall be subject to reallocation on the following basis:

- (a) where the International Placing Shares are fully subscribed or oversubscribed and:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Sole Global Coordinator (for itself and on behalf of the Underwriters) have the authority (but not the obligation) in its absolute discretion to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Sole Global Coordinator deem appropriate to satisfy demand under the International Placing;
 - (ii) if the Hong Kong Offer Shares are not undersubscribed but the number of Offer Shares validly applied for the Hong Kong Public Offering represents less than 15 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 30,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering;
 - (iii) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 60,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 90,000,000 Offer Shares, representing 30% of the Offer Shares initially available under the Global Offering;
 - (iv) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 90,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 120,000,000 Offer Shares, representing 40% of the Offer Shares initially available under the Global Offering; and

STRUCTURE OF THE GLOBAL OFFERING

- (v) if the number of the Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 120,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Shares available under the Hong Kong Public Offering will be 150,000,000 Offer Shares, representing 50% of the Offer Shares initially available under the Global Offering.
- (b) where the International Placing Shares are undersubscribed and:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are oversubscribed, irrespective of the number of times the number of Offer Shares initially available for subscription under the Hong Kong Public Offering, then up to 30,000,000 Offer Shares may be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of the Offer Share available under the Hong Kong Public Offering will be increased to 60,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering.

Any such clawback and reallocation between the International Placing and the Hong Kong Public Offering will be completed prior to any adjustment of the number of the Offer Shares pursuant to the exercise of the Over-allotment Option, if any.

In each case, the Offer Shares reallocated to the Hong Kong Public Offering from the International Placing will be allocated between Pool A and Pool B of the Hong Kong Public Offering and the number of Offer Shares allocated to the International Placing will be correspondingly reduced in such manner as the Sole Global Coordinator (for itself and on behalf of the Underwriters) deems appropriate.

In addition, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may reallocate the Offer Shares from the International Placing to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering. In accordance with Guidance Letter HKEx-GL91-18 issued by the Stock Exchange, if such reallocation is done other than pursuant to Practice Note 18 of the Listing Rules, the maximum total number of Offer Shares that may be reallocated to the Hong Kong Public Offering following such reallocation shall be not more than double the initial allocation to the Hong Kong Public Offering (i.e. 60,000,000 Offer Shares).

In the event of a reallocation of the Offer Shares from the International Placing to the Hong Kong Public Offering in the circumstances under paragraphs (a)(ii), (a)(iii), (a)(iv), (a)(v) or (b)(ii) above, the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

STRUCTURE OF THE GLOBAL OFFERING

In the event of a reallocation of the Offer Shares between the Hong Kong Public Offering and the International Placing in the circumstances under paragraphs (a)(ii) or (b)(ii) above, the final Offer Price shall be fixed at the low-end of the indicative Offer Price range (i.e. HK\$0.46 per Offer Share) stated in this prospectus.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, our Company is expected to grant to the Sole Global Coordinator the Over-allotment Option which will expire on a date which is 30 days from the date of the last day 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 to allot and issue up to and not more than 45,000,000 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 Placing. The Sole Global Coordinator may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Maximax 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 application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 45,000,000 new Shares will represent approximately 3.6% of our Company's enlarged issued share capital immediately after completion of the Capitalization Issue, the Global Offering and the exercise of the Over-allotment Option in full. In the event that the Over-allotment Option is exercised, an announcement will be made.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, 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 market price of the securities below the Offer Price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, the Sole Global Coordinator, as the Stabilizing Manager, or its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect transactions which stabilize or maintain the market price of the Shares at levels above those 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 45,000,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilizing actions may include over-allocating International Placing 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 Maximax or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator to do this. Such stabilization action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case 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 stabilizing action”) with respect to any Shares during the stabilization period:

- (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 stabilizing 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 stabilizing action, maintain a long position in the Shares;
- 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;
- liquidation of such a long position by the Sole Global Coordinator may have an adverse impact on the market price of our Shares;
- stabilizing action cannot be taken to support the price of our Shares for longer than the stabilizing period which begins on the Listing Date and ends on the 30th day after the last day for the lodging of applications under the Hong Kong Public Offering, that the stabilizing period is expected to expire on 17 May 2019, and that after this date, when no further stabilizing action may be taken, demand for our Shares, and therefore its price could fall; and

STRUCTURE OF THE GLOBAL OFFERING

- the price of our Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilizing action; and that stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price the investor has paid for our Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilizing) Rules of SFO will be made within seven days of the expiration of the stabilization 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 45,000,000 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, as the Stabilizing Manager, may borrow up to 45,000,000 Shares from Maximax, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Stock borrowing arrangement is not subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set forth in Rule 10.07(3) of the Listing Rules are complied with. The principal terms of the Stock Borrowing Agreement are:

- the stock borrowing arrangement will only be effected by the borrower for settlement of over-allocations in connection with the International Placing;
- the maximum number of Shares borrowed from Maximax will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- the same number of Shares so borrowed must be returned to Maximax or its nominees on no later than three business days following the earlier of (i) the last day for exercising the Over-allotment Option; (ii) the day on which the Over-allotment Option is exercised in full; and such earlier time as may be agreed in writing between Maximax and the Sole Global Coordinator, as the Stabilizing Manager;
- the stock borrowing arrangement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Maximax by the Sole Global Coordinator, as the Stabilizing Manager, in relation to the stock borrowing arrangement.

DEALING ARRANGEMENTS

Assuming the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 26 April 2019, it is expected that dealings in the Shares on the Stock Exchange will commence on Friday, 26 April 2019.

The Shares will be traded in board lots of 5,000 Shares each. The stock code of our Company is 1906.

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 Placing Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the 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 United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorized officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Sole Global Coordinator may accept it at its discretion and on any conditions they think 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 for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any its subsidiaries;
- a Director or chief executive officer of our Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) 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 Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through the **White Form eIPO** service at 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 Friday, 12 April 2019 until 12:00 noon on Wednesday, 17 April 2019 from:

- (i) any of the following offices of the Hong Kong Underwriters:

Innovax Securities Limited

Unit A – C, 20/F, Neich Tower
128 Gloucester Road
Wan Chai
Hong Kong

HGNH International Securities Co., Limited

9/F, 16/F & 21/F, Ka Wah Bank Centre
232 Des Voeux Central
Hong Kong

HOW TO APPLY FOR HONG KONG OFFER SHARES

Yue Xiu Securities Company Limited

13/F, Yue Xiu Building
160 Lockhart Road
Wanchai
Hong Kong

Zhongtai International Securities Limited

19/F, Li Po Chun Chambers
189 Des Voeux Road Central
Hong Kong

Pulsar Capital Limited

Unit 318, 3/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

BMI Securities Limited

Suites 909-916, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

(ii) any of the following branches of Bank of China (Hong Kong) Limited:

District	Branch Name	Address
Hong Kong Island	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui, Hong Kong
	Gilman Street Branch	136 Des Voeux Road Central, Hong Kong
Kowloon	194 Cheung Sha Wan Road Branch	194-196 Cheung Sha Wan Road, Sham Shui Po, Kowloon
New Territories	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun, New Territories

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 12 April 2019 until 12:00 noon on Wednesday, 17 April 2019 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED – BONNY INTERNATIONAL PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Friday, 12 April 2019 – 9:00 a.m. to 5:00 p.m.
Saturday, 13 April 2019 – 9:00 a.m. to 1:00 p.m.
Monday, 15 April 2019 – 9:00 a.m. to 5:00 p.m.
Tuesday, 16 April 2019 – 9:00 a.m. to 5:00 p.m.
Wednesday, 17 April 2019 – 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, 17 April 2019, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

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, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorize our Company and/or the Sole Global Coordinator (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this Prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this Prospectus and have only relied on the information and representations contained in this Prospectus in making your application and will not rely on any other information or representations except those in any supplement to this Prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this Prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (vi) 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 in this Prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, 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;
- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator 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;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (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;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorize 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company 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;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **White Form eIPO** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (i) 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 THROUGH WHITE FORM eIPO SERVICE

General

Individuals who meet the criteria in “Who can apply” 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. 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 authorize 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 Friday, 12 April 2019 until 11:30 a.m. on Wednesday, 17 April 2019 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 17 April 2019 or such later time under the “Effects of Bad Weather on the Opening of the Applications 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 (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the designated eIPO Service Provider, will contribute HK\$2 for each “Bonny International Holding Limited” **White Form eIPO** application submitted via the www.eipo.com.hk to support the funding of “Dongjiang River Source Tree Planting” project initiated by Friends of the Earth (HK).

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 Center
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 authorized 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:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this Prospectus;

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
- agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- 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 authorized to give those instructions as their agent;
- confirm that you understand that our Company, the 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;
- authorize 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);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriters and/or its respective advisers and agents;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this Prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this Prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this Prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Offer Shares;
- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 authorized 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 authorized 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 authorized 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:

Friday, 12 April 2019 – 9:00 a.m. to 8:30 p.m.
Monday, 15 April 2019 – 8:00 a.m. to 8:30 p.m.
Tuesday, 16 April 2019 – 8:00 a.m. to 8:30 p.m.
Wednesday, 17 April 2019 – 8:00 a.m. to 12:00 noon

Note (1): These times 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.

These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

HOW TO APPLY FOR HONG KONG OFFER SHARES

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 12 April 2019 until 12:00 noon on Wednesday, 17 April 2019 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 17 April 2019, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this Prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bankers, 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, the Directors, the Joint Bookrunners, the Sole Sponsor, the Sole 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Wednesday, 17 April 2019.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **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 our company;
- control more than half of the voting power of our company; or
- hold more than half of the issued share capital of our company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

HOW TO APPLY FOR HONG KONG OFFER 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 Exchange Participants, and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Global Offering – Determination of the Offer Price.”

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 17 April 2019. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Wednesday, 17 April 2019 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, 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 Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Thursday, 25 April 2019 on our Company’s website at www.bonnychina.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.bonnychina.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, 25 April 2019;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- from the designated results of allocations website www.iporesults.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, Thursday, 25 April 2019 to 12:00 midnight, Wednesday, 1 May 2019;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 25 April 2019 to Sunday, 28 April 2019;
- in the special allocation results booklets which will be available for inspection during opening hours on Thursday, 25 April 2019, Friday, 26 April 2019 and Saturday, 27 April 2019 at all the receiving bank designated 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 OFFER SHARES

You should note the following situations in which the Hong Kong Offer shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** service provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the 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.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(iv) If:

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Offer Shares and International Placing 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;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonored 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\$0.60 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 "Structure of the Global Offering – Determination of the Offer Price – Conditions of the Hong Kong Public 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 Thursday, 25 April 2019.

14. DISPATCH/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 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

HOW TO APPLY FOR HONG KONG OFFER SHARES

- refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or before Thursday, 25 April 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 Friday, 26 April 2019 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Hong Kong Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the 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 Thursday, 25 April 2019 or such other date as notified by us on our Company’s website at www.bonnychina.com and the Stock Exchange’s website at www.hkexnews.hk.

If you are an individual who is eligible for personal collection, you must not authorize any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorized representative must bear a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized 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 dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Thursday, 25 April 2019, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. 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 Thursday, 25 April 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 Thursday, 25 April 2019, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you 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 Thursday, 25 April 2019 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

(iii) If you apply through the 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 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 Thursday, 25 April 2019 or such other date as notified by our Company on our Company's website at www.bonnychina.com and the Stock Exchange's website at www.hkexnews.hk as the date of dispatch/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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 Thursday, 25 April 2019 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched 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 dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) If you apply via Electronic Application Instructions to HKSCC

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 25 April 2019, or, on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, 25 April 2019. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 25 April 2019 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 25 April 2019. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 25 April 2019.

15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the 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 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 Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Bonny International Holding Limited
Innovax Capital Limited

Dear Sirs,

We report on the historical financial information of Bonny International Holding Limited (the “Company”) and its subsidiaries (together, the “Group”) set out on pages I-4 to I-65, which comprises the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2016, 2017 and 2018 (the “Relevant Periods”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018, and the statement of financial position of the Company as at 31 December 2017 and 2018, 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-65 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 12 April 2019 (the “Prospectus”) in connection with the initial listing of the 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 the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS’ RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 *Accountants’ Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively, 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, 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 financial position of the Group as at 31 December 2016, 2017 and 2018 and of the Company as at 31 December 2017 and 2018, and of the financial performance and cash flows of the Group for each of the Relevant Periods in accordance with the basis of presentation and the basis of preparation set out in notes 2.1 and 2.2 to the Historical Financial Information, respectively.

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 11 to the Historical Financial Information which contains information about the dividend paid by the Company in respect of the Relevant Periods.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

12 April 2019

I. HISTORICAL FINANCIAL INFORMATION**Preparation of Historical Financial Information**

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "Underlying Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Consolidated Statements of Profit or Loss and Other Comprehensive Income

	Notes	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
REVENUE	5	326,535	314,583	333,725
Cost of sales		(185,877)	(174,900)	(188,285)
Gross profit		140,658	139,683	145,440
Other income and gains	5	1,966	2,593	5,033
Selling and distribution expenses		(74,687)	(63,691)	(59,926)
Administrative expenses		(21,087)	(27,157)	(29,291)
Other expenses		(16,062)	(19,121)	(18,173)
Finance costs	7	(9,395)	(11,458)	(12,744)
PROFIT BEFORE TAX	6	21,393	20,849	30,339
Income tax expense	10	(2,097)	(2,440)	(3,964)
PROFIT FOR THE YEAR		19,296	18,409	26,375
OTHER COMPREHENSIVE INCOME				
Other comprehensive income that may be reclassified to profit or loss in subsequent years:				
Exchange differences on translation from functional currency to presentation currency		–	1,875	6,239
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		–	1,875	6,242
Other comprehensive income not to be reclassified to profit or loss in subsequent years:				
Exchange differences on translation from functional currency to presentation currency		–	(9)	480
Gains on property revaluation		–	4,052	14,735
Income tax effect		–	(607)	(2,210)
Net other comprehensive income not to be reclassified to profit or loss in subsequent years		–	3,436	13,005
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		–	5,311	19,244
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		19,296	23,720	45,619
Profit/(loss) attributable to:				
Owners of the parent		19,268	18,403	26,702
Non-controlling interests		28	6	(327)
		19,296	18,409	26,375
Total comprehensive income attributable to:				
Owners of the parent		19,268	23,714	45,946
Non-controlling interests		28	6	(327)
		19,296	23,720	45,619
Earnings per share attributable to ordinary equity holders of the parent				
Basic and diluted (RMB)	12	N/A	N/A	N/A

Consolidated Statements of Financial Position

	<i>Notes</i>	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment	13	162,344	141,158	133,495
Advance payments for property, plant and equipment		1,207	1,127	19,675
Investment properties	14	–	18,262	42,750
Prepaid land lease payments	15	28,421	27,788	27,155
Intangible assets	16	3,095	2,277	1,764
Deferred tax assets	24	2,532	1,791	–
Other non-current assets	15	5,170	5,170	5,170
Total non-current assets		<u>202,769</u>	<u>197,573</u>	<u>230,009</u>
CURRENT ASSETS				
Inventories	17	136,634	113,119	132,819
Trade receivables	18	67,424	96,325	93,694
Prepayments, deposits and other receivables	19	8,600	23,163	26,319
Due from a director	33(c)	–	300	–
Due from related parties	33(c)	–	15,328	11,844
Time deposits with original maturity of over three months	20	1,000	–	–
Pledged deposits	20	16,615	13,598	16,876
Cash and cash equivalents	20	58,386	28,770	25,438
Total current assets		<u>288,659</u>	<u>290,603</u>	<u>306,990</u>
CURRENT LIABILITIES				
Trade and bills payables	21	51,634	57,666	63,747
Advances from customers, other payables and accruals	22	41,811	98,277	44,703
Interest-bearing bank and other borrowings	23	224,113	248,662	248,680
Due to related parties	33(c)	10,261	100,895	46
Due to a director	33(c)	–	2,311	–
Tax payable		3,850	2,462	3,293
Total current liabilities		<u>331,669</u>	<u>510,273</u>	<u>360,469</u>
NET CURRENT LIABILITIES		<u>(43,010)</u>	<u>(219,670)</u>	<u>(53,479)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>159,759</u>	<u>(22,097)</u>	<u>176,530</u>
NON-CURRENT LIABILITIES				
Interest-bearing other borrowings	23	–	–	4,413
Deferred tax liabilities	24	–	–	910
Total non-current liabilities		<u>–</u>	<u>–</u>	<u>5,323</u>
Net assets/(liabilities)		<u>159,759</u>	<u>(22,097)</u>	<u>171,207</u>
EQUITY				
Equity attributable to owners of the parent				
Share capital	26	–	337	400
Share premium	26	–	–	147,602
Other reserves	27	158,531	(23,668)	22,278
Non-controlling interests		<u>158,531</u>	<u>(23,331)</u>	<u>170,280</u>
		<u>1,228</u>	<u>1,234</u>	<u>927</u>
Total equity/(deficit)		<u>159,759</u>	<u>(22,097)</u>	<u>171,207</u>

Consolidated Statements of Changes in Equity

	Attributable to owners of the parent							Total	Non-	Total
	Share capital	Share premium	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Asset revaluation reserve**	Retained earnings*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	-	-	114,144	7,601	-	-	17,518	139,263	-	139,263
Profit and total comprehensive income for the year	-	-	-	-	-	-	19,268	19,268	28	19,296
Issue of shares of a subsidiary	-	-	-	-	-	-	-	-	1,200	1,200
Transfer to statutory surplus reserve	-	-	-	1,843	-	-	(1,843)	-	-	-
At 31 December 2016 and 1 January 2017	-	-	114,144	9,444	-	-	34,943	158,531	1,228	159,759
Profit for the year	-	-	-	-	-	-	18,403	18,403	6	18,409
Other comprehensive income for the year:										
Gains on property revaluation, net of tax	-	-	-	-	-	3,445	-	3,445	-	3,445
Exchange differences on translation from functional currency to presentation currency	-	-	-	-	1,866	-	-	1,866	-	1,866
Total comprehensive income for the year	-	-	-	-	1,866	3,445	18,403	23,714	6	23,720
Issue of shares (note 25)	337	-	-	-	-	-	-	337	-	337
Dividends declared to the then shareholders	-	-	-	-	-	-	(50,000)	(50,000)	-	(50,000)
Acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization	-	-	(155,913)	-	-	-	-	(155,913)	-	(155,913)
Transfer to statutory surplus reserve	-	-	-	2,056	-	-	(2,056)	-	-	-
At 31 December 2017	337	-	(41,769)	11,500	1,866	3,445	1,290	(23,331)	1,234	(22,097)

	Attributable to owners of the parent									
	Share capital	Share premium	Capital reserve*	Statutory surplus reserve*	Exchange fluctuation reserve*	Asset revaluation reserve*#	Retained earnings*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2017 and										
1 January 2018	337	-	(41,769)	11,500	1,866	3,445	1,290	(23,331)	1,234	(22,097)
Profit for the year	-	-	-	-	-	-	26,702	26,702	(244)	26,375
Other comprehensive income for the year:										
Gains on property revaluation, net of tax	-	-	-	-	-	12,525	-	12,525	-	12,525
Exchange differences on translation from functional currency to presentation currency	-	-	-	-	6,719	-	-	6,719	-	6,719
Total comprehensive income for the year	-	-	-	-	6,719	12,525	26,702	45,946	(327)	45,619
Issue of shares (note 25)	63	147,602	-	-	-	-	-	147,665	-	147,665
Disposal of non-controlling interests	-	-	-	-	-	-	-	-	20	20
Transfer to statutory surplus reserve	-	-	-	3,476	-	-	(3,476)	-	-	-
At 31 December 2018	<u>400</u>	<u>147,602</u>	<u>(41,769)</u>	<u>14,976</u>	<u>8,585</u>	<u>15,970</u>	<u>24,516</u>	<u>170,280</u>	<u>927</u>	<u>171,207</u>

* These reserve accounts comprise the consolidated reserves of RMB158,531,000, deficit of RMB23,668,000 and reserves of RMB22,278,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018, respectively.

The asset revaluation reserve arose from a change in use from owner-occupied properties to investment properties.

Consolidated Statements of Cash Flows

	<i>Notes</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
CASH FLOWS FROM				
OPERATING ACTIVITIES				
Profit before tax		21,393	20,849	30,339
Adjustments for:				
Other interest income		(397)	–	–
(Gain)/loss on disposal of items of property, plant and equipment	6	33	(51)	246
Finance costs	7	9,395	11,458	12,744
Depreciation of property, plant and equipment	13	15,134	13,612	13,286
Changes in fair value of investment properties	14	–	(46)	(758)
Amortisation of prepaid land lease payments	15	633	633	633
Amortisation of intangible assets	16	922	967	753
Reversal of impairment of inventories	17	(317)	(1,974)	(1,371)
Impairment of trade receivables	18	363	817	13
Foreign exchange differences, net		(75)	26	437
		<u>47,084</u>	<u>46,291</u>	<u>56,322</u>
(Increase)/decrease in inventories	17	22,554	25,489	(18,329)
(Increase)/decrease in trade receivables	18	(10,236)	(29,718)	2,618
Decrease/(increase) in prepayments, deposits and other receivables		1,433	(7,622)	(9,042)
(Increase)/decrease in pledged deposits	20	382	3,017	(3,278)
Decrease in amounts due from related parties		388	3,655	5,045
Increase in trade and bills payables	21	9,293	6,032	6,081
(Decrease)/increase in other payables and accruals		5,766	10,143	(3,444)
Increase/(decrease) in amounts due to related parties		(16,625)	(13,400)	46
		<u>60,039</u>	<u>43,887</u>	<u>36,016</u>
Cash generated from operations		(322)	(3,694)	(2,642)
Income tax paid				
Net cash flows generated from operating activities		<u>59,717</u>	<u>40,193</u>	<u>33,377</u>
CASH FLOWS FROM				
INVESTING ACTIVITIES				
Purchases of items of property, plant and equipment		(15,081)	(11,009)	(34,406)
Additions to other intangible assets		(739)	(441)	(240)
(Increase)/decrease in time deposits with original maturity of over three months		(1,000)	1,000	–
Proceeds from disposal of property, plant and equipment		28	107	1,234
Advance of loans to related parties		(136,795)	(164,172)	(147,361)
Advance of loans to a director		–	(300)	(150)
Advance of loans to third parties		(144,006)	(83,000)	(13,600)
Interests received		737	–	–
Repayment of loans from related parties		143,459	148,563	148,365
Repayment of loans from a director		–	–	450
Repayment of loans from third parties		146,884	76,400	17,400
		<u>(6,513)</u>	<u>(32,852)</u>	<u>(28,308)</u>
Net cash flows used in investing activities				

	<i>Note</i>	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		1,200	–	147,665
Disposal of non-controlling interests		–	–	20
New bank loans		335,894	411,462	377,790
Proceeds from other borrowings		–	100,000	108,400
Repayment of other borrowings		–	(100,000)	(97,800)
Repayment of bank loans		(360,311)	(386,913)	(81,839)
Capital elements of finance lease payments		–	–	(2,120)
Interest paid		(11,485)	(11,482)	(12,761)
Dividend paid		–	(50,000)	–
Acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization		–	–	(147,789)
Net cash flows generated from/(used in) financing activities		(34,702)	(36,933)	(8,434)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
		18,502	(29,592)	(3,365)
Cash and cash equivalents at beginning of year		39,809	58,386	28,770
Effect of foreign exchange rate changes, net		75	(24)	33
CASH AND CASH EQUIVALENTS AT END OF YEAR				
		58,386	28,770	25,438
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	20	58,386	28,770	25,438

Statements of Financial Position of the Company

	<i>Notes</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
NON-CURRENT ASSET			
Investment in a subsidiary		8	8
CURRENT ASSETS			
Other receivables	<i>19</i>	91	96
Due from related parties	<i>33(c)</i>	235	247
Due from a subsidiary	<i>33(c)</i>	–	148,134
Cash and cash equivalents		–	15
Total current assets		326	148,492
CURRENT LIABILITIES			
Other payables		–	60
Due to a subsidiary	<i>33(c)</i>	8	307
Due to a related party	<i>33(c)</i>	71	78
Total current liabilities		79	445
NET CURRENT ASSETS		247	148,047
TOTAL ASSETS LESS CURRENT LIABILITIES		255	148,055
Net assets		255	148,055
EQUITY			
Share capital	<i>26</i>	337	400
Share premium	<i>26</i>	–	147,602
Other reserves	<i>27</i>	(82)	53
Total equity		255	148,055

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is an exempted company incorporated with limited liability in the Cayman Islands on 19 July 2017. The registered office address of the Company is P.O. Box 10240, 4th Floor Harbour Place, 103 South Church Street, Grand Cayman KY1-1002, Cayman Islands.

The Company is an investment holding company. During the Relevant Periods, the Company's subsidiaries were principally involved in the manufacture and sale of brassieres, functional sportswear, panties and thermal underwear in the People's Republic of China (the "PRC"). In the opinion of the directors of the Company, the ultimate controlling shareholder of the Group is Mr. Jin Guojun.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in the paragraph headed "Reorganization" in the section headed "History, Development and Corporate Structure" in the Prospectus. Apart from the Reorganization, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation/ registration and place of business	Nominal value of issued shares/ registered share capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Hongkong Bonny Limited ("Bonny HK") (b)	Hong Kong 4 September 2017	HKD10 thousand	100	–	Investment holding
Zhejiang Bonny Fashion Holding Group Co., Ltd. ("Zhejiang Bonny")* (a)	PRC/Mainland China 21 August 2001	RMB90 million	–	100	Manufacture and trading of brassieres, panties, thermal underwear and functional sportswear
Shanghai Bonny Apparel Co., Ltd. ("Shanghai Bonny")* (a)	PRC/Mainland China 29 December 2007	RMB1 million	–	100	Trading of brassieres, panties and thermal underwear
Yiwu Bonny E-Commerce Co., Ltd. ("Yiwu Bonny")* (b)	PRC/Mainland China 16 May 2016	RMB12 million	–	70	Trading of brassieres, panties and thermal underwear
Yiwu Leyishang Apparel Co., Ltd. ("Yiwu Leyishang")* (b) (c)	PRC/Mainland China 10 March 2016	RMB6 million	–	60	Trading of brassieres, panties and thermal underwear
Yiwu Bonny Sportswear Co., Ltd. ("Yiwu Sportswear")* (b)	PRC/Mainland China 25 May 2017	RMB1 million	–	100	Trading of brassieres, panties and thermal underwear
Yiwu Fayue Apparel Co., Ltd. ("Yiwu Fayue")* (b)	PRC/Mainland China 26 May 2017	RMB1 million	–	100	Trading of brassieres, panties and thermal underwear

(a) The statutory financial statements of these entities for the years ended 31 December 2016 and 2017 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Zhejiang MingDa Certified Public Accountants Corporation (浙江明達會計師事務所有限公司).

(b) No audited financial statements have been prepared for these entities since their dates of incorporation, as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

(c) On 6 February 2018, the Company disposed of 40% shares in Yiwu Leyishang to Mr. Zhu Zhengxi, a member of senior management team of the Group, for a consideration of RMB20,000.

- * The English names of these entities registered in Mainland China represent the best efforts made by management of the Company to directly translate their Chinese names as they do not register any official English name.

2.1 Basis of presentation

Pursuant to the Reorganization, as more fully explained in the paragraph headed “Reorganization” in the section headed “History, Development and Corporate Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 20 November 2017. As the Reorganization only involved inserting new holding companies at the top of an existing company and has not resulted in any change of economic substances, the Historical Financial Information has been presented as a continuation of the existing company using the pooling of interests method as if the Reorganization had been completed at the beginning of the Relevant Periods.

Accordingly, the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group are prepared as if the current group structure had been in existence throughout the Relevant Periods. The consolidated statements of financial position of the Group 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.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 Basis of preparation

The Historical Financial Information has been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. Except for HKFRS 9 *Financial Instruments*, all HKFRSs effective for the accounting period commencing from 1 January 2018, including HKFRS 15 *Revenue from Contract with Customers*, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Historical Financial Information throughout the Relevant Periods.

The Group has applied HKFRS 9, which is effective for the periods beginning on or after 1 January 2018. The Group has not restated financial information from 1 January 2016 to 31 December 2017 for financial instruments in the scope of HKFRS 9. The financial information from 1 January 2016 to 31 December 2017 was reported under Hong Kong Accounting Standard 39 (“HKAS 39”) and was not comparable to the information presented for 2018. The adoption of HKFRS 9 has had no significant impact on the financial information as at 1 January 2018.

The Historical Financial Information has been prepared under the historical cost convention, except for investment properties which have been measured at fair value.

As at 31 December 2018, the Group’s current liabilities exceeded its current assets by RMB53,479,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. In preparing the Historical Financial Information, the directors of the Company have considered the Group’s sources of liquidity and believe that adequate funding is available to fulfil the Group’s debt obligations and capital expenditure requirements.

As at 31 December 2018, the Group’s total borrowings amounted to RMB253,093,000 and the group had unutilized banking facilities of RMB67,277,000. In the opinion of the directors, the Group is able to renew its short-term borrowings upon their maturities.

Accordingly, the Historical Financial Information has been prepared on a basis that the Group will be able to continue as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to classify all assets as current assets and to provide for any further liabilities which might arise. The effects of these adjustments have not been reflected in the Historical Financial Information.

2.3 Issued but not yet effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Historical Financial Information.

Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
HKFRS 17	<i>Insurance Contract</i> ³
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term interests in Associates and Joint Venture</i> ¹
HK (IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i> ¹
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs which are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

HKFRS 16, replaces HKAS 17 *Leases*, HK (IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK (SIC)-Int 15 *Operating Leases – Incentives* and HK (SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective

or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plan to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. As of 31 December 2018, the Group had undiscounted operating lease commitments of RMB4,682,000 as lessee as set out in note 31(b) to the Historical Financial Information. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Other than that, the Group does not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in any significant impact on the financial position and performance of the Group.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

HK (IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial position and financial performance.

2.4 Summary of significant accounting policies

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investments retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Revenue recognition

The Group is mainly engaged in the sale of products of brassieres, panties and thermal underwear via distributors, partnership, a chain of concessionary counters and retail stores and over third-party online retail platforms such as Tmall.com. Revenue from contracts with customers is recognised when control of the goods are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods.

(a) Sale of goods

Revenue from the sale of goods is recognised at the point in time when control of the goods is transferred to the customer, generally on delivery of the goods.

Rights of return

Certain contracts provide a customer with a right to return the goods within a specified period. The Group estimated expected returns using a probability-weighted average amount approach similar to the expected value method. For goods that are expected to be returned, instead of revenue, the Group recognises a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Loyalty points programme

The Group has a loyalty points programme, which allows customers to accumulate points that can be redeemed for free products, discount coupons or cash coupons. The loyalty points give rise to a separate performance obligation as they provide a material right to the customer. A portion of the transaction price is allocated to the loyalty points awarded to customers based on relative stand-alone selling price and recognised as a contract liability until the points are redeemed or expired.

When estimating the stand-alone selling price of the loyalty points, the Group considers the likelihood that the customer will redeem the points. The Group updates its estimates of the points that will be redeemed on a half year basis and any adjustments to the contract liability balance are charged against revenue.

- (b) Rental income is recognised on a time proportion basis over the lease terms.
- (c) Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- (a) where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- (a) when the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- (b) in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Employee benefits***Pension scheme***

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations.

The subsidiaries established and operating in Mainland China are required to provide certain staff pension benefits to their employees under existing regulations of the PRC. Pension scheme contributions are provided at rates stipulated by PRC regulations and are made to a pension fund managed by government agencies, which are responsible for administering the contributions for the subsidiaries' employees.

Contributions made to the government retirement benefit fund under defined contribution retirement plans are charged to profit or loss as incurred.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	30 years
Machinery and equipment	10 years
Motor vehicles	5 years
Computer and office equipment	5 – 10 years
Leasehold improvements	2 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of each of the Relevant Periods.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation with changes recognised in asset revaluation reserve. On disposal of a revalued property, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Transfers to, or from, investment property shall be made when, and only when, there is a change in use, evidenced by:

- (a) commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) end of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) commencement of an operating lease to another party, for a transfer from inventories to investment property.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalized at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (under HKAS 39)***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs for loans.

Derecognition of financial assets (under HKAS 39 and HKFRS 9)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (under HKAS 39)

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial

assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to administrative expenses in profit or loss.

Financial liabilities (under HKAS 39 and HKFRS 9)

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instruments. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are classified, at initial recognition, as loans and borrowings, as appropriate.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities that are not carried at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities (under HKAS 39 and HKFRS 9)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Financial assets (under HKFRS 9)

Initial recognition and measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the profit or loss.

Trade receivables are measured at the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third party if the trade receivables do not contain a significant financing component at initial recognition.

Subsequent measurement

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Financial assets that are held for the collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets are measured at amortised cost using the effective interest method, less impairment. Gains and losses are recognised in profit or loss when the assets are derecognised or impaired, and through amortisation process.

Fair value through other comprehensive income ("FVOCI"): Financial assets that are held for collection of contractual of cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Financial assets measured at FVOCI are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial assets are recognised in OCI, except for impairment losses, foreign exchange gains and losses and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

Fair value through profit or loss: Assets that do not meet the criteria for amortised cost or financial assets at fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a debt instruments that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss in the period in which it arises. Interest income from these financial assets is included in finance income.

Impairment

The Group has types of financial assets subject to HKFRS 9's new expected credit loss (ECL) model: trade receivables, financial assets included in prepayments, deposits and other receivables, amounts due from related parties, an amount due from a director, pledged deposits and cash and cash equivalents.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

The Group assesses on a forward looking basis the expected credit losses ("ECLs") associated with its debt instruments carried at amortised cost including other receivables, amounts due from related parties and an amount due from a director. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Note 36 credit risk details how the Group determines whether there has been a significant increase in credit risk since initial recognition.

Impairment on other financial assets (excluding trade receivables) are measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since initial recognition. If a significant increase in credit risk of a receivable has occurred since initial recognition, then impairment is measured as lifetime expected credit losses. 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.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Intangible assets are amortised on the straight-line basis over the following useful economic lives:

Trademarks	10 years
Patents and licences	10 years
Software	5 years

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;or
- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is controlled or jointly controlled by a person identified in (a);
 - (vi) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (vii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Foreign currencies

These financial statements are presented in RMB, which is the presentation currency of the Group. The functional currency of the Company and certain subsidiaries incorporated outside Mainland China is the Hong Kong dollar ("HKD") and the functional currency of the subsidiaries established in Mainland China is RMB, which is the currency of the primary economic environment in which those entities operate. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss. The Company's presentation currency is RMB, which is in line with the currency used for the Group's key operations.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The

gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

The functional currencies of certain overseas subsidiaries, are currencies other than Renminbi. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of each of the Relevant Periods and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's Historical Financial Information requires management to make significant judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information:

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each of the Relevant Periods. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 24 to the financial statements.

Estimation of fair value of investment properties

Investment properties carried at fair value, were revalued at the end of each of the Relevant Periods based on the appraised market value provided by independent professional valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each of the Relevant Periods.

The principal assumptions for the Group's estimation of the fair value include those related to estimated rental values with reference to the current market rents for similar properties in the same location and condition, appropriate capitalization rates and expected profit margin. The carrying amounts of investment properties at 31 December 2016, 2017 and 2018 were nil, RMB18,262,000 and RMB42,750,000, respectively.

Impairment of trade and other receivables (applicable to periods prior to 1 January 2018)

Impairment of trade and other receivables is made based on an assessment of the recoverability of trade and other receivables. The identification of impairment requires management's judgements and estimates based on the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. Where the actual outcome is different from the original estimate, such differences will impact on the carrying values of the trade and other receivables and impairment loss over the period in which such estimate has been changed. The provision for impairment of trade and other receivables at 31 December 2016 and 2017 amounted to RMB2,765,000 and RMB3,582,000, respectively, details of which are set out in notes 18 and 19 to the Historical Financial Information.

Provision for expected credit losses of trade and other receivables (applicable to periods beginning on or after 1 January 2018)

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groups of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The provision for expected credit losses of trade and other receivables as at 31 December 2018 amounted to RMB3,656,000, details of which are set out in notes 18 and 19 to the Historical Financial Information.

Inventory provision

The Group manufactures and sells goods and is subject to changing consumer demands and fashion trends. As a result, it is necessary to consider the recoverability of the cost of inventories and the associated provision required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials.

4. OPERATING SEGMENT INFORMATION

For management purpose, the Group is organised into business units based on their products and has two reportable segments as follows:

- (a) the Original Design Manufacture (“ODM”) products segment is the manufacture and sale of seamless underwear or other ODM products to overseas customers or their agents and domestic ODM customers or their agents; and
- (b) the brand products segment is the manufacture and sale of ladies brassieres, panties, thermal underwear with the Bonny brand to the domestic market.

The Group’s chief operating decision maker is the Chief Executive Officer, who reviews revenue from and results of the major type of products sold for the purpose of resource allocation and assessment of segment performance. Segment results are evaluated based on gross profit less selling expenses allocated. No analysis of the Group’s assets and liabilities by operating segment is disclosed as it is not regularly provided to the chief operating decision maker for review.

Year ended 31 December 2016

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	217,548	108,987	326,535
Segment results	71,631	(5,660)	65,971
Other income and gains			1,966
Corporate and other unallocated expenses			(37,149)
Finance costs			(9,395)
Profit before tax			<u>21,393</u>

Year ended 31 December 2017

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	200,677	113,906	314,583
Segment results	74,085	1,907	75,992
Other income and gains			2,593
Corporate and other unallocated expenses			(46,278)
Finance costs			(11,458)
Profit before tax			<u>20,849</u>

Year ended 31 December 2018

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue			
Sales to external customers	243,505	90,220	333,725
Segment results	87,287	(1,773)	85,514
Other income and gains			5,033
Corporate and other unallocated expenses			(47,464)
Finance costs			(12,744)
Profit before tax			<u>30,339</u>

Other segment information

Year ended 31 December 2016

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Impairment losses/(reversal of impairment losses) recognised in profit or loss	(924)	970	46
Depreciation and amortisation	8,649	2,930	11,579
Capital expenditure*	13,228	1,853	15,081

Year ended 31 December 2017

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Reversal of impairment losses recognised in profit or loss	(963)	(194)	(1,157)
Depreciation and amortisation	6,891	2,440	9,331
Capital expenditure*	8,468	2,541	11,009

Year ended 31 December 2018

	ODM products <i>RMB'000</i>	Brand products <i>RMB'000</i>	Total <i>RMB'000</i>
Reversal of impairment losses in profit or loss	(996)	(362)	(1,358)
Depreciation and amortisation	10,895	3,144	14,039
Capital expenditure*	32,087	2,319	34,406

* Capital expenditure consists of purchase of property, plant and equipment.

Geographic information*(a) Revenue from external customers*

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Mainland China	162,848	177,180	184,614
United States of America	63,695	60,844	39,953
Germany	51,327	25,943	29,027
Netherlands	32,848	27,438	46,373
Other countries	15,817	23,178	33,758
	<u>326,535</u>	<u>314,583</u>	<u>333,725</u>

The revenue information above is based on the shipment destinations.

(b) Non-current assets

All non-current assets of the Group are located in Mainland China.

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue during the Relevant Periods is set out below:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Customer 1	58,596	N/A*	59,199
Customer 2	37,195	42,526	40,922
Customer 3	N/A*	32,215	N/A*
Customer 4	N/A*	N/A*	70,849
	<u>95,791</u>	<u>74,741</u>	<u>170,970</u>

* The corresponding revenue from the customers is not disclosed as the revenue individually did not account for 10% or more of the Group's revenue for the Relevant Periods.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, represents the net invoiced value of goods sold and net of value added tax and government surcharges during the Relevant Periods.

An analysis of revenue, other income and gains is as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Revenue from contracts with customers	326,535	314,583	333,725
<u>Other income</u>			
Bank interest income	258	1,148	168
Other interest income	397	–	–
Government grants*	454	526	2,073
Rental income	–	822	1,807
Others	8	–	102
	<u>1,117</u>	<u>2,496</u>	<u>4,150</u>
<u>Gains</u>			
Foreign exchange gains, net	849	–	125
Fair value gains on investment properties (note 14)	–	46	758
Gain on disposal of items of property, plant and equipment	–	51	–
	<u>849</u>	<u>97</u>	<u>883</u>
	<u>1,966</u>	<u>2,593</u>	<u>5,033</u>

* The government grants mainly represent incentives awarded by the local governments to support the Group's operation in Yiwu City, the PRC. There were no unfulfilled conditions or contingencies attached to these government grants.

Notes:

(a) Disaggregation of revenue from contracts with customers

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Timing of revenue recognition			
Goods transferred at a point in time	326,535	314,583	333,725

(b) Contract liabilities

The Group recognised the following revenue-related contract liabilities:

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Current*	<u>7,896</u>	<u>8,673</u>	<u>5,368</u>

Contract liabilities represented the obligations to transfer goods to a customer for which the Group has received consideration. The amount was included in "Advances from customers, other payables and accruals" in the consolidated statements of financial position. At the end of each of Relevant Periods, no contract liabilities were resulted from loyalty points programme.

(i) Significant changes in contract liabilities

The changes in the contract liabilities are mainly attributable to the short-term advances received to transfer goods to customers and satisfaction of performance obligations.

(ii) Revenue recognised in relation to contract liabilities

The following table shows the revenue recognised during the Relevant Periods that was included in the contract liabilities at the beginning of the Relevant Periods.

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	<u>4,903</u>	<u>7,010</u>	<u>8,673</u>

(c) Performance obligations

Information about the Group's performance obligations is summarised below:

The performance obligations are satisfied upon delivery, which occurs when the goods are shipped on board to the overseas ODM customers, or when the goods are accepted by the PRC ODM customers, franchised outlets or by the consumers in self-operated stores and counters and E-commerce platforms, the risks of obsolescence and loss have been transferred to the customers, and acceptance by the customers occurs. Acceptance refers to either of the situations that customers accept the goods in accordance with the sales contract or the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied and there is no unfulfilled obligation that could affect the customers' acceptance of the products.

The payments is generally due within one to six months from delivery while payment in relation to some contracts with ODM customers are settled by letters of credit and some contracts require advances as deposits to transfer goods.

Some customers from branded sales are entitled to loyalty points which results in allocation of a portion of the transaction price to the loyalty points. Revenue is recognised when the points are redeemed. Some customers from branded sales are provided with a right of return in usually seven or fifteen days based on different conditions. The right of return assets and refund liabilities arising from rights of return as at the end of each Relevant Periods were insignificant and no right of return assets and refund liabilities were recognised.

The following table shows the unsatisfied performance obligations as at 31 December 2015, 2016 and 2017 and 2018.

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Current	<u>26,022</u>	<u>38,818</u>	<u>90,935</u>

The unsatisfied performance obligations are expected to be satisfied within one year.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
	<i>Notes</i>		
Cost of inventories sold*	185,877	174,900	188,285
Depreciation of property, plant and equipment	<i>13</i> 15,134	13,612	13,286
Amortisation of prepaid land lease payments	<i>15</i> 633	633	633
Amortisation of intangible assets	<i>16</i> 922	967	753
Research and development costs**	15,987	16,502	17,965
Minimum lease payments under operating leases	3,285	2,831	3,328
Government grants	(454)	(526)	(2,073)
Listing expense	1,238	5,150	7,938
Auditor's remuneration	434	58	213
Outsourced manufacturing	1,366	863	25,058
Employee benefit expense (excluding directors' and chief executive's remuneration (<i>note 8</i>)):			
Wages and salaries	82,061	74,099	53,624
Pension scheme contributions	5,621	5,205	3,763
Staff welfare expenses	392	311	476
	<u>88,074</u>	<u>79,615</u>	<u>57,863</u>
Concession fees	19,252	16,825	13,780
Foreign exchange differences, net	(849)	2,035	(125)
Reversal of impairment of inventories	(317)	(1,974)	(1,371)
Impairment of trade receivables***	<i>18</i> 363	817	13
Changes in fair value of investment properties	–	(46)	(758)
Rental income	–	822	1,807
Bank interest income	(258)	(1,148)	(168)
Other interest income	(397)	–	–
(Gain)/loss on disposal of items of property, plant and equipment	<u>33</u>	<u>(51)</u>	<u>246</u>

* The cost of inventories sold includes RMB53,348,000, RMB43,444,000 and RMB25,897,000, relating to staff costs, depreciation of property, plant and equipment, amortisation of prepaid land lease payments, amortisation of intangible assets reversal of impairment of inventories for the years ended 31 December 2016, 2017 and 2018, respectively, which are also included in the respective total amounts disclosed above for each type of expenses.

** The research and development costs include RMB8,543,000, RMB9,390,000, and RMB10,782,000, relating to staff costs, depreciation of property, plant and equipment, and amortisation of intangible assets for the years ended 31 December 2016, 2017 and 2018, respectively, which are also included in the respective total amounts disclosed above for each type of expenses.

*** The impairment of trade receivables is included in "Administrative expenses". Amortisation of intangible assets are included in "Cost and sales", "Administrative expenses", "Selling and distribution expenses" and "Other expenses".

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Interest on bank borrowings	11,203	11,387	12,427
Interest on other borrowings	–	184	317
Less: interest capitalized	(1,808)	(113)	–
	<u>9,395</u>	<u>11,458</u>	<u>12,744</u>

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time during the years ended 31 December 2015 and 2016 since the Company was incorporated on 19 July 2017.

Mr. Jin Guojun and Mr. Zhao Hui were appointed as executive directors of the Company on 19 July 2017. Ms. Gong Lijin and Mr. Luo Weixing were appointed as non-executive directors of the Company on 19 July 2017. Mr. Zhang Senquan, Mr. Wang Jian and Mr. Li Youxing were appointed as independent non-executive directors of the Company on 19 March 2019, respectively, and Mr. Jin Guojun was appointed as the chief executive of the Company on 19 July 2017.

Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors of these subsidiaries. The remuneration of each of these directors as recorded in the financial statements of the subsidiaries is set out below:

	Year ended 31 December 2016 <i>RMB'000</i>	Year ended 31 December 2017 <i>RMB'000</i>	Year ended 31 December 2018 <i>RMB'000</i>
Fees	–	–	–
Other emoluments:			
Salaries, allowances and benefits in kind	381	382	358
Performance related bonuses	57	58	85
Pension scheme contributions	22	21	27
	<u>460</u>	<u>461</u>	<u>480</u>

(a) Independent non-executive directors

No independent non-executive director was appointed and there was no fees and other emoluments payable to any independent non-executive director during the Relevant Periods.

(b) Executive directors and non-executive directors

	Salaries, allowances and benefits in kind <i>RMB'000</i>	Performance related bonuses <i>RMB'000</i>	Pension scheme contributions <i>RMB'000</i>	Total remuneration <i>RMB'000</i>
<u>Year ended 31 December 2016</u>				
Executive directors:				
Mr. Jin Guojun	130	–	8	138
Mr. Zhao Hui	121	57	6	184
	251	57	14	322
Non-executive directors:				
Ms. Gong Lijin	130	–	8	138
Mr. Luo Weixing	–	–	–	–
	130	–	8	138
	381	57	22	460
<u>Year ended 31 December 2017</u>				
Executive directors:				
Mr. Jin Guojun	130	–	8	138
Mr. Zhao Hui	123	58	6	187
	253	58	14	325
Non-executive directors:				
Ms. Gong Lijin	129	–	7	136
Mr. Luo Weixing	–	–	–	–
	129	–	7	136
	382	58	21	461
<u>Year ended 31 December 2018</u>				
Executive directors:				
Mr. Jin Guojun	120	–	10	130
Mr. Zhao Hui	118	95	–	213
	238	95	10	343
Non-executive directors:				
Ms. Gong Lijin	120	–	17	137
Mr. Luo Weixing	–	–	–	–
	120	–	17	137
	358	95	27	480

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Periods.

9. FIVE HIGHEST PAID EMPLOYEES

None of the five highest paid employees are directors or chief executive during the Relevant Periods. Details of the remuneration of the five highest paid employees of the Group during the Relevant Periods are as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Salaries, allowances and benefits in kind	1,586	1,174	945
Performance related bonuses	55	220	368
Pension scheme contributions	228	20	28
	<u>1,869</u>	<u>1,414</u>	<u>1,341</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	Year ended 31 December 2016	Year ended 31 December 2017	Year ended 31 December 2018
Nil to HKD1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

10. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

Pursuant to the relevant tax law of the Hong Kong Special Administrative Region, Hong Kong profits tax was levied at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the Relevant Periods. No provision for income tax in Hong Kong has been made as the Group did not generate any assessable profits in Hong Kong during the Relevant Periods.

The provision for current income tax in Mainland China is based on the statutory rate of 25% of the assessable profits of certain PRC subsidiaries of the Group as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008, except for certain subsidiaries of the Group in Mainland China which are granted tax concession and are taxed at preferential tax rates.

Zhejiang Bonny is qualified as a High and New Technology Enterprise and was subject to tax at a preferential income tax rate of 15% for the Relevant Periods.

The income tax expense/(credit) of the Group is analysed as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Current tax – Mainland China charge for the year	1,839	2,306	3,473
Deferred tax (<i>note 24</i>)	258	134	491
	<u>2,097</u>	<u>2,440</u>	<u>3,964</u>
Total tax charge for the year	<u><u>2,097</u></u>	<u><u>2,440</u></u>	<u><u>3,964</u></u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in Mainland China to the tax expense at the effective tax rate is as follows:

	Year ended 31 December 2016 RMB'000	Year ended 31 December 2017 RMB'000	Year ended 31 December 2018 RMB'000
Profit before tax	<u>21,393</u>	<u>20,849</u>	<u>30,339</u>
Tax at the statutory tax rate of 25% in Mainland China	5,349	5,212	7,585
Preferential income tax rate applicable to a subsidiary	(2,036)	(2,293)	(3,874)
Additional deductible allowance for research and development expenses	(1,183)	(1,232)	(1,883)
Effect of non-deductible expenses	191	225	36
Tax losses utilized from previous periods	(224)	–	–
Tax losses not recognised	–	528	2,100
	<u>2,097</u>	<u>2,440</u>	<u>3,964</u>
Tax charge at the Group's effective tax rate	<u><u>2,097</u></u>	<u><u>2,440</u></u>	<u><u>3,964</u></u>

11. DIVIDENDS

A dividend of RMB50,000,000 was declared and paid by Zhejiang Bonny to the then shareholders in 2017.

No dividend was declared and paid by the Company since its incorporation.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share information is not presented as its inclusion, for the purpose of the Historical Financial Information, is not considered meaningful due to the Reorganization and the preparation of the results of the Group for the Relevant Periods as disclosed in note 2.1.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2016							
At 1 January 2016:							
Cost	91,656	12,072	136,395	3,030	10,789	25,690	279,632
Accumulated depreciation	(19,378)	(9,825)	(90,758)	(2,027)	(7,986)	–	(129,974)
Net carrying amount	<u>72,278</u>	<u>2,247</u>	<u>45,637</u>	<u>1,003</u>	<u>2,803</u>	<u>25,690</u>	<u>149,658</u>
At 1 January 2016, net of accumulated depreciation							
Additions	–	1,818	344	–	452	25,267	27,881
Disposals	–	–	(44)	(15)	(2)	–	(61)
Depreciation provided during the year	(3,096)	(2,092)	(8,985)	(251)	(710)	–	(15,134)
Transfers	46,127	–	–	–	–	(46,127)	–
At 31 December 2016, net of accumulated depreciation	<u>115,309</u>	<u>1,973</u>	<u>36,952</u>	<u>737</u>	<u>2,543</u>	<u>4,830</u>	<u>162,344</u>
At 31 December 2016:							
Cost	137,783	6,524	136,614	3,014	11,238	4,830	300,003
Accumulated depreciation	(22,474)	(4,551)	(99,662)	(2,277)	(8,695)	–	(137,659)
Net carrying amount	<u>115,309</u>	<u>1,973</u>	<u>36,952</u>	<u>737</u>	<u>2,543</u>	<u>4,830</u>	<u>162,344</u>
31 December 2017							
At 1 January 2017:							
Cost	137,783	6,524	136,614	3,014	11,238	4,830	300,003
Accumulated depreciation	(22,474)	(4,551)	(99,662)	(2,277)	(8,695)	–	(137,659)
Net carrying amount	<u>115,309</u>	<u>1,973</u>	<u>36,952</u>	<u>737</u>	<u>2,543</u>	<u>4,830</u>	<u>162,344</u>
At 1 January 2017, net of accumulated depreciation							
Additions	–	1,848	1,917	345	75	2,461	6,646
Disposals	–	–	(1)	(34)	(21)	–	(56)
Transfer to investment properties (note 14)	(14,164)	–	–	–	–	–	(14,164)
Depreciation provided during the year	(3,913)	(1,864)	(6,929)	(251)	(655)	–	(13,612)
Transfers	246	–	–	–	743	(989)	–
At 31 December 2017, net of accumulated depreciation	<u>97,478</u>	<u>1,957</u>	<u>31,939</u>	<u>797</u>	<u>2,685</u>	<u>6,302</u>	<u>141,158</u>
At 31 December 2017:							
Cost	123,542	5,458	138,519	3,021	12,016	6,302	288,858
Accumulated depreciation	(26,064)	(3,501)	(106,580)	(2,224)	(9,331)	–	(147,700)
Net carrying amount	<u>97,478</u>	<u>1,957</u>	<u>31,939</u>	<u>797</u>	<u>2,685</u>	<u>6,302</u>	<u>141,158</u>

	Buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Computer and office equipment RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018							
At 1 January 2018:							
Cost	123,542	5,458	138,519	3,021	12,016	6,302	288,858
Accumulated depreciation	(26,064)	(3,501)	(106,580)	(2,224)	(9,331)	–	(147,700)
Net carrying amount	<u>97,478</u>	<u>1,957</u>	<u>31,939</u>	<u>797</u>	<u>2,685</u>	<u>6,302</u>	<u>141,158</u>
At 1 January 2018, net of accumulated depreciation							
At 1 January 2018, net of accumulated depreciation	97,478	1,957	31,939	797	2,685	6,302	141,158
Additions	–	3,909	11,457	–	508	704	16,578
Disposals	–	–	(1,640)	–	(185)	(135)	(1,960)
Transfer to investment properties (note 14)	(8,995)	–	–	–	–	–	(8,995)
Depreciation provided during the year	(3,784)	(2,471)	(6,311)	(190)	(530)	–	(13,286)
At 31 December 2018, net of accumulated depreciation	<u>84,699</u>	<u>3,395</u>	<u>35,445</u>	<u>607</u>	<u>2,478</u>	<u>6,871</u>	<u>133,495</u>
At 31 December 2018,							
Cost	114,048	9,367	136,621	2,333	11,906	6,871	281,146
Accumulated depreciation	(29,349)	(5,972)	(101,176)	(1,726)	(9,428)	–	(147,651)
Net carrying amount	<u>84,699</u>	<u>3,395</u>	<u>35,445</u>	<u>607</u>	<u>2,478</u>	<u>871</u>	<u>133,495</u>

As at 31 December 2016, 2017 and 2018, certain of the Group's buildings and equipment with an aggregate net carrying amount of RMB77,623,000, RMB79,949,000 and RMB73,962,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

The net carrying amounts of the Group's fixed assets held under finance leases included in the total amounts of machinery as at 31 December 2018 were RMB10,600,000.

14. INVESTMENT PROPERTIES

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
At beginning of the year	–	18,262
Transfer from property, plant and equipment (note 13)	14,164	8,995
Gains on revaluation upon reclassification to an investment property	4,052	14,735
Net gain from a fair value adjustment recognised in profit or loss	<u>46</u>	<u>758</u>
At end of the year	<u>18,262</u>	<u>42,750</u>

The Group's investment properties are situated in Mainland China and are held under medium term leases.

The Group's investment properties consist of industrial properties in Mainland China. The Group's investment properties were revalued on 31 December 2017 and 31 December 2018 based on valuations performed by AVISTA Valuation Advisory Limited ("AVISTA"), independent professionally qualified valuers. The investment properties were leased to third parties under operating leases, further details of which are included in note 31.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

As at 31 December 2017

	Fair value measurement using			Total RMB'000	
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000		
	Recurring fair value measurement for:				
	Industrial properties	–	–		18,262
	<u>–</u>	<u>–</u>	<u>18,262</u>		

As at 31 December 2018

	Fair value measurement using			Total RMB'000	
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000		
	Recurring fair value measurement for:				
	Industrial properties	–	–		42,750
	<u>–</u>	<u>–</u>	<u>42,750</u>		

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

During the Relevant Periods, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

As at 31 December 2017:

Investment properties	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Industrial properties	Income method	Prevailing market rent	RMB14-RMB15 per square metre per month
		Term yield	8.5%
		Reversionary yield	8.5%

As at 31 December 2018:

Investment properties	Valuation techniques	Significant unobservable inputs	Range of unobservable inputs
Industrial properties	Income method	Prevailing market rent	RMB14-RMB15 per square metre per month
		Term yield	8.5%
		Reversionary yield	8.5%

The income method measures the value of the properties by taking into account the rental income derived from the existing leases with due allowance for the reversionary income potential of the leases, which are then capitalized into the value at appropriate rates.

A significant increase (decrease) in the estimated rental value would result in a significant increase (decrease) in the fair value of the investment property. A significant increase (decrease) in the long term vacancy rate and the capitalization rate in isolation would result in a significant decrease (increase) in the fair value of the investment properties.

15. PREPAID LAND LEASE PAYMENTS AND OTHER NON-CURRENT ASSETS

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Prepaid land lease payments			
Carrying amount at beginning of year	29,687	29,054	28,421
Recognised during the year	(633)	(633)	(633)
Carrying amount at end of year	29,054	28,421	27,788
Current portion included in prepayments, deposits and other receivables (<i>note 19</i>)	(633)	(633)	(633)
Non-current portion	<u>28,421</u>	<u>27,788</u>	<u>27,155</u>
Other non-current assets	<u>5,170</u>	<u>5,170</u>	<u>5,170</u>

The Group's leasehold lands are situated in Mainland China and are held under long term leases.

As at 31 December 2016 and 2017 and 2018, the Group's leasehold lands with an aggregate net carrying amount of RMB29,054,000, RMB28,421,000 and RMB27,788,000, respectively, were pledged to secure bank loan facilities granted to the Group (note 23).

Other non-current assets are non-interest-bearing and represent guarantees paid to the Yiwu Municipal Bureau of Land and Resources for the construction of Beiyuan Production Site and will be repaid back when the construction completes and passes the inspection of the related government bureau.

16. INTANGIBLE ASSETS

	Trademarks <i>RMB'000</i>	Patents and licences <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2016				
Cost at 1 January 2016, net of accumulated amortisation	136	299	2,257	2,692
Addition	18	144	1,163	1,325
Amortisation provided during the year	(35)	(57)	(830)	(922)
At 31 December 2016	<u>119</u>	<u>386</u>	<u>2,590</u>	<u>3,095</u>
At 31 December 2016:				
Cost	252	580	5,573	6,405
Accumulated amortisation	(133)	(194)	(2,983)	(3,310)
Net carrying amount	<u>119</u>	<u>386</u>	<u>2,590</u>	<u>3,095</u>
31 December 2017				
Cost at 1 January 2017, net of accumulated amortisation	119	386	2,590	3,095
Addition	-	-	149	149
Amortisation provided during the year	(35)	(58)	(874)	(967)
At 31 December 2017	<u>84</u>	<u>328</u>	<u>1,865</u>	<u>2,277</u>
At 31 December 2017:				
Cost	252	580	5,689	6,521
Accumulated amortisation	(168)	(252)	(3,824)	(4,244)
Net carrying amount	<u>84</u>	<u>328</u>	<u>1,865</u>	<u>2,277</u>

	Trademarks <i>RMB'000</i>	Patents and licences <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
31 December 2018				
Cost at 1 January 2017, net of accumulated amortisation	84	328	1,865	2,277
Addition	–	–	240	240
Amortisation provided during the year	(25)	(58)	(670)	(753)
At 31 December 2018	<u>59</u>	<u>270</u>	<u>1,435</u>	<u>1,764</u>
At 31 December 2018:				
Cost	252	580	5,929	6,761
Accumulated amortisation	(193)	(310)	(4,494)	(4,997)
Net carrying amount	<u>59</u>	<u>270</u>	<u>1,435</u>	<u>1,764</u>

17. INVENTORIES

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Raw materials	15,662	14,637	18,626
Work in progress	14,039	14,390	34,683
Finished goods	115,567	90,752	84,799
	<u>145,268</u>	<u>119,779</u>	<u>138,108</u>
Impairment	(8,634)	(6,660)	(5,289)
	<u>136,634</u>	<u>113,119</u>	<u>132,819</u>

The movements in provision for impairment of inventories are as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
At beginning of year	8,951	8,634	6,660
Reversal	(317)	(1,974)	(1,371)
At end of year	<u>8,634</u>	<u>6,660</u>	<u>5,289</u>

18. TRADE RECEIVABLES

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Trade receivables	70,189	99,907	97,289
Impairment	(2,765)	(3,582)	(3,595)
	<u>67,424</u>	<u>96,325</u>	<u>93,694</u>

The Group's trading terms with its customers are mainly on credit. The credit period is generally one month to three months, extending up to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each of the Relevant Periods, based on the invoice date and net of provisions, is as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Within 3 months	38,986	93,219	91,585
3 to 6 months	3,834	1,490	774
6 to 12 months	12,277	1,616	497
1 to 2 years	10,088	–	657
2 to 3 years	2,239	–	181
Over 3 years	–	–	–
	<u>67,424</u>	<u>96,325</u>	<u>93,694</u>

The movements in provision for impairment of trade receivables are as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
At beginning of year	2,402	2,765	3,582
Impairment losses recognised	<u>363</u>	<u>817</u>	<u>13</u>
At end of year	<u>2,765</u>	<u>3,582</u>	<u>3,595</u>

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables. The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Neither past due nor impaired	43,486	83,955	89,952
Less than 3 months past due	11,788	9,577	3,067
Over 3 months past due	<u>12,150</u>	<u>2,793</u>	<u>675</u>
	<u>67,424</u>	<u>96,325</u>	<u>93,694</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Since 1 January 2018, the Group has applied the simplified approach to provide for expected credit losses under HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The Group overall considers the credit risk characteristics and the days past due of each group of trade receivables to measure the expected credit losses. The Group classifies the trade receivables into three groups according to the credit risk characteristics. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. As at 31 December 2018, the expected credit losses were determined according to provision matrix as follows:

	As at 31 December 2018		
	Amount RMB'000	Expected credit loss rate	Impairment RMB'000
ODM customers and E-commerce platform			
Less than 1 year	59,475	0.05%	30
Between 1 and 2 years	237	0.05%	–
Between 2 and 3 years	–	0.05%	–
Over 3 years	–	100.00%	–
Self-operated stores and counters and franchised outlets			
Less than 1 year	13,680	4.00%	547
Between 1 and 2 years	454	55.00%	250
Between 2 and 3 years	974	82.00%	799
Over 3 years	1,105	100.00%	1,105
Others			
Less than 1 year	20,269	2.00%	414
Between 1 and 2 years	248	13.00%	32
Between 2 and 3 years	34	84.00%	28
Over 3 years	390	100.00%	390
	97,289	3.76%	3,595

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Prepayments	1,656	6,070	12,343
Prepaid expenses	1,472	2,607	3,947
Other receivables	4,426	4,826	5,014
Deferred listing expenses	413	2,140	4,340
Loan to the then shareholders of a subsidiary	–	6,850	–
Tax recoverable	–	37	42
Current portion of prepaid land lease payments (note 15)	633	633	633
	8,600	23,163	26,319

None of the other receivables is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Management makes periodic collective assessments as well as individual assessment on the recoverability of other receivables and a loan to the then shareholders of a subsidiary based on historical settlement records and past experiences. As at 31 December 2018, the credit ratings of other receivables and a loan to the then shareholders of a subsidiary were performing. The Group assessed that the expected credit losses for these receivables and loan to the then shareholders of a subsidiary are not material under the 12 month expected losses method. In view of the history of cooperation with debtors and the sound collection history of receivables, management believes that the credit risk inherent in the Group's outstanding other receivable balances and loan to the then shareholders of a subsidiary is not significant.

The Company

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Receivables from shareholders	91	96

None of the receivables is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Cash and bank balances	58,386	28,770	26,319
Time deposits with original maturity of over three months	1,000	–	–
Pledged deposits	16,615	13,598	16,876
	<u>76,001</u>	<u>42,368</u>	<u>42,314</u>
Less: Pledged time deposits:			
Pledged for bills payable (<i>note 21</i>)	(16,615)	(13,598)	(16,876)
Time deposits with original maturity of over three months	(1,000)	–	–
Cash and cash equivalents	<u>58,386</u>	<u>28,770</u>	<u>25,438</u>
Denominated in RMB	57,953	28,384	24,434
Denominated in US Dollar (“USD”)	429	382	993
Denominated in HK Dollar (“HKD”)	–	–	11
Denominated in Euro (“EUR”)	4	4	–
Cash and cash equivalents	<u>58,386</u>	<u>28,770</u>	<u>25,438</u>

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business. The remittance of funds out of Mainland China is subject to exchange restrictions imposed by the PRC government.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and twelve months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged time deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents approximate to their fair values.

21. TRADE AND BILLS PAYABLES

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Trade payables	19,295	35,050	30,454
Bills payable	32,339	22,616	33,293
	<u>51,634</u>	<u>57,666</u>	<u>63,747</u>

The bills payable were secured by the pledge of the Group's deposits of RMB16,615,000, RMB13,598,000 and RMB16,876,000, respectively, as at 31 December 2016, 2017 and 2018 (note 20).

An ageing analysis of the trade and bills payables as at the end of each of the Relevant Periods, based on the invoice date, is as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Within 3 months	27,618	52,284	38,761
3 to 6 months	22,644	2,971	24,016
6 to 12 months	726	1,784	171
Over 12 months	646	627	799
	<u>51,634</u>	<u>57,666</u>	<u>63,747</u>

Trade payables are non-interest-bearing and are normally settled on terms of one to six months.

22. ADVANCES FROM CUSTOMERS, OTHER PAYABLES AND ACCRUALS

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Advances from customers	7,896	8,673	5,366
Payroll payables	10,146	13,194	7,375
Tax payable other than income tax	10,247	12,448	10,133
Accrued listing expense	1,273	3,636	1,228
Payable for property, plant and equipment and intangible assets	8,505	3,700	4,419
Payable for acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization	–	50,832	–
Interest payable	320	409	392
Other payables	3,424	5,385	15,790
	<u>41,811</u>	<u>98,277</u>	<u>44,703</u>

Other payables are non-interest-bearing and repayable on demand.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)	Maturity	As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Current					
Bank loans – secured	4.72	2017	2,600	–	–
Bank loans – secured	5.01	2017	3,200	–	–
Bank loans – secured	4.92	2017	5,800	–	–
Bank loans – secured	2.00	2017	8,463	–	–
Bank loans – secured	5.44	2017	16,750	–	–
Bank loans – secured	5.66	2017	17,000	–	–
Bank loans – secured	4.79	2017	52,500	–	–
Bank loans – secured	4.35	2017	62,000	–	–
Bank loans – secured	2.30	2018	–	3,267	–
Bank loans – secured	5.45	2018	–	1,895	–
Bank loans – secured	5.74	2018	–	4,200	–
Bank loans – secured	6.13	2018	–	5,000	–
Bank loans – secured	6.08	2018	–	6,800	–
Bank loans – secured	5.22	2018	–	9,800	–
Bank loans – secured	5.34	2018	–	13,000	–
Bank loans – secured	4.35	2018	–	33,000	–
Bank loans – secured	3.80	2018	–	–	8,648
Bank loans – secured	6.09	2018	–	2,600	–
Bank loans – secured	5.31	2018	–	–	–
Bank loans – secured	3.60	2018	–	–	–
Bank loans – secured	5.66	2018	–	14,200	13,000
Bank loans – secured	5.87	2018	–	27,400	–
Bank loans – secured	4.87	2018	–	–	34,800
Bank loans – secured	4.79	2018	–	127,500	88,300
Bank loans – secured	6.53	2018	–	–	14,200
Bank loans – secured	6.96	2018	–	–	27,400
Bank loans – secured	4.00	2019	–	–	5,765
Bank loans – secured	5.31	2019	–	–	52,500
Finance lease payables (note 25)	10.67	2019	–	–	4,067
			<u>168,313</u>	<u>248,662</u>	<u>248,680</u>
Current portion of long term bank loans					
Bank loans – secured	4.75	2017	<u>55,800</u>	–	–
			<u>55,800</u>	–	–
			<u>224,113</u>	<u>248,662</u>	<u>248,680</u>
Non-current					
Finance lease payables (note 25)	10.67	2020	–	–	4,413
			<u>–</u>	<u>–</u>	<u>4,413</u>

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Analysed into:			
Bank loans repayable			
– within one year or on demand	224,113	248,662	244,613
Other borrowings repayable			
– within one year or on demand	–	–	4,067
– in the second year	–	–	4,413
	–	–	8,480
	–	–	253,093

Notes:

- (a) The Group's bank borrowings are secured by:
- (i) the Group's buildings and equipment situated in Mainland China, which had aggregate net carrying values of RMB77,623,000, RMB79,949,000 and RMB73,962,000 as at 31 December 2016, 2017 and 2018, respectively (note 13);
 - (ii) the Group's leasehold lands situated in Mainland China, which had aggregate net carrying values of RMB29,054,000, RMB28,421,000 and RMB27,788,000 as at 31 December 2016, 2017 and 2018, respectively (note 15);
 - (iii) mortgages over leasehold lands and buildings situated in Mainland China of Yiwu Zhongdu Properties Co., Ltd. ("Yiwu Zhongdu Properties"), a related company; and
 - (iv) mortgages over leasehold lands and buildings situated in Mainland China of Mr. Jin Guojun and Ms. Gong Lijin, related parties.
- (b) Bode Holding Co. Ltd. ("Bode Holding"), an entity controlled by the ultimate controlling shareholder, has guaranteed certain of the Group's bank loans of up to RMB110,100,000, RMB113,100,000 and RMB50,000,000 as at 31 December 2016, 2017 and 2018, respectively.
- (c) Mr. Jin Guojun, the Chairman, has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB55,000,000 and RMB85,400,000 as at 31 December 2016, 2017 and 2018, respectively.
- (d) Ms. Gong Lijin, a shareholder and the wife of the Chairman, has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB55,000,000 and RMB85,400,000 as at 31 December 2016, 2017 and 2018, respectively.
- (e) Mr. Jin Guojun and Ms. Gong Lijin have guaranteed certain of the Group's bank loans of up to RMB100,000,000, RMB442,000,000 and RMB170,200,000 as at 31 December 2016, 2017 and 2018, respectively.
- (f) Mr. Jin Chunlong, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB8,400,000, RMB8,400,000 and RMB8,400,000 as at 31 December 2016, 2017 and 2018, respectively.
- (g) Mr. Luo Weixing, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB1,800,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.
- (h) Ms. Luo Kailang, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB4,200,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.

- (i) Mr. Tao Jianhang, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB6,600,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.
- (j) Mr. Luo Chengming, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB1,200,000, RMB1,200,000 and RMB1,200,000 as at 31 December 2016, 2017 and 2018, respectively.
- (k) Ms. Jin Xiaohong, daughter of a shareholder, has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB20,000,000 and RMB48,000,000 as at 31 December 2016, 2017 and 2018, respectively.
- (l) Mr. Huang Jing, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB1,200,000, RMB1,200,000 and RMB1,200,000 as at 31 December 2016, 2017 and 2018, respectively.
- (m) Zhejiang Yitong Textile Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB20,000,000 and RMB48,000,000 as at 31 December 2016, 2017 and 2018, respectively.
- (n) Mr. Cheng Jianqiang, an independent third party, has guaranteed certain of the Group's bank loans of up to RMB1,200,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.
- (o) Mr. Ren Chenxiu and Ms. Jin Qiumei, independent third parties, have guaranteed certain of the Group's bank loans of up to RMB26,400,000, nil and RMB14,200,000 as at 31 December 2016, 2017 and 2018, respectively.
- (p) Zhejiang Aolai Textile Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of up to RMB47,400,000, RMB47,400,000 and RMB14,200,000 as at 31 December 2016, 2017 and 2018, respectively.
- (q) Yiwu Furuiduo Ecological Technology Co., Ltd., an independent third party, has guaranteed certain of the Group's bank loans of up to nil, RMB27,040,000 and RMB41,240,000 as at 31 December 2016, 2017 and 2018, respectively.
- (r) Bode Holding Co., Ltd., ("Bode Holding"), an entity controlled by the ultimate controlling shareholder, has guaranteed certain of the Group's bank loans of up to nil, RMB66,000,000 and RMB66,000,000 as at 31 December 2016, 2017 and 2018, respectively.

24. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

Deferred tax assets

	Impairment of trade receivables <i>RMB'000</i>	Impairment of inventories <i>RMB'000</i>	Accruals <i>RMB'000</i>	Total <i>RMB'000</i>
Gross deferred tax assets as at 1 January 2016	357	1,343	1,090	2,790
Gross deferred tax credited/(charged) to profit or loss during the year (note 10)	55	(48)	(265)	(258)
Gross deferred tax assets as at 31 December 2016	412	1,295	825	2,532
Gross deferred tax credited/(charged) to profit or loss during the year (note 10)	107	(296)	55	(134)
Gross deferred tax assets as at 31 December 2017 and 1 January 2018	519	999	880	2,398
Gross deferred tax charged to profit or loss during the year (note 10)	–	(206)	(164)	(370)
Gross deferred tax as at 31 December 2018	519	793	716	2,028

Deferred tax liabilities

The movements in deferred tax liabilities during the year are as follows:

	Revaluation of investment properties <i>RMB'000</i>
Gross deferred tax liabilities at 1 January 2017	–
Deferred tax charged to other comprehensive income during the year	607
Gross deferred tax liabilities at 31 December 2017 and 1 January 2018	607
Deferred tax charged to profit or loss during the year	121
Deferred tax charged to other comprehensive income during the year	2,210
Gross deferred tax liabilities at 31 December 2018	2,938

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
Gross deferred tax assets recognised	2,398	2,028
Gross deferred tax liabilities recognised	(607)	(2,938)
Net deferred tax assets/(liabilities) recognised in the consolidated statement of financial position	<u>1,791</u>	<u>(910)</u>

The Group had tax losses arising in Mainland China of RMB7,601,000, RMB6,090,000 and RMB12,204,000, respectively, as at 31 December 2016, 2017 and 2018, that will expire in one to five years for offsetting against taxable profits. Deferred tax assets have not been recognised in respect of these losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilized.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributable by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As of 31 December 2016, 2017 and 2018, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings to foreign entities in the foreseeable future. There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

The aggregate amounts of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately nil, RMB1,380,000 and RMB25,289,000 as at 31 December 2016, 2017 and 2018, respectively.

25. FINANCE LEASE PAYABLES

The Group leases certain of its machinery, which are classified as finance leases and have remaining lease terms of 24 months. At 31 December 2018, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments 2018 RMB'000	Present value of minimum lease payments 2018 RMB'000
Amounts payable:		
Within one year	4,786	4,067
In the second year	4,772	4,413
Total minimum finance lease payments	<u>9,558</u>	<u>8,480</u>
Future finance charges	<u>(1,078)</u>	
Total net finance payables	<u>8,480</u>	
Portion classified as current liabilities (<i>note 23</i>)	<u>4,067</u>	
Non-current portion (<i>note 23</i>)	<u>4,413</u>	

26. SHARE CAPITAL

	As at 31 December 2016 <i>USD'000</i>	As at 31 December 2017 <i>USD'000</i>	As at 31 December 2018 <i>USD'000</i>
Authorized:			
100,000,000 ordinary shares of USD0.01 each	–	50	1,000
	<u> </u>	<u> </u>	<u> </u>
	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Issued:			
6,000,000 ordinary shares of USD0.01 each	–	337	400
	<u> </u>	<u> </u>	<u> </u>

The movements in the Company's share capital during the Relevant Periods are as follows:

	Number of ordinary shares in issue	Issued capital <i>RMB'000</i>	Share premium <i>RMB'000</i>
At 19 July 2017 (date of incorporation)	5,000,000	337	–
At 31 December 2017 and 1 January 2018	<u>5,000,000</u>	<u>337</u>	<u>–</u>
Issue of shares (USD0.01 each)	1,000,000	63	147,602
At 31 December 2018	<u>6,000,000</u>	<u>400</u>	<u>147,602</u>

The Company was incorporated as an exempted company with limited liability under the laws of the Cayman Islands on 19 July 2017 with an authorised share capital of USD50,000 (equivalent to RMB337,000) divided into 5,000,000 shares of USD0.01 each. On the date of incorporation, one share of the Company with par value of USD0.01 was allotted and issued to the initial subscriber, who then transferred the same one share to Jin Chunlong Holding Limited. On the same day, the Company further allotted and issued 349,999 shares to Jin Chunlong Holding at par value of USD0.01, 3,525,000 shares to Maximax Holding Corporation at par value of USD0.01, 75,000 shares to Luo Weixing Holding Limited at par value of USD0.01, 100,000 shares to Maximax Holding Corporation at par value of USD0.01, 50,000 shares to Gong Yinghong Holding Limited at par value of USD0.01, 50,000 shares to Huang Jing Holding Limited at par value of USD0.01, 50,000 shares to Luo Yi Holding Limited at par value of USD0.01, 50,000 shares to Yang Shiyong Holding Limited at par value of USD0.01, 200,000 shares to Gu Guoxin Holding Limited at par value of USD0.01, 50,000 shares to Luo Chengming Holding Limited at par value of USD0.01, 175,000 shares to Luo Kailang Holding Limited at par value of USD0.01, 275,000 shares to Tao Jianhang Holding Limited Corporation at par value of USD0.01, 50,000 shares to Yu Xiongjian Holding Limited Corporation at par value of USD0.01.

On 31 March 2018, the authorised share capital of the Company was increased to USD1,000,000 (equivalent to RMB6,310,000) divided into 10,000,000,000 shares of USD0.01 each. On the same day, 1,000,000 shares of USD0.01 par value each were issued for cash at a subscription price of HKD184.28 (equivalent to RMB147.65) per share.

27. OTHER RESERVES

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the consolidated statements of changes in equity of the Group.

Capital reserve

The capital reserve of the Group represents the paid-up capital of the companies comprising the Group prior to the incorporation of the Company and the reserve arising pursuant to the business combination as mentioned in note 2.1 to the Historical Financial Information. Details of the movements in the capital reserve are set out in the consolidated statements of changes in equity.

Statutory surplus reserve

In accordance with the Company Law of the PRC, certain subsidiaries of the Group which are domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserves may be converted to increase share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

Asset revaluation reserve

The asset revaluation reserve arises from a change in use from an owner-occupied property to an investment property measured at fair value.

The Company

A summary of the Company's reserves is as follows:

	Exchange fluctuation reserves	Accumulated losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 19 July 2017 (date of incorporation)	–	–	–
Loss for the period	–	(73)	(73)
Exchange differences on translation from functional currency to presentation currency	(9)	–	(9)
At 31 December 2017 and 1 January 2018	(9)	(73)	(82)
Loss for the year	–	(346)	(346)
Exchange differences on translation from functional currency to presentation currency	481	–	481
At 31 December 2018	<u>472</u>	<u>(419)</u>	<u>53</u>

28. NOTE TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Changes in liabilities arising from financing activities:

	Bank and other loans <i>RMB'000</i>	Interest payable <i>RMB'000</i>	Other payables and accruals <i>RMB'000</i>	Amount due to a director <i>RMB'000</i>	Amount due to Bonny Holding <i>RMB'000</i>
As at 1 January 2016	248,530	602	–	–	–
Changes from financing cash flows	(24,417)	(11,485)	–	–	–
Interest on bank borrowings	–	11,203	–	–	–
As at 31 December 2016 and 1 January 2017	224,113	320	–	–	–
Changes from financing cash flows	24,549	(11,482)	–	–	–
Interest on bank borrowings	–	11,571	–	–	–
Acquisition of equity interests from the then shareholders of a subsidiary as part of the Reorganization	–	–	51,451	2,339	102,123
Foreign exchange movement	–	–	(619)	(28)	(1,228)
As at 31 December 2017	<u>248,662</u>	<u>409</u>	<u>50,832</u>	<u>2,311</u>	<u>100,895</u>
At 1 January 2018	248,662	409	50,832	2,311	100,895
Changes from financing cash flows	(4,049)	(12,761)	(48,678)	(2,215)	(96,896)
New finance lease	(8,480)	–	–	–	–
Interest on bank borrowing and other borrowings	–	12,744	–	–	–
Foreign exchange movement	–	–	(2,154)	(96)	(3,999)
As at 31 December 2018	<u>253,093</u>	<u>392</u>	<u>–</u>	<u>–</u>	<u>–</u>

29. CONTINGENT LIABILITIES

As at 31 December 2016, 2017 and 2018, the Group had no significant contingent liabilities.

30. PLEDGE OF ASSETS

Details of the Group's assets pledged for bank loans and for bills payable granted to major suppliers are included in notes 13, 15, 21 and 23, respectively, to the Historical Financial Information.

31. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of the leases generally also require the tenants to prepay rents for a year.

At 31 December 2016, 2017 and 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Within one year	–	1,018	406
In the second to fifth years, inclusive	–	–	488
	–	1,018	894

(b) As lessee

The Group leases certain of retail shops and office properties under operating lease arrangements. Leases for the retail shops are negotiated for terms ranging from 1 to 5 years, and those for office properties are for terms ranging from 1 to 5 years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Within one year	1,228	1,360	3,012
In the second to fifth years, inclusive	346	580	1,670
	1,574	1,940	4,682

32. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Contracted, but not provided for:			
Land and buildings	5,658	607	43,662
Plant and machinery	–	–	9,559
	5,658	607	53,221

33. RELATED PARTY TRANSACTIONS

The Group's principal related parties are as follows:

Name	Relationship with the Company
Bode Holding*	An entity controlled by the ultimate controlling shareholder, who is also a director of the Company
Deshipu New Materials**	An entity controlled by the ultimate controlling shareholder, who is also a director of the Company
Yiwu Zhongdu Properties	An entity controlled by the ultimate controlling shareholder, who is also a director of the Company
Zhejiang Deshipu Polyamide Technology Co., Ltd. ("Deshipu Polyamide")	An entity controlled by the ultimate controlling shareholder, who is also a director of the Company
Maximax Holding Corporation	Controlling shareholder
Mr. Jin Guojun	Chairman
Ms. Gong Lijin	Shareholder and wife of the Chairman
Mr. Luo Weixing	Director
Luo Weixing Holding Limited	An entity controlled by a director of the company

* Renamed from Bonny Holding Co., Ltd.

** Renamed from Zhejiang Bonny Nylon Technology Co., Ltd.

(a) In addition to the transactions detailed elsewhere in the Historical Financial Information, the Group had the following transactions with related parties during the Relevant Periods:

		As at 31 December 2016 RMB'000	As at 31 December 2017 RMB'000	As at 31 December 2018 RMB'000
	<i>Notes</i>			
Loans granted to:				
Deshipu New Materials	(i)	17,341	95,813	139,811
Bode Holding	(i)	119,454	68,359	7,550
		<u>136,795</u>	<u>164,172</u>	<u>147,361</u>
Loans to a director:				
Mr. Luo Weixing	(ii)	–	300	150
		<u>–</u>	<u>300</u>	<u>150</u>
Purchase of materials from:				
Deshipu New Materials	(iii)	13,922	16,589	20,932
Deshipu Polyamide	(iii)	908	–	–
		<u>14,830</u>	<u>16,589</u>	<u>20,932</u>
Sales of products to:				
Deshipu New Materials	(iii)	33	11	–
Deshipu Polyamide	(iii)	–	529	320
		<u>33</u>	<u>540</u>	<u>320</u>
Acquisition of equity interests from the then equity holder of the subsidiary:				
Bode Holding	(i)	–	102,123	–
Mr. Luo Weixing	(i)	–	2,339	–
		<u>–</u>	<u>104,462</u>	<u>–</u>

Notes:

- (i) The loans and payables were unsecured, non-interest bearing and repayable on demand except for the loans lent to Bode Holding during the years ended 31 December 2016. The loans granted to Bode Holding during the years ended 31 December 2016 were unsecured, repayable on demand and have interest at the corresponding bank lending rate.
 - (ii) The loan granted to Mr. Luo Weixing are unsecured, non-interest-bearing and repayable on demand. The maximum amount outstanding during the year ended 31 December 2017 and 2018 was RMB300,000 and RMB150,000, respectively.
 - (iii) The purchase of materials from the related parties and sales of products to the related parties were made according to the published prices and conditions offered by the related parties to their major customers, respectively.
- (b) Other transactions with related parties:
- (1) Bode Holding, an entity controlled by the ultimate controlling shareholder, has guaranteed certain of the Group's bank loans of up to RMB110,100,000, RMB113,100,000 and RMB50,000,000 as at 31 December 2016, 2017 and 2018, respectively.
 - (2) Mr. Jin Guojun, the Chairman, and shareholder has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB55,000,000 and RMB85,400,000 as at 31 December 2016, 2017 and 2018, respectively.
 - (3) Ms. Gong Lijin, a shareholder, a director and the wife of the Chairman, has guaranteed certain of the Group's bank loans of up to RMB25,000,000, RMB55,000,000 and RMB85,400,000 as at 31 December 2016, 2017 and 2018, respectively.
 - (4) Mr. Jin Guojun and Ms. Gong Lijin have guaranteed certain of the Group's bank loans of up to RMB100,000,000, RMB442,000,000 and RMB170,200,000 as at 31 December 2016, 2017 and 2018, respectively.
 - (5) Mr. Jin Chunlong, a shareholder of the Company, has guaranteed certain of the Group's bank loans of up to RMB8,400,000, RMB8,400,000 and RMB8,400,000 as at 31 December 2016, 2017 and 2018, respectively.
 - (6) Mr. Luo Weixing, a shareholder and non-executive director of the Company, has guaranteed certain of the Group's bank loans of up to RMB1,800,000, nil and nil as at 31 December 2016, 2017 and 2018, respectively.

(c) Outstanding balances with related parties:

The Group

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Due from related parties:			
Deshipu New Materials	–	1,619	11,597
<i>Trade (i)</i>	–	(3,717)	(8,700)
<i>Non-trade (ii)</i>	–	5,336	20,297
Bode Holding (ii)	–	13,412	–
<i>Trade (i)</i>	–	–	–
<i>Non-trade (ii)</i>	–	13,412	–
Maximax Holding Corporation (ii)	–	230	242
Luo Weixing Holding Limited (ii)	–	5	5
Deshipu Polyamide (i)	–	62	–
	<u>–</u>	<u>15,328</u>	<u>11,844</u>
Due from a director (ii):			
Mr. Luo Weixing	<u>–</u>	<u>300</u>	<u>–</u>
Due to related parties:			
Deshipu New Materials	8,621	–	–
<i>Trade (i)</i>	13,400	–	–
<i>Non-trade (ii)</i>	4,799	–	–
Bode Holding (ii)	1,640	100,895	46
	<u>10,261</u>	<u>100,895</u>	<u>46</u>
Due to a director:			
Mr. Luo Weixing (ii)	<u>–</u>	<u>2,311</u>	<u>–</u>

The balances with related parties are unsecured, interest-free and repayable on demand, except the loan balances due from Bode Holding, which bear interest at 4.35% per annum.

- (i) The balances with related parties above are trade in nature.
- (ii) The balances with related parties above are non-trade in nature.

The Company

	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Due from related parties:		
Maximax Holding Corporation	230	242
Luo Weixing Holding Limited	<u>5</u>	<u>5</u>
	<u>235</u>	<u>247</u>

	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Due to a subsidiary: Bonny HK	8	–
Due to a related party: Bode Holding	71	78

The balances with related parties and a subsidiary are unsecured, interest-free and repayable on demand.

(d) Compensation of key management personnel of the Group:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Salaries, allowances and benefits in kind	1,353	1,180	1,373
Performance related bonuses	379	294	411
Pension scheme contributions	43	43	53
Total compensation paid to key management personnel	1,775	1,517	1,837

Further details of directors' and the chief executive's emoluments are included in note 8 to the Historical Financial Information.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

The Group

Financial assets – at amortised cost

	Loan and receivables As at 31 December 2016 <i>RMB'000</i>	Loan and receivables As at 31 December 2017 <i>RMB'000</i>	At amortised cost As at 31 December 2018 <i>RMB'000</i>
Trade receivables	67,424	96,325	93,694
Financial assets included in prepayments, deposits and other receivables	4,426	11,676	5,014
Due from a director	–	300	–
Due from related parties	–	15,328	11,844
Time deposits with original maturity of over three months	1,000	–	–
Pledged deposits	16,615	13,598	16,876
Cash and cash equivalents	58,386	28,770	25,438
	147,851	165,997	152,866

Financial liabilities – at amortised cost

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Trade and bills payables	51,634	57,666	63,747
Financial liabilities included in advances from customers, other payables and accruals	13,522	63,962	21,829
Interest-bearing bank and other borrowings	224,113	248,662	253,093
Due to related parties	10,261	100,895	46
Due to a director	–	2,311	–
	<u>299,530</u>	<u>473,496</u>	<u>338,715</u>

The Company*Financial assets – loan and receivables*

	As at 31 December 2017 <i>RMB'000</i>
Other receivables	91
Due from related parties	<u>235</u>
	<u>326</u>

Financial assets – at amortised cost

	As at 31 December 2018 <i>RMB'000</i>
Cash and cash equivalents	15
Other receivables	96
Due from related parties	247
Due from a subsidiary	<u>148,134</u>
	<u>148,492</u>

Financial liabilities – at amortised cost

	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Other payables	–	60
Due to a related party	71	78
Due to a subsidiary	<u>8</u>	<u>307</u>
	<u>79</u>	<u>445</u>

35. FAIR VALUE AND FAIR VALUE OF HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, time deposits with original maturity of over three months, trade receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in advances from customers, other payables and accruals, the current portion of interest-bearing bank borrowings, amounts due from related parties, amounts due to related parties, an amount due from a director and an amount due to a director approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Management has assessed that the fair values of the non-current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the fact that such borrowings were made between the Group and an independent third party financial institution based on prevailing market interest rates.

Fair value hierarchy

The Group did not have any financial assets and liabilities measured at fair value as at 31 December 2018.

Liabilities for which fair values are disclosed:

As at 31 December 2018

	Fair value measuring using			Total RMB'000
	Quoted price in active markets (level 1) RMB'000	Significant observable inputs (level 2) RMB'000	Significant unobservable inputs (level 3) RMB'000	
Finance lease payables	–	8,480	–	8,480

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, amounts due from related parties, amounts due to related parties, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing bank and other borrowings with floating interest rates.

The Group's policy is to manage interest cost using a mix of fixed and floating rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in the RMB interest rate, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2016			
RMB	100	(120)	(102)
RMB	(100)	120	102
Year ended 31 December 2017			
RMB	100	(21)	(18)
RMB	(100)	21	18
Year ended 31 December 2018			
RMB	100	(421)	(357)
RMB	(100)	421	357

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. Approximately 51%, 44% and 44% of the Group's sales for the year ended 31 December 2016, 2017 and 2018, respectively, were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 1%, 1% and 1% of costs were denominated in currencies other than the units' functional currencies. At present, the Group does not intend to hedge its exposure to foreign exchange fluctuations. However, management constantly monitors the economic situation and the Group's foreign exchange risk profile and will consider appropriate hedging measures in the future should the need arise.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the USD, EUR and HKD exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in rate of foreign currency %	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity RMB'000
Year ended 31 December 2016			
If RMB weakens against USD	5	1,379	1,172
If RMB strengthens against USD	(5)	(1,379)	(1,172)
If RMB weakens against EUR	5	41	35
If RMB strengthens against EUR	(5)	(41)	(35)
Year ended 31 December 2017			
If RMB weakens against USD	5	830	706
If RMB strengthens against USD	(5)	(830)	(706)
If RMB weakens against EUR	5	2,061	1,752
If RMB strengthens against EUR	(5)	(2,061)	(1,752)
Year ended 31 December 2018			
If RMB weakens against USD	5	1,137	966
If RMB strengthens against USD	(5)	(1,137)	(966)
If RMB weakens against HKD	5	1	1
If RMB strengthens against HKD	(5)	(1)	(1)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

Under HKAS 39

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, time deposits with original maturity of over three months, pledged deposits, amounts due from the related parties, an amount due from a director and financial assets included in prepayments, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty and by geographical region.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables and financial assets included in prepayments, deposits and other receivables are disclosed in notes 18 and 19, respectively, to the Historical Financial Information.

Under HKFRS 9

The carrying amounts of pledged deposits, cash and cash equivalents, trade receivables, financial assets included in prepayments, deposits and other receivables, an amount due from a director, and amounts due from related parties included in the statements of financial position represent the Group's maximum exposure to credit risk in relation to its financial assets as at 31 December 2018. As at 31 December 2018, all pledged deposits and cash and cash equivalents were deposited in high quality financial institutions without significant credit risk.

The Group manages financial instruments on the basis of shared credit risk characteristics, such as instrument type and credit risk ratings for the purpose of determining significant increases in credit risk and calculation of impairment. To manage risk arising from trade receivables, the Group has policies in place to ensure that credit terms are made only to counterparties with an appropriate credit history and management performs ongoing credit evaluations of the Group's counterparties. The credit period granted to the customers is generally from one to three months and the credit quality of these customers is assessed, taking into account their financial position, past experience and other factors. The Group also has other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, the Group reviews regularly the recoverable amount of trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spreading over a large number of counterparties and customers. The Group applies the simplified approach to provide for ECLs prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit losses also incorporate forward looking information based on key economic variables.

A financial asset is credit-impaired when one or more events 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:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or past due event;
- it is probable that the debtor will enter bankruptcy or other financial reorganization.

The Group has established a policy to perform an assessment as at 31 December 2018 of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. The Group classifies its other receivables, amounts due from related parties and an amount due from a director into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1 When other receivables, amounts due from related parties and an amount due from a director are first recognised, the Group recognises an allowance based on 12 months' ECLs.
- Stage 2 When other receivables, amounts due from related parties and an amount due from a director has shown a significant increase in credit risk since origination, the Group records an allowance for the lifetime ECLs.
- Stage 3 When other receivables, amounts due from related parties and an amount due from a director are considered credit-impaired, the Group records an allowance for the lifetime ECLs.

Management makes periodic collective assessments for financial assets included in prepayments, deposits and other receivables, amounts due from related parties and an amount due from a director as well as individual assessment on the recoverability of other receivables, amounts due from related parties and an amount due from a director based on historical settlement records and past experience. The Group classifies financial assets included in prepayments, deposits and other receivables, amounts due from related parties and an amount due from a director in Stage 1 and continuously monitored their credit risk. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balance of financial assets included in prepayments, deposits and other receivables, amounts due from related parties and an amount due from a director.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank and other borrowings.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

The Group

	31 December 2016					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	1,968	27,618	22,048	–	–	51,634
Financial liabilities included in advances from customers, other payables and accruals	13,522	–	–	–	–	13,522
Interest-bearing bank borrowings	–	49,829	178,847	–	–	228,676
Due to related parties	10,261	–	–	–	–	10,261
	<u>25,751</u>	<u>77,447</u>	<u>200,895</u>	<u>–</u>	<u>–</u>	<u>304,093</u>

	31 December 2017					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	5,382	52,284	–	–	–	57,666
Financial liabilities included in advances from customers, other payables and accruals	63,962	–	–	–	–	63,962
Interest-bearing bank borrowings	–	44,919	209,797	–	–	254,716
Due to related parties	–	–	100,895	–	–	100,895
Due to a director	2,311	–	–	–	–	2,311
	<u>71,655</u>	<u>97,203</u>	<u>310,692</u>	<u>–</u>	<u>–</u>	<u>479,550</u>

	31 December 2018					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Trade and bills payables	24,986	16,025	22,736	–	–	63,747
Financial liabilities included in advances from customers, other payables and accruals	8,030	13,799	–	–	–	21,829
Interest-bearing bank and other borrowings	–	67,239	187,528	4,772	–	259,539
	<u>33,016</u>	<u>97,063</u>	<u>210,264</u>	<u>4,772</u>	<u>–</u>	<u>345,115</u>

The Company

	31 December 2017					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Due to a related party	71	–	–	–	–	71
Due to a subsidiary	8	–	–	–	–	8
	<u>79</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>79</u>

	31 December 2018					Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	Over 5 years RMB'000	
Other payables	60	–	–	–	–	60
Due to a subsidiary	307	–	–	–	–	307
Due to a related party	78	–	–	–	–	78
	<u>445</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>445</u>

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016, 2017 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade and bills payables, advances from customers, other payables and accruals, amounts due to related parties, an amount due to a director, less cash and cash equivalents, time deposits with original maturity of over three months and pledged time deposits. Total capital represents equity attributable to the owners of the parent. The gearing ratios as at the end of each of the Relevant Periods were as follows:

	As at 31 December 2016 <i>RMB'000</i>	As at 31 December 2017 <i>RMB'000</i>	As at 31 December 2018 <i>RMB'000</i>
Interest-bearing bank and other borrowings	224,113	248,662	253,093
Due to related parties	10,261	100,895	46
Due to a director	–	2,311	–
Trade and bills payables	51,634	57,666	63,747
Advances from customers, other payables and accruals	41,811	98,277	44,703
Less: Cash and cash equivalents	(58,386)	(28,770)	(25,438)
Time deposits with original maturity of over three months	(1,000)	–	–
Pledged time deposits	(16,615)	(13,598)	(16,876)
	<u>251,818</u>	<u>465,443</u>	<u>319,275</u>
Net debt	<u>251,818</u>	<u>465,443</u>	<u>319,275</u>
Equity attributable to owners of the parent	<u>158,531</u>	<u>(23,331)</u>	<u>170,280</u>
Total capital and net debt	<u>410,349</u>	<u>442,112</u>	<u>489,555</u>
Gearing ratio	<u>61%</u>	<u>105%</u>	<u>65%</u>

37. EVENTS AFTER THE RELEVANT PERIODS

Pursuant to a resolution in writing passed by the shareholders on 19 March 2019, the authorized share capital of the Company was increased from USD1,000,000 to USD30,000,000 by the creation of a further 2,900,000,000 shares.

38. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2018.

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, the Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purposes only. The unaudited pro forma financial information should be read in conjunction with "Financial Information" and the Accountants' report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company has been prepared in accordance with Rule 4.29 of the Listing Rules and with reference to Accounting Guideline 7 *Preparation of Pro Forma Financial Information for inclusion in Investment Circulars* issued by the HKICPA for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to the owners of the Company as at 31 December 2018 as if it had taken place on 31 December 2018.

The unaudited pro forma adjusted consolidated net tangible assets attributable to the 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 financial position of the Group had the Global Offering been completed as of 31 December 2018 or any future date. It is prepared based on our consolidated net tangible assets attributable to the owners of the Company as of 31 December 2018 as set out in the Accountants' Report as set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets attributable to the owners of the Company does not form part of the Accountants' Report as set out in Appendix I to this prospectus.

	Consolidated net tangible assets attributable to owners of the Company as at 31 December 2018 <i>RMB'000</i> <i>(Note 1)</i>	Estimated net proceeds from the Global Offering <i>RMB'000</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets <i>RMB'000</i>	Adjusted consolidated net tangible assets attributable to owners of the Company per Share <i>RMB</i> <i>HK\$ equivalent</i> <i>(Note 3)</i> <i>(Note 4)</i>	
Based on an Offer Price of HK\$0.46 per Share	168,516	96,145	264,661	0.22	0.26
Based on an Offer Price of HK\$0.53 per Share	168,516	113,460	281,976	0.23	0.27
Based on an Offer Price of HK\$0.60 per Share	168,516	130,774	299,290	0.25	0.29

Notes:

- (1) The consolidated net tangible assets attributable to owners of the Company as of 31 December 2018 is extracted from the Accountants' Report, which is based on the audited consolidated equity attributable to owners of the Company as of 31 December 2018 of approximately RMB170.3 million after deducting intangible assets of RMB1.8 million.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$0.46 per Share or HK\$0.60 per Share, being the low-end price or high-end price, after deduction of the underwriting fees and other related expenses payable by the Group (excluding approximately RMB14,326,000 listing expenses charged to profit or loss up to 31 December 2018) and does not take into account of any Shares which may be issued upon the exercise of the Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of HK\$1.0 to RMB0.85.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is calculated based on 1,200,000,000 Shares in issue immediately following the Capitalization Issue and the Global Offering but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (4) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company per Share is converted into Hong Kong dollars at an exchange rate of HK\$1.0 to RMB0.85.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the pro forma financial information of the Group.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

To the Directors of Bonny International Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Bonny International 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 pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2018, and related notes as set out on pages II-1-II-2 of the prospectus dated 12 April 2019 issued by the Company (the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described on pages II-1 and II-2 to the prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the global offering of shares of the Company on the Group’s financial position as at 31 December 2018 as if the transaction had taken place at 31 December 2018. As part of this process, information about the Group’s financial position has been extracted by the Directors from the Group’s financial statements for the twelve months ended 31 December 2018, on which an accountants’ report has been published.

Directors’ responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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 (“AG”) 7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* 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*, 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 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 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 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 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 Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the global offering of shares of the Company on unadjusted financial information of the Group as if 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 transaction would have been as presented.

A reasonable assurance engagement to report on whether the 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 Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the 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 transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the 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 Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

12 April 2019

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from AVISTA Valuation Advisory Limited, an independent valuer, in connection with its valuation of the property interests as at 28 February 2019.



12 April 2019

The Board of Directors
Bonny International Holding Limited
No. 86 Changfu Road,
Yiwu Industrial Park,
Yiwu City,
Zhejiang Province,
the PRC

Dear Sirs/Madams,

INSTRUCTIONS

In accordance with the instructions for us to value the property interests held by Bonny International Holding Limited (the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the property interests as at 28 February 2019 (the “valuation date”).

PREMISES OF VALUE

The valuation is our opinion of market value which is defined by the Hong Kong Institute of Surveyors as “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”.

BASIS OF VALUATION

In valuing the property interests, 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 (the “Listing Rules”), the HKIS Valuation Standards (2017 Edition) published by the Hong Kong Institute of Surveyors and the International Valuation Standards published from time to time by the International Valuation Standards Council.

Our valuation exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value or costs of sale and purchase or offset for any associated taxes.

CATEGORISATION OF PROPERTY INTERESTS

In the course of our valuation, the appraised property interests have been categorized according firstly to type of interests held and occupied by the Group in the PRC, which in turn being classified into the following groups:

Group I – Property interests held and occupied by the Group in the PRC; and

Group II – Property interests held for investment by the Group in the PRC

VALUATION METHODOLOGY

In the course of our valuation, unless otherwise stated, we have valued the property in their designated uses with the understanding that the property will be used as such (hereafter referred to as “continued uses”).

In valuing the property interests in Group I, due to the nature of the buildings and structures of the property interests, there are no market sales comparables readily available, we have valued a property on the basis of its depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interests is subject to adequate potential profitability of the concerned business.

In valuing the property interests in Group II, we have valued the property interests by income approach by taking into account the net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate. Where appropriate, reference has also been made to the comparable sale transactions as available in the relevant market.

TITLE INVESTIGATION

We have been provided by the Company with copy of extract of the title documents relating to the property interests. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any amendments which may not appear on the copies handed to us.

However, we have not searched the original documents to verify ownership or to ascertain any amendment. Due to the current registration system of the PRC under which the registration information is not accessible to the public, no investigation has been made for the title of the property interests in the PRC and the material encumbrances that might be attached. In the course of our valuation, we have relied considerably on the legal opinion given by the Company's PRC legal adviser as to PRC laws – King & Wood Mallesons, concerning the validity of title of the properties in the PRC.

SITE INVESTIGATION

We have inspected the exterior and, where possible, the accessible portions of the interior of the property being appraised. The inspection was carried out by Oswald Au (Director) and Greivis Sze (Valuer), during the date 2 August 2017 to 3 August 2017 and 4 March 2019 to 5 March 2019. However, we have not been commissioned to carry out structural survey nor to arrange for an inspection of the services. We are, therefore, not able to report whether the property is free of rot, infestation or any other structural defects. We formulate our view as to the overall conditions of the property taking into account the general appearance, the apparent standard and age of fixtures and fittings and the existence of utility services. Hence it must be stressed that we have had regard to you with a view as to whether the buildings are free from defects or as to the possibility of latent defects which might affect our valuation. In the course of our inspection, we did not note any serious defects. No tests were carried out on any of the services. We have assumed that utility services, such as electricity, telephone, water, etc., are available and free from defect.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the property. We are therefore unable to report that the property is free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the property.

We have not been commissioned to carry out detailed site measurements to verify the correctness of the land or building areas in respect of the property but have assumed that the areas provided to us are correct. Based on our experience of valuation of similar property, we consider the assumptions so made to be reasonable.

Moreover, we have not carried out any site investigation to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property or on adjoining or neighbouring land or that the property had been or are being put to contaminated use, we reserve right to revise our opinion of value.

SOURCE OF INFORMATION

Unless otherwise stated, we shall rely to a considerable extent on the information provided to us by the Company or the legal or other professional advisers on such matters as statutory notices, planning approval, zoning, easements, tenure, completion date of building, development proposal, identification of property, particulars of occupation, site areas, floor areas, matters relating to tenure, tenancies and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us and are therefore approximations and for reference only. We have not searched original plans, developer brochures and the like to verify them.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. 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.

VALUATION ASSUMPTIONS

For the property which is held under long term land use rights, we have assumed that transferable land use rights in respect of the property interests at nominal land use fees has been granted and that any premium payable has already been fully settled. Unless stated as otherwise, we have assumed that the respective title owner of the properties have an enforceable title of the property interests and have free and uninterrupted rights to occupy, use, sell, lease, charge, mortgage or otherwise dispose of the properties without the need of seeking further approval from and paying additional premium to the Government for the unexpired land use term as granted. Unless noted in the report, vacant possession is assumed for the property concerned.

Moreover, we have assumed that the design and construction of the property is/will be in compliance with the local planning regulations and requirements and had been/would have been duly examined and approved by the relevant authorities.

Continued uses assumes the property will be used for the purposes for which the property is designed and built, or to which they are currently adapted. The valuation on the property in continued uses does not represent the amount that might be realised from piecemeal disposition of the property in the open market.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed. Moreover, it is assumed that all required licences, consents or other legislative or administrative authority from any local, provincial or national government or private entity or organisation either have been or can be obtained or renewed for any use which the report covers.

It is also assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined and considered in the valuation report. In addition, it is assumed that the utilization of the land and improvements are within the boundaries of the property described and that no encroachment or trespass exists, unless noted in the report.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have further assumed that the property was not transferred or involved in any contentious or non-contentious dispute as at the valuation date. We have also assumed that there was not any material change of the properties in between dates of our inspection and the valuation date.

CURRENCY

Unless otherwise stated, all amounts are denominated in Renminbi (RMB). Our valuations are summarized below and the valuation certificates are attached.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited
Sr Oswald W Y Au
MHKIS(GP) AAPI MSc(RE)
Registered Professional Surveyor(GP)
Director

Note: Mr. Oswald W Y Au holds a Master's Degree of Science in Real Estate from the University of Hong Kong. He is also a member of Hong Kong Institute of Surveyors (General Practice) and Associate Member of Australian Property Institute. In addition, he is a Registered Professional Surveyor (General Practice) registered with Surveyors Registration Board. He has over 10 years of property valuation experience in Hong Kong, the PRC, the U.S., Canada, East and Southeast Asia including Singapore, Japan and Korea.

SUMMARY OF VALUES

Abbreviation:

Group I – Property interests held and occupied by the Group in the PRC

Group II – Property interests held for investment by the Group in the PRC

–: Not Available or Not Applicable

No.	Property	Market value	Market value	Interest	Total Market
		in existing state	in existing state		value
		as at 28 February	as at 28 February	Attributable	Attributable
		2019	2019	to the Group	to the Group
		RMB	RMB		as at 28 February
					2019
					RMB
		Group I:	Group II:		Total of the
					property
1.	6 blocks of building Located at Suxi Town Yiwu City Zhejiang Province the PRC	86,900,000	–	100%	86,900,000
2.	Buildings Located at Land parcel B1, B2-1 and B2-2 Southern side of Hemache Beiyuan Street Yiwu City Zhejiang Province the PRC	52,925,000	42,990,000	100%	95,915,000
Total:		<u>139,825,000</u>	<u>42,990,000</u>	<u>100%</u>	<u>182,815,000</u>

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 February 2019 RMB
1.	6 blocks of building Located at Suxi Town Yiwu City Zhejiang Province the PRC	<p>The property comprises 3 parcels of land with a total site area of approximately 40,000.00 sq.m and various blocks of building and ancillary structures erected thereon completed from 2007 to 2013.</p> <p>The buildings have a gross floor area of approximately 56,759.50 sq.m. and include 3 blocks of industrial buildings and 3 blocks of dormitory (please refer to Notes no. 1).</p> <p>The ancillary structures mainly include landscaping area, boundary wall, sewage treatment station and road.</p> <p>The land use rights of the property have been granted for a term commencing from 27 September 2005 and expiring on 26 September 2055 for industrial use.</p>	As at the date of valuation, the property was occupied by the Group.	86,900,000

Notes:

1. Pursuant to three Real Estate Ownership Certificates dated 19 July 2018, the land use rights of three parcels of land with a total site area of approximately 40,000.00 sq.m and the property with a total gross floor area of approximately 56,759.50 sq.m. has been vested to Zhejiang Bonny Fashion Holding Group Co., Ltd. (浙江博尼時尚控股集團有限公司), the wholly owned subsidiary of the Group, for a term of approximately 50 years. The details are tabulated as below:

No.	Real Estate Ownership Certificates	Owner	Expiry Date	Site Area (sq.m.)	Gross Floor Area (sq.m.)	Usage
1	Zhe (2018) Yi Wu Shi Bu Dong Chan Quan Di No. 0038226	Zhejiang Bonny Fashion Holding Group Co., Ltd.	26 September 2055	13,333.49	20,223.47	Industrial
2	Zhe (2018) Yi Wu Shi Bu Dong Chan Quan Di No. 0038225	Zhejiang Bonny Fashion Holding Group Co., Ltd.	26 September 2055	13,333.10	22,684.49	Industrial
3	Zhe (2018) Yi Wu Shi Bu Dong Chan Quan Di No. 0038228	Zhejiang Bonny Fashion Holding Group Co., Ltd.	26 September 2055	13,333.41	13,851.54	Industrial
Total:				40,000.00	56,759.50	

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 February 2019 RMB
2.	Buildings Located at Land parcel B1, B2-1 and B2-2 Southern side of Hemache Beiyuan Street Yiwu City Zhejiang Province the PRC	<p>The property comprises 4 parcels of land with a total site area of approximately 46,470.54 sq.m and 2 blocks of building erected thereon completed on 2016.</p> <p>The property has a gross floor area of approximately 31,744.78 sq.m. and include 2 blocks of industrial buildings (please refer to Notes no. 2). There are 2 other buildings are under construction in progress (CIP) and schedule to be completed in November 2019.</p> <p>The land use rights of the property have been granted for a term commencing from 1 April 2014 and expiring on 31 March 2064 for industrial use.</p>	As advised by the Group, as at the date of valuation, portion of property with a gross floor area of approximately 15,240.78 sq.m. was occupied by the Group. Whilst the remaining portion with a gross floor area of approximately 16,504.00 sq.m. was held for investment, of which approximately 12,384.00 sq.m. of it was subject to various tenancy agreements. (please refer to Notes no. 6)	95,915,000

Notes:

- Pursuant to three State-owned Land Use Rights Grant Contracts – Contract Nos. 330782-2014-A21-048, 330782-2014-A21-047 and 330782-2014-A21-021 dated 24 March 2014 and 11 June 2014 respectively, with the total site area of approximately 46,470.54 sq.m. have been granted to 浙江博尼股份有限公司 for industrial use at a total land premium of approximately RMB25,791,151.

As revealed from the aforesaid State-owned Land Use Rights Grant Contracts, the property is subject to the following material development conditions:

i.	Contract No: 330782-2014-A21-048
Site Area:	1,505.19 sq.m.
Plot Ratio:	1.6-4
Height Restriction:	45m
Site Coverage:	35%-50%
Greenery Coverage:	≤20%
ii.	Contract No: 330782-2014-A21-047
Site Area:	2,541.81 sq.m.
Plot Ratio:	1.6-4
Height Restriction:	45m
Site Coverage:	35%-50%
Greenery Coverage:	≤20%
iii.	Contract No: 330782-2014-A21-021
Site Area:	42,423.54 sq.m.
Plot Ratio:	1.6-4
Height Restriction:	45m
Site Coverage:	35%-50%
Greenery Coverage:	≤20%

2. Pursuant to four Real Estate Ownership Certificates dated 21 August 2017, 17 August 2017, 14 August 2017 and 14 July 2017 respectively, the land use rights of four parcels of land with a total site area of approximately 46,470.54 sq.m and the property with a total gross floor area of approximately 31,744.78 sq.m. has been vested to Zhejiang Bonny Fashion Holding Group Co., Ltd. (浙江博尼時尚控股集團有限公司), the wholly owned subsidiary of the Group, for a term of approximately 50 years. The details are tabulated as below:

No.	Real Estate Ownership Certificates	Owner	Expiry Date	Site Area (sq.m.)	Gross Floor Area (sq.m.)	Usage
1	Zhe (2017) Yi Wu Shi Bu Dong Chan Quan Di No. 0030981	Zhejiang Bonny Fashion Holding Group Co., Ltd.	23 March 2064	1,505.19	–	Industrial
2	Zhe (2017) Yi Wu Shi Bu Dong Chan Quan Di No. 0029585	Zhejiang Bonny Fashion Holding Group Co., Ltd.	31 March 2064	23,497.61	15,872.39	Industrial
3	Zhe (2017) Yi Wu Shi Bu Dong Chan Quan Di No. 0029185	Zhejiang Bonny Fashion Holding Group Co., Ltd.	23 March 2064	2,541.81	–	Industrial
4	Zhe (2017) Yi Wu Shi Bu Dong Chan Quan Di No. 0024301	Zhejiang Bonny Fashion Holding Group Co., Ltd.	31 March 2064	18,925.93	15,872.39	Industrial
Total:				<u>46,470.54</u>	<u>31,744.78</u>	

3. Pursuant to the Construction Land Planning Permit – Di Zi Di No. 330782201500062 dated 26 November 2015 in favour of Zhejiang Bonny Co., Ltd. (浙江博尼股份有限公司) (the former name of Zhejiang Bonny Fashion Holding Group Co., Ltd.), permission towards the planning with the total site area of approximately 46,470.54 sq.m. is obtained.
4. Pursuant to the Construction Works Planning Permit – Jian Zi Di No. 330782201801345 dated 11 June 2018 in favour of Zhejiang Bonny Fashion Holding Group Co., Ltd., the development with total gross floor area of approximately 40,296.16 sq.m. have been approved for the construction of industrial buildings.
5. Pursuant to the Construction Works Commencement Permit – No. 330782201807200201 dated 20 July 2018 in favour of Zhejiang Bonny Fashion Holding Group Co., Ltd., permission by the relevant local authority has been given to commence the construction work with a total gross floor area of approximately 40,296.16 sq.m. for the development of industrial buildings.
6. Pursuant to nine Tenancy Agreements, the Property is leased to 王士彬, 黃國君, 黃如然 (戴聖玉), 義烏市博望貿易有限公司, 徐海濤 (綏芬河市聚茂有限責任公司), 張雲龍, 義烏市雅媛生物科技有限公司(程啟鑾), 蘇賀奎 and 金曙華 via nine tenancy agreements. The details are tabulated as below:

No.	Tenant	Lease term	Annual rent	Gross Floor Area (sq.m.)
1	王士彬	commencing on 15 July 2018 and expiring on 14 July 2019	446,400.00	3,100.00
2	黃國君	commencing on 1 August 2018 and expiring on 30 July 2020	326,400.00	1,600.00
3	黃如然 (戴聖玉)	commencing on 1 August 2018 and expiring on 30 July 2019	312,480.00	2,170.00
4	義烏市博望貿易有限公司	commencing on 1 August 2018 and expiring on 31 July 2019	316,800.00	1,600.00
5	徐海濤 (綏芬河市聚茂有限責任公司)	commencing on 17 August 2018 and expiring on 16 August 2020	163,200.00	400.00
6	張雲龍	commencing on 15 July 2018 and expiring on 14 July 2020	403,920.00	1,020.00
7	義烏市雅媛生物科技有限公司(程啟鑾)	commencing on 1 August 2018 and expiring on 30 July 2019	148,320.00	1,030.00
8	蘇賀奎	commencing on 4 November 2018 and expiring on 3 November 2020	394,332.00	966.50
9	金曙華	commencing on 4 November 2018 and expiring on 3 November 2020	202,980.00	497.50
Total:				<u>12,384.00</u>

7. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal adviser, which contains, *inter alia*, the following:
- The Company has legally obtained both of the land use right and building ownership of the property;
 - The Company has the right to possess, use, lease, transfer, pledge or dispose the property legally;
 - The land use right and buildings were pledged;
 - The tenancy agreement is valid and the Company can enjoy the contractual rights and interests of the tenancy agreements.;
 - The Company may be subject to penalty for the delay in commencement of construction works of the property No.1 and 3 mentioned in Note 2. However, the penalty fee is at a low level that it will not generate material or adverse effect to the Company; and
 - The Construction Land Planning Permit, Construction Works Planning Permit and Construction Works Commencement Permit are valid.
8. A summary of major certificates/licenses is shown as follow:
- | | | |
|----|--|-----|
| a. | Real Estate Ownership Certificate | Yes |
| b. | Construction Land Planning Permit | Yes |
| c. | Construction Works Planning Permit | Yes |
| d. | Construction Works Commencement Permit | Yes |
9. In our valuation, we have made reference to some transaction price references of land comparables in the subject and nearby development. We have adopted the range of unit rates between RMB130 to RMB190 per sq.m. The unit rates assumed by us are consistent with the said price reference. Due adjustments to the unit rates of those price reference have been made to reflect factors including but not limited to time, location and size in arriving at the key assumptions.
10. In our valuation, we have made reference to some rental evidence and asking rent of similar properties in the locality which are in the region of RMB 32 to RMB 38 (1/F) and RMB 12 to RMB 15 (2/F to 5/F) per sq.m./month. The market yield assumed by us is 8.5% which is in line with the market yield of this property sector in the region of 8% to 9%.
11. For the purpose of this report, the property is classified into the following groups according to the purpose for which it is held, we are of the opinion that the market value of each group as at the valuation date in its existing state is set out as below:

Group	Market value in existing state as at 28 February 2019 RMB
Group I – Property interests held and occupied by the Group in the PRC	52,925,000
Group II – Property interests held for investment by the Group in the PRC	42,990,000
Total:	<u>95,915,000</u>

12. As confirmed by the Company, there are no material environmental and planning issues.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of the Cayman Companies Law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 July 2017 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association (the *Memorandum*) and its Amended and Restated Articles of Association (the *Articles*).

1. MEMORANDUM OF ASSOCIATION

- 1.1 The Memorandum provides, *inter alia*, that the liability of members of the Company is limited and that the objects for which the Company is established are unrestricted (and therefore include acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate whether as principal, agent, contractor or otherwise and, since the Company is an exempted company, that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- 1.2 By special resolution, the Company may alter the Memorandum with respect to any objects, powers or other matters specified in it.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on 19 March 2019. A summary of certain provisions of the Articles is set out below.

2.1 Shares

(a) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(b) *Variation of rights of existing shares or classes of shares*

Subject to the Cayman Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to any class of shares may (unless otherwise provided for by the terms of issue of the shares of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. The provisions of the Articles relating to general meetings shall *mutatis mutandis* apply to every such separate general meeting, provided that the necessary quorum (other than at an adjourned meeting) shall be not less

than two persons together holding (or, in the case of a shareholder being a corporation, by its duly authorized representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(c) *Alteration of capital*

The Company may, by an ordinary resolution of its members: (a) increase its share capital by the creation of new shares of such amount as it thinks expedient; (b) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; (c) divide its unissued shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges or conditions; (d) subdivide its shares or any of them into shares of an amount smaller than that fixed by the Memorandum; (e) cancel any shares which, at the date 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; (f) make provision for the allotment and issue of shares which do not carry any voting rights; (g) change the currency of denomination of its share capital; and (h) reduce its share premium account in any manner authorized and subject to any conditions prescribed by law.

(d) *Transfer of shares*

Subject to the Cayman Companies Law and the requirements of the Stock Exchange, all transfers of shares shall be effected by an instrument of transfer in the usual or common form or in such other form as the Board may approve and may be under hand or, if the transferor or transferee is a Clearing House (as defined in the Articles) or its nominee(s), under hand or by machine imprinted signature, or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee, provided that the Board may dispense with the execution of the instrument of transfer by the transferor or transferee or accept mechanically executed transfers. The transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register of members of the Company in respect of that share.

The Board may, in its absolute discretion, at any time and from time to time remove any share on the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be removed to any branch register nor shall shares on any branch register be removed to the principal register or any other branch register. All removals and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the place at which the principal register is located.

The Board may, in its absolute discretion, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or on which the Company has a lien. It may also decline to register a transfer of any share issued under any share option scheme upon which a restriction on transfer subsists or a transfer of any share to more than four joint holders.

The Board may decline to recognise any instrument of transfer unless a certain fee, up to such maximum sum as the Stock Exchange may determine to be payable, is paid to the Company, the instrument of transfer is properly stamped (if applicable), is in respect of only one class of share and is lodged at the relevant registration office or the place at which the principal register is located accompanied by the relevant share certificate(s) and such other evidence as the Board may reasonably require is provided to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The register of members may, subject to the Listing Rules, be closed at such time or for such period not exceeding in the whole 30 days in each year as the Board may determine (or such longer period as the members of the Company may by ordinary resolution determine, provided that such period shall not be extended beyond 60 days in any year).

Fully paid shares shall be free from any restriction on transfer (except when permitted by the Stock Exchange) and shall also be free from all liens.

(e) Power of the Company to purchase its own shares

The Company may purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by the Articles or any code, rules or regulations issued from time to time by the Stock Exchange and/or the Securities and Futures Commission of Hong Kong.

Where the Company purchases for redemption a redeemable Share, purchases not made through the market or by tender shall be limited to a maximum price and, if purchases are by tender, tenders shall be available to all members alike.

(f) Power of any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(g) Calls on shares and forfeiture of shares

The Board may, from time to time, make such calls as it thinks fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment of such shares made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent per annum as the Board shall fix from the day appointed for payment to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20 per cent per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment, the Board may, for so long as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on the member requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice shall name a further day (not earlier than the expiration of 14 days from the date of the notice) on or before which the payment required by the notice is to be made, and shall also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the appointed time, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, nevertheless, remain liable to pay to the Company all monies which, as at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent per annum as the Board may prescribe.

2.2 Directors

(a) Appointment, retirement and removal

At any time or from time to time, the Board shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an additional Director to the existing Board subject to any maximum number of Directors, if any, as may be determined by the members in general meeting. Any Director so appointed to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director so appointed as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and be eligible for re-election at such meeting. Any Director so appointed by the Board shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at an annual general meeting.

At each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not less than one-third shall be the number of retiring Directors. The Directors to retire in each year shall be those who have been in office longest since their last re-election or appointment but, as between persons who became or were last re-elected Directors on the same day, those to retire shall (unless they otherwise agree among themselves) be determined by lot.

No person, other than a retiring Director, shall, unless recommended by the Board for election, be eligible for election to the office of Director at any general meeting, unless notice in writing of the intention to propose that person for election as a Director and notice in writing by that person of his willingness to be elected has been lodged at the head office or at the registration office of the Company. The period for lodgment of such notices shall commence no earlier than the day after despatch of the notice of the relevant meeting and end no later than seven days before the date of such meeting and the minimum length of the period during which such notices may be lodged must be at least seven days.

A Director is not required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to or retirement from the Board.

A Director may be removed by an ordinary resolution of the Company before the expiration of his term of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Any Director so appointed shall be subject to the retirement by rotation provisions. The number of Directors shall not be less than two.

The office of a Director shall be vacated if he:

- (i) resigns;
- (ii) dies;
- (iii) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (iv) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) he is prohibited from being or ceases to be a director by operation of law;
- (vi) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (vii) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (viii) is removed from office by the requisite majority of the Directors or otherwise pursuant to the Articles.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine, and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers to committees consisting of such Director(s) or other person(s) as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed upon it by the Board.

(b) Power to allot and issue shares and warrants

Subject to the provisions of the Cayman Companies Law, the Memorandum and Articles and without prejudice to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached to it such rights, or such restrictions, whether with regard to dividend, voting, return of capital or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Any share may be issued on terms that, upon the happening of a specified event or upon a given date and either at the option of the Company or the holder of the share, it is liable to be redeemed.

The Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine.

Where warrants are issued to bearer, no certificate in respect of such warrants shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate has been destroyed and the Company has received an indemnity in such form as the Board thinks fit with regard to the issue of any such replacement certificate.

Subject to the provisions of the Cayman Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, provided that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be unlawful or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(c) Power to dispose of the assets of the Company or any of its subsidiaries

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Cayman Companies Law to be exercised or done by the Company in general meeting, but if such power or act is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(d) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and uncalled capital of the Company and, subject to the Cayman Companies Law, to issue debentures, debenture stock, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(e) Remuneration

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board 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 among the Directors in such proportions and in such manner as they may agree or, failing agreement, either equally or, in the case of any Director holding office for only a portion of the period in respect of which the remuneration is payable, *pro rata*. The Directors shall also be entitled to be repaid all expenses reasonably incurred by them in attending any Board meetings, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors. 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.

Any Director who, at the request of the Company, performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration as the Board may determine, in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the Board may from time to time decide. Such remuneration shall be in addition to his ordinary remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with subsidiaries of the Company or companies with which the Company is associated in business, or may make contributions out of the Company's monies to, any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

The Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(f) Compensation or payments for loss of office

Payments to any present 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 or statutorily entitled) must be approved by the Company in general meeting.

(g) Loans and provision of security for loans to Directors

The Company shall not directly or indirectly make a loan to a Director or a director of any holding company of the Company or any of their respective close associates, enter into any guarantee or provide any security in connection with a loan made by any person to a Director or a director of any holding company of the Company or any of their respective close associates, or, if any one or more Directors hold(s) (jointly or severally or directly or indirectly) a controlling interest in another company, make a loan to that other company or enter into any guarantee or provide any security in connection with a loan made by any person to that other company.

(h) Disclosure of interest in contracts with the Company or any of its subsidiaries

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and upon such terms as the Board may determine, and may be paid such extra remuneration for that other office or place of profit, in whatever form, in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director, officer or member of any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration or other benefits received by him as a director, officer or member of such other company. The Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company.

No Director or intended Director shall be disqualified by his office from contracting with the Company, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be voided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship established by it. A Director who is, in any way, materially interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the earliest meeting of the Board at which he may practically do so.

There is no power to freeze or otherwise impair any of the rights attaching to any share by reason that the person or persons who are interested directly or indirectly in that share have failed to disclose their interests to the Company.

A Director shall not vote or be counted in the quorum on any resolution of the Board in respect of any contract or arrangement or proposal in which he or any of his close associate(s) has/have a material interest, and if he shall do so his vote shall not be counted nor shall he be counted in the quorum for that resolution, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity to the Director or his close associate(s) 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 his close associate(s) has/have himself/themselves assumed responsibility in whole or in part 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 his close associate(s) 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 the adoption, modification or operation of either: (i) any employees' share scheme or any share incentive or share option scheme under which the Director or his close associate(s) may benefit; or (ii) any of a pension fund or retirement, death or disability benefits scheme which relates 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 his close associate(s) 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 his close associate(s) is/are interested in the same manner as other holders of shares, debentures or other securities of the Company by virtue only of his/their interest in those shares, debentures or other securities.

2.3 Proceedings of the Board

The Board may meet anywhere in the world for the despatch of business and may adjourn and otherwise regulate its meetings as it thinks fit. 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.

2.4 Alterations to the constitutional documents and the Company's name

To the extent that the same is permissible under the Cayman Islands law and subject to the Articles, the Memorandum and Articles of the Company may only be altered or amended, and the name of the Company may only be changed, with the sanction of a special resolution of the Company.

2.5 Meetings of member

(a) Special and ordinary resolutions

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under the Cayman Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An ordinary resolution, by contrast, is 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 members which are corporations, by their duly authorized representatives or by proxy at a general meeting of which notice has been duly given.

A resolution in writing signed by or on behalf of all members shall be treated as an ordinary resolution duly passed at a general meeting of the Company duly convened and held, and where relevant as a special resolution so passed.

(b) Voting rights and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any class or classes of shares at any general meeting: (a) on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every share which is fully paid or credited as fully paid registered in his name in the register of members of the Company, provided that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for this purpose as paid up on the share; and (b) on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House or its nominee(s), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by poll save that the chairman of the meeting may, pursuant to the Listing Rules, allow a resolution to be voted on by a show of hands. Where a show of hands is allowed, before or on the declaration of the result of the show of hands, a poll may be demanded by (in each case by members present in person or by proxy or by a duly authorized corporate representative):

- (i) at least two members;
- (ii) any member or members representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iii) a member or members holding shares in the Company conferring a right to vote at the meeting on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a Clearing House or its nominee(s) be a member of the Company, such person or persons may be authorized as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorisation shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized in accordance with this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same rights and powers on behalf of the Clearing House or its nominee(s) as if such person were an individual member including the right to vote individually on a show of hands.

Where the Company has knowledge that 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.

(c) *Annual general meetings*

The Company must hold an annual general meeting each year other than the year of the Company's adoption of the Articles. Such meeting must be held not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorized by the Stock Exchange at such time and place as may be determined by the Board.

(d) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' (and not less than 20 clear business days') notice in writing, and any other general meeting of the Company shall be called by at least 14 days' (and not less than 10 clear business days') notice in writing. 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 must specify the time, place and agenda of the meeting and particulars of the resolution(s) to be considered at that meeting and, in the case of special business, the general nature of that business.

Except where otherwise expressly stated, any notice or document (including a share certificate) to be given or issued under the Articles shall be in writing, and may be served by the Company on any member personally, by post to such member's registered address or (in the case of a notice) by advertisement in the newspapers. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which shall be deemed to be his registered address for this purpose. Subject to the Cayman Companies Law and the Listing Rules, a notice or document may also be served or delivered by the Company to any member by electronic means.

Although a meeting of the Company may be called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (i) in the case of an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) 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 holding not less than 95 per cent of the total voting rights in the Company.

All business transacted at an extraordinary general meeting shall be deemed special business. All business shall also be deemed special business where it is transacted at an annual general meeting, with the exception of certain routine matters which shall be deemed ordinary business.

(e) 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, and continues to be present until the conclusion of the meeting.

The quorum for a general meeting shall be two members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(f) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorized officer or attorney. Every instrument of proxy, whether for a specified meeting or otherwise, shall be in such form as the Board may from time to time approve, provided that it shall not preclude the use of the two-way form. Any form issued to a member for appointing a proxy to attend and vote at an extraordinary general meeting or at an annual general meeting at which any business is to be transacted shall be such as to enable the member, according to his intentions, to instruct the proxy to vote in favour of or against (or, in default of instructions, to exercise his discretion in respect of) each resolution dealing with any such business.

(g) Members' requisition for meetings

Extraordinary general meetings shall be convened on the requisition of one or more members holding, as at the date of deposit of the requisition, not less than one-tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company for the purpose of requiring an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such meeting shall be held within two months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

2.6 Accounts and audit

The Board shall cause proper books of account to be kept of the sums of money received and expended by the Company, and of the assets and liabilities of the Company and of all other matters required by the Cayman Companies Law (which include all sales and purchases of goods by the company) necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts of the Company shall be kept at the head office of the Company or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account, book or document of the Company except as conferred by the Cayman Companies Law or ordered by a court of competent jurisdiction or authorized by the Board or the Company in general meeting.

The Board shall from time to time cause to be prepared and laid before the Company at its annual general meeting balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a copy of the Directors' report and a copy of the auditors' report, not less than 21 days before the date of the annual general meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles together with the notice of annual general meeting, not less than 21 days before the date of the meeting.

Subject to the rules of the stock exchange of the Relevant Territory, the Company may send summarised financial statements to shareholders who have, in accordance with the rules of the stock exchange of the Relevant Territory, consented and elected to receive summarised financial statements instead of the full financial statements. The summarised financial statements must be accompanied by any other documents as may be required under the rules of the stock exchange of the Relevant Territory, and must be sent to those shareholders that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall appoint auditor(s) to hold office until the conclusion of the next annual general meeting on such terms and with such duties as may be agreed with the Board. The auditors' remuneration shall be fixed by the Company in general meeting or by the Board if authority is so delegated by the members. The members may, at any general meeting convened and held in accordance with the Articles, remove the auditors by special resolution at any time before the expiration of the term of office and shall, by ordinary resolution, at that meeting appoint new auditors in its place for the remainder of the term.

The auditors shall audit the financial statements of the Company in accordance with generally accepted accounting principles of Hong Kong, the International Accounting Standards or such other standards as may be permitted by the Stock Exchange.

2.7 Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (a) all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, although no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share;
- (b) all dividends shall be apportioned and paid *pro rata* in accordance with the amount paid up on the shares during any portion(s) of the period in respect of which the dividend is paid; and
- (c) the Board may deduct from any dividend or other monies payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled to such dividend will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board, the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent and shall be sent at the holder's or joint holders' risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other monies payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared, the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

The Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced may pay interest at such rate (if any) not exceeding 20 per cent per annum, as the Board may decide, but a payment in advance of a call shall not entitle the member to receive any dividend or to exercise any other rights or privileges as a member in respect of the share or the due portion of the shares upon which payment has been advanced by such member before it is called up.

All dividends, bonuses or other distributions unclaimed for one year after having been declared may be invested or otherwise used by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions unclaimed for six years after having been declared may be forfeited by the Board and, upon such forfeiture, shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

The Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants by post if such cheques or warrants remain uncashed on two consecutive occasions or after the first occasion on which such a cheque or warrant is returned undelivered.

2.8 Inspection of corporate records

For so long as any part of the share capital of the Company is listed on the Stock Exchange, any member may inspect any register of members of the Company maintained in Hong Kong (except when the register of members is closed) without charge and require the provision to him of copies or extracts of such register in all respects as if the Company were incorporated under and were subject to the Hong Kong Companies Ordinance.

2.9 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under the Cayman Islands law, as summarised in paragraph 3.6 of this Appendix.

2.10 Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (a) if the Company is wound up and the assets available for distribution among the members of the Company are more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* among such members in proportion to the amount paid up on the shares held by them respectively; and
- (b) if the Company is wound up and the assets available for distribution among the members as such are insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them, respectively.

If the Company is wound up (whether the liquidation is voluntary or compelled by the court), the liquidator may, with the sanction of a special resolution and any other sanction required by the Cayman Companies Law, divide among the members in specie or kind the whole or any part of the assets of the Company, whether the assets consist of property of one kind or different kinds, and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be so divided and may determine how

such division shall be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator thinks fit, provided that no member shall be compelled to accept any shares or other property upon which there is a liability.

2.11 Subscription rights reserve

Provided that it is not prohibited by and is otherwise in compliance with the Cayman 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 the shares to be issued on the exercise of such warrants, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of such shares.

3. CAYMAN COMPANIES LAW

The Company was incorporated in the Cayman Islands as an exempted company on 19 July 2017 subject to the Cayman Companies Law. Certain provisions of the Cayman Companies Law are set out below but this section does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

3.1 Company operations

An exempted company such as the Company must conduct its operations mainly outside the Cayman Islands. An exempted company is also required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

3.2 Share capital

Under the Cayman Companies Law, a Cayman Islands company may issue ordinary, preference or redeemable shares or any combination thereof. Where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the share premium account. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The share premium account may be applied by the 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, the following:

- (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) any manner provided in section 37 of the Cayman Companies Law;
- (d) writing-off the preliminary expenses of the company; and
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

Notwithstanding the foregoing, 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.

Subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

3.3 Financial assistance to purchase shares of a company or its holding company

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company, when proposing to grant such financial assistance, discharge their duties of care and act in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

3.4 Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member and, for the avoidance of doubt, it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares; an ordinary resolution of the company approving the manner and terms of the purchase will be required if the articles of association do not authorize the manner and terms of such purchase. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless, immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares that have been purchased or redeemed by a company or surrendered to the company shall not be treated as cancelled but shall be classified as treasury shares if held in compliance with the requirements of Section 37A(1) of the Cayman Companies Law. Any such shares shall continue to be classified as treasury shares until such shares are either cancelled or transferred pursuant to the Cayman Companies Law.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under the Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy, sell and deal in personal property of all kinds.

A subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

3.5 Dividends and distributions

Subject to a solvency test, as prescribed in the Cayman Companies Law, and the provisions, if any, of the company's memorandum and articles of association, a company may pay dividends and distributions out of its share premium account. In addition, based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid out of profits.

For so long as a company holds treasury shares, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made, in respect of a treasury share.

3.6 Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English case law precedents (particularly the rule in the case of *Foss vs. Harbottle* and the exceptions to that rule) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge acts which are ultra vires, illegal, fraudulent (and performed by those in control of the Company) against the minority, or represent an irregularity in the passing of a resolution which requires a qualified (or special) majority which has not been obtained.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report on such affairs. In addition, any member of a company may petition the court, which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

3.7 Disposal of assets

There are no specific restrictions on the power of directors to dispose of assets of a company, however, the directors are expected to exercise certain duties of care, diligence and skill to the standard that a reasonably prudent person would exercise in comparable circumstances, in addition to fiduciary duties to act in good faith, for proper purpose and in the best interests of the company under English common law (which the Cayman Islands courts will ordinarily follow).

3.8 Accounting and auditing requirements

A company must cause proper records of accounts to be kept with respect to: (i) all sums of money received and expended by it; (ii) all sales and purchases of goods by it and (iii) its assets and liabilities.

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.

If a company keeps its books of account at any place other than at its registered office or any other place within the Cayman Islands, it shall, upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands, make available, in electronic form or any other medium, at its registered office copies of its books of account, or any part or parts thereof, as are specified in such order or notice.

3.9 Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

3.10 Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments.

3.11 Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

3.12 Loans to directors

There is no express provision prohibiting the making of loans by a company to any of its directors. However, the company's articles of association may provide for the prohibition of such loans under specific circumstances.

3.13 Inspection of corporate records

The members of a company have no general right to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

3.14 Register of members

A Cayman Islands exempted company may maintain its principal register of members and any branch registers in any country or territory, whether within or outside the Cayman Islands, as the company may determine from time to time. There is no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of member, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2017 Revision) of the Cayman Islands.

3.15 Register of Directors and officers

Pursuant to the Cayman Companies Law, the Company is required to maintain at its registered office a register of directors, alternate directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 60 days of any change in such directors or officers, including a change of the name of such directors or officers.

3.16 Winding up

A Cayman Islands company may be wound up by: (i) an order of the court; (ii) voluntarily by its members; or (iii) under the supervision of the court.

The court has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company (other than a limited duration company, for which specific rules apply) occurs where the company resolves by special resolution that it be wound up voluntarily or where the company in general meeting resolves that it be wound up voluntarily because it is unable to pay its debt as they fall due. In the case of a voluntary winding up, the company is obliged to cease to carry on its business from the commencement of its winding up except so far as it may be beneficial for its winding up. Upon appointment of a voluntary liquidator, all the powers of the directors cease, except so far as the company in general meeting or the liquidator sanctions their continuance.

In the case of a members' voluntary winding up of a company, one or more liquidators are appointed for the purpose of winding up the affairs of the company and distributing its assets.

As soon as the affairs of a company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and the property of the company disposed of, and call a general meeting of the company for the purposes of laying before it the account and giving an explanation of that account.

When a resolution has been passed by a company to wind up voluntarily, the liquidator or any contributory or creditor may apply to the court for an order for the continuation of the winding up under the supervision of the court, on the grounds that: (i) the company is or is likely to become insolvent; or (ii) the supervision of the court will facilitate a more effective, economic or expeditious liquidation of the company in the interests of the contributories and creditors. A supervision order takes effect for all purposes as if it was an order that the company be wound up by the court except that a commenced voluntary winding up and the prior actions of the voluntary liquidator shall be valid and binding upon the company and its official liquidator.

For the purpose of conducting the proceedings in winding up a company and assisting the court, one or more persons may be appointed to be called an official liquidator(s). The court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more than one person is appointed to such office, the court shall declare whether any act required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

3.17 Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75 per cent in value of the members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member has the right to express to the court his view that the transaction

for which approval is being sought would not provide the members with a fair value for their shares, the courts are 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 member would have no rights comparable to the appraisal rights (that is, the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

3.18 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 per cent of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of that four-month period, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the Cayman Islands courts within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

3.19 Indemnification

The Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Harney Westwood & Riegels, the Company's legal adviser on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of the Companies Law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of the Cayman Companies Law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 19 July 2017.

As our Company was incorporated in the Cayman Islands, we are subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a Memorandum of Association and Articles of Association. A summary of the relevant laws and regulations of the Cayman Islands and of the Memorandum of Association and Articles of Association is set out in Appendix VI to this prospectus.

2. Changes in the Registered Capital of our Company

- (a) On 19 July 2017, our Company was incorporated with an authorized share capital of US\$50,000, divided into 5,000,000 Shares of a par value of US\$0.01 each. Upon incorporation, one fully-paid Share was allotted and issued to Vistra (Cayman) Limited, the initial subscriber and an Independent Third Party, which was then transferred to Jin Chunlong Holding Limited on the same date.
- (b) On 19 July 2017, 349,999 Shares, 3,525,000 Shares, 275,000 Shares, 175,000 Shares, 100,000 Shares, 75,000 Shares, 50,000 Shares, 50,000 Shares, 50,000 Shares, 200,000 Shares, 50,000 Shares, 50,000 Shares and 50,000 Shares, which were further allotted and issued to Jin Chunlong Holding Limited, Maximax, Tao Jianhang Holding Limited, Luo Kailang Holding Limited, Gong Yinghong Holding Limited, Luo Weixing Holding Limited, Huang Jing Holding Limited, Sun Weimin Holding Limited, Luo Chengming Holding Limited, Gu Guoxin Holding Limited, Luo Yi Holding Limited, Yu Xiongjian Holding Limited and Yang Shiyong Holding Limited, respectively.
- (c) On 31 March 2018, our Shareholders passed a resolution, pursuant to which the authorized share capital of our Company was increased from US\$50,000 divided into 5,000,000 Shares, to US\$1,000,000 divided into 100,000,000 Shares.
- (d) On 31 March 2018, 705,000, 70,000, 55,000, 40,000, 35,000, 20,000, 15,000, 10,000, 10,000, 10,000, 10,000, 10,000, 10,000 and 10,000 Shares were allotted and issued for cash at par value to Maximax, Jin Chunlong Holding Limited, Tao Jianhang Holding Limited, Gu Guoxin Holding Limited, Luo Kailang Holding Limited, Gong Yinghong Holding Limited, Luo Weixing Holding Limited, Huang Jing Holding Limited, Sun Weimin Holding Limited, Luo Chengming Holding Limited, Luo Yi Holding Limited, Yu Xiongjian Holding Limited and Yang Shiyong Holding Limited, respectively.

- (e) Pursuant to a resolution in writing passed by all Shareholders on 19 March 2019, the authorized share capital of our Company was increased from US\$1,000,000 to US\$30,000,000 by the creation of a further 2,900,000,000 Shares.

Immediately following completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised), 1,200,000,000 Shares will be issued fully paid or credited as fully paid, and 1,800,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 1,204,500,000 Shares will be issued fully paid or credited as fully paid, and 1,795,500,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option, our Directors do not have any present intention to issue any of the authorized 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 and in paragraphs 3 and 4 below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of all Shareholders passed on 19 March 2019

On 19 March 2019, pursuant to resolutions in writing passed by all the Shareholders:

- (a) our authorized share capital was increased from US\$1,000,000 to US\$30,000,000 by the creation of a further 2,900,000,000 Shares;
- (b) the Memorandum of Association was adopted with immediate effect;
- (c) the 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 obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of those agreements or otherwise, in each case on or before the day falling 30 days after the date of this prospectus:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to approve the allotment and issue of the Offer Shares and such number of Shares as may 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 authorized 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 authorized to capitalize US\$8,940,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 894,000,000 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 19 March 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 Capitalization Issue) and our Directors be and are hereby authorized to give effect to such capitalization;

- (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 Articles of Association, or pursuant to the exercise of any options which may be granted under the Share Option Scheme, or under the Global Offering or the Capitalization Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option, and (bb) the aggregate nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in subparagraph (vi) 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 purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued immediately following completion of the Global Offering and the Capitalization Issue but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option until expiry of the Applicable Period; and
- (vi) the extension of the general mandate to allot, issue and deal with Shares to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (v) above.

4. Our Corporate Reorganization

Our Group underwent the Reorganization to rationalize our corporate structure in preparation for the Listing, and our Company has become the holding company of our Group. Please refer to the section headed “History, Development and Corporate Structure” in this prospectus for further details.

5. Changes in the Share Capital of the Subsidiaries

Our Group comprises our Company and seven subsidiaries. See the Accountants’ Report for a summary of the corporate information of these companies.

Save as disclosed in the section headed “History, Development and Corporate Structure” 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 its 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) Shareholders’ approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

(b) Source of funds

Repurchases must be paid out of funds legally available for the purpose in accordance with the 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 either (1) out of profits of our Company; (2) out of the share premium account of our Company; (3) out of the proceeds of a fresh issue of Shares made for the purpose of the purchase; (4) out of capital, if so authorized by the Articles and subject to the provisions of the Cayman Companies Law. Any premium payable on the purchase must have been provided for out of the profits of our Company, from sums standing to the credit of the share premium account of our Company or out of capital, if so authorized by the Articles and subject to the provisions of the Cayman Companies Law.

On the basis of our current financial position as disclosed in the section headed “Financial Information” 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 1,200,000,000 Shares in issue immediately after the Listing, would result in up to 120,000,000 Shares being repurchased by us during the period in which the Repurchase Mandate remains in force.

(c) 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.

(d) General

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 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 40th Floor, Sunlight Tower, 248 Queen's Road East, Wanchai, Hong Kong. Ms. Chen Chun, 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 OUR BUSINESS**1. Summary of Material Contracts**

The Group has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this prospectus that are or may be material:

- (a) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Bode Holding, in relation to the transfer of 65.50% of equity interest of Zhejiang Bonny at a consideration of RMB139,888,350;
- (b) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Jin Chunlong in relation to the transfer of 7.00% of equity interest of Zhejiang Bonny at a consideration of RMB14,949,900;
- (c) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Tao Jianhang in relation to the transfer of 5.50% of equity interest of Zhejiang Bonny at a consideration of RMB11,746,350;
- (d) a share transfer agreement dated 20 November 2017 entered into between Bonny HK and Barry Trading in relation to the transfer of 5.00% of equity interest of Zhejiang Bonny at a consideration of RMB10,678,500;
- (e) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Gu Guoxin in relation to the transfer of 4.00% of equity interest of Zhejiang Bonny at a consideration of RMB8,542,800;
- (f) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Ms. Luo Kailang in relation to the transfer of 3.50% of equity interest of Zhejiang Bonny at a consideration of RMB7,474,950;
- (g) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Gong Yinghong in relation to the transfer of 2.00% of equity interest of Zhejiang Bonny at a consideration of RMB4,271,400;
- (h) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Luo Weixing in relation to the transfer of 1.50% of equity interest of Zhejiang Bonny at a consideration of RMB3,203,550;
- (i) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Huang Jing in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at a consideration of RMB2,135,700;
- (j) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Luo Chengming in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at a consideration of RMB2,135,700;

- (k) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Luo Yi in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at the consideration of RMB2,135,700;
- (l) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Yu Xiongjian in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at the consideration of RMB2,135,700;
- (m) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Mr. Sun Weimin in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at the consideration of RMB2,135,700;
- (n) a share transfer agreement dated 9 September 2017 entered into between Bonny HK and Ms. Yang Shiyong in relation to the transfer of 1.00% of equity interest of Zhejiang Bonny at the consideration of RMB2,135,700;
- (o) a supplemental agreement dated 24 December 2017 entered into between Bonny HK, Bode Holding, the 12 Individual Shareholders and Barry Trading in relation to the adjustment of consideration payable for the acquisition of 100% equity interest in Zhejiang Bonny;
- (p) a share transfer agreement dated 6 February 2018 entered into between Zhejiang Bonny and Mr. Zhu Zhengxi, in relation to the transfer of 40.00% equity interest of Yiwu Leyishang at a consideration of RMB20,000;
- (q) a cornerstone investment agreement dated 3 January 2019 entered into among our Company, Chemtax Industrial, the Sole Sponsor and the Sole Global Coordinator, details of which are included in the section headed “Cornerstone Investors” of this prospectus;
- (r) a cornerstone investment agreement dated 8 March 2019 entered into among our Company, Mr. Xing Zhicun, the Sole Sponsor and the Sole Global Coordinator, details of which are included in the section headed “Cornerstone Investors” of this prospectus;
- (s) a cornerstone investment agreement dated 23 March 2019 entered into among our Company, Mr. Gao Baolin, the Sole Sponsor and the Sole Global Coordinator, details of which are included in the section headed “Cornerstone Investors” of this prospectus;
- (t) the Deed of Indemnity;
- (u) the Deed of Non-competition; and
- (v) the Hong Kong Underwriting Agreement.









2. Our Intellectual Property Rights






















As at the Latest Practicable Date, the Group had registered or applied for registration of the following intellectual property rights which are material to its business:

(a) Trademarks

As at the Latest Practicable Date, the Group had registered the following trademarks:

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Valid Period
1.		25 ^(Note 21)	Zhejiang Bonny	Hong Kong	304133024	9 May 2017 to 8 May 2027
2.		25 ^(Note 21)	Zhejiang Bonny	PRC	3253862	7 July 2014 to 6 July 2024
3.	欧耶	25 ^(Note 21)	Zhejiang Bonny	PRC	3674162	7 April 2016 to 6 April 2026
4.	O Y I	25 ^(Note 21)	Zhejiang Bonny	PRC	3674163	7 April 2016 to 6 April 2026
5.		25 ^(Note 21)	Zhejiang Bonny	PRC	3830180	7 December 2016 to 6 December 2026
6.	博妮	25 ^(Note 21)	Zhejiang Bonny	PRC	4059222	14 November 2007 to 13 November 2027
7.	博尼	25 ^(Note 21)	Zhejiang Bonny	PRC	4240959	28 July 2008 to 27 July 2028
8.	BONNY	25 ^(Note 21)	Zhejiang Bonny	PRC	4299702	28 December 2010 to 27 December 2020
9.	迷尼熊	25 ^(Note 21)	Zhejiang Bonny	PRC	5285613	14 August 2009 to 13 August 2019
10.	欧耶	20 ^(Note 16)	Zhejiang Bonny	PRC	5496019	7 November 2009 to 6 November 2019
11.	欧耶	27 ^(Note 23)	Zhejiang Bonny	PRC	5496020	28 August 2009 to 27 August 2019
12.	欧耶	21 ^(Note 17)	Zhejiang Bonny	PRC	5496021	21 August 2009 to 20 August 2019
13.	欧耶	9 ^(Note 7)	Zhejiang Bonny	PRC	5496022	14 November 2009 to 13 November 2019
14.	欧耶	18 ^(Note 15)	Zhejiang Bonny	PRC	5496023	7 September 2009 to 6 September 2019
15.	欧耶	23 ^(Note 19)	Zhejiang Bonny	PRC	5496024	28 August 2009 to 27 August 2019
16.	欧耶	5 ^(Note 3)	Zhejiang Bonny	PRC	5496025	7 October 2009 to 6 October 2019
17.	欧耶	16 ^(Note 13)	Zhejiang Bonny	PRC	5496037	7 January 2010 to 6 January 2020

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Valid Period
18.	欧耶	28 ^(Note 24)	Zhejiang Bonny	PRC	5496038	7 January 2010 to 6 January 2020
19.	OYI 器	25 ^(Note 21)	Zhejiang Bonny	PRC	6071763	28 March 2010 to 27 March 2020
20.		25 ^(Note 21)	Zhejiang Bonny	PRC	6386960	21 June 2010 to 20 June 2020
21.	bonny 博尼	25 ^(Note 21)	Zhejiang Bonny	PRC	10042880	21 June 2013 to 20 June 2023
22.	 博尼	1 ^(Note 1)	Zhejiang Bonny	PRC	10967332	7 September 2013 to 6 September 2023
23.	 博尼	2 ^(Note 2)	Zhejiang Bonny	PRC	10973881	21 December 2013 to 20 December 2023
24.	 博尼	5 ^(Note 3)	Zhejiang Bonny	PRC	10973893	7 January 2014 to 6 January 2024
25.	 博尼	6 ^(Note 4)	Zhejiang Bonny	PRC	10985511	21 December 2013 to 20 December 2023
26.	 博尼	7 ^(Note 5)	Zhejiang Bonny	PRC	10985718	21 September 2013 to 20 September 2023
27.	 博尼	8 ^(Note 6)	Zhejiang Bonny	PRC	10985771	21 December 2013 to 20 December 2023
28.	 博尼	9 ^(Note 7)	Zhejiang Bonny	PRC	10985803	21 December 2013 to 20 December 2023
29.	 博尼	10 ^(Note 8)	Zhejiang Bonny	PRC	10985838	21 September 2013 to 20 September 2023
30.	 博尼	12 ^(Note 9)	Zhejiang Bonny	PRC	10985879	21 September 2013 to 20 September 2023
31.	 博尼	13 ^(Note 10)	Zhejiang Bonny	PRC	10985904	21 September 2013 to 20 September 2023
32.	 博尼	14 ^(Note 11)	Zhejiang Bonny	PRC	10967458	28 September 2013 to 27 September 2023
33.	 博尼	15 ^(Note 12)	Zhejiang Bonny	PRC	10985934	21 September 2013 to 20 September 2023
34.	 博尼	17 ^(Note 14)	Zhejiang Bonny	PRC	10985968	21 December 2013 to 20 December 2023
35.	 博尼	21 ^(Note 17)	Zhejiang Bonny	PRC	10991077	28 February 2014 to 27 February 2024
36.	 博尼	22 ^(Note 18)	Zhejiang Bonny	PRC	10991091	21 September 2013 to 20 September 2023
37.	 博尼	23 ^(Note 19)	Zhejiang Bonny	PRC	10967630	7 September 2013 to 6 September 2023

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Valid Period
38.		24 ^(Note 20)	Zhejiang Bonny	PRC	10967813	7 February 2014 to 6 February 2024
39.		26 ^(Note 22)	Zhejiang Bonny	PRC	10991107	21 September 2013 to 20 September 2023
40.		27 ^(Note 23)	Zhejiang Bonny	PRC	10991122	21 September 2013 to 20 September 2023
41.		29 ^(Note 25)	Zhejiang Bonny	PRC	10991142	7 March 2014 to 6 March 2024
42.		30 ^(Note 26)	Zhejiang Bonny	PRC	10991508	28 May 2014 to 27 May 2024
43.		31 ^(Note 27)	Zhejiang Bonny	PRC	10991545	21 September 2013 to 20 September 2023
44.		32 ^(Note 28)	Zhejiang Bonny	PRC	10991587	7 January 2014 to 6 January 2024
45.		33 ^(Note 29)	Zhejiang Bonny	PRC	10991609	21 September 2013 to 20 September 2023
46.		34 ^(Note 30)	Zhejiang Bonny	PRC	11031261	14 October 2013 to 13 October 2023
47.		35 ^(Note 31)	Zhejiang Bonny	PRC	11031398	14 December 2013 to 13 December 2023
48.		36 ^(Note 32)	Zhejiang Bonny	PRC	11031447	14 October 2013 to 13 October 2023
49.		37 ^(Note 33)	Zhejiang Bonny	PRC	11031513	14 October 2013 to 13 October 2023
50.		38 ^(Note 34)	Zhejiang Bonny	PRC	11031566	14 October 2013 to 13 October 2023
51.		39 ^(Note 35)	Zhejiang Bonny	PRC	11031624	14 October 2013 to 13 October 2023
52.		40 ^(Note 36)	Zhejiang Bonny	PRC	11031686	14 October 2013 to 13 October 2023
53.		41 ^(Note 37)	Zhejiang Bonny	PRC	11031714	14 October 2013 to 13 October 2023
54.		42 ^(Note 38)	Zhejiang Bonny	PRC	11031751	14 October 2013 to 13 October 2023
55.		25 ^(Note 21)	Zhejiang Bonny	PRC	11366634	21 January 2014 to 20 January 2024
56.		25 ^(Note 21)	Zhejiang Bonny	PRC	15655019	28 December 2015 to 27 December 2025
57.		25 ^(Note 21)	Zhejiang Bonny	PRC	15655149	28 February 2016 to 27 February 2026
58.		25 ^(Note 21)	Zhejiang Bonny	PRC	15655193	28 February 2016 to 27 February 2026

No.	Trademark	Class	Registered Owner	Place of Registration	Registration Number	Valid Period
59.	bonny	25 ^(Note 21)	Zhejiang Bonny	PRC	15655185	14 November 2016 to 13 November 2026
60.	bonnymiss	25 ^(Note 21)	Zhejiang Bonny	PRC	18383800	28 December 2016 to 27 December 2026
61.	bonnysport	25 ^(Note 21)	Zhejiang Bonny	PRC	18429020	21 March 2017 to 20 March 2027
62.	sportbonny	25 ^(Note 21)	Zhejiang Bonny	PRC	18429064	7 January 2017 to 6 January 2027
63.	bonnyhome	25 ^(Note 21)	Zhejiang Bonny	PRC	18429166	21 March 2017 to 20 March 2027
64.	OBONNY	25 ^(Note 21)	Zhejiang Bonny	PRC	18847347	21 May 2017 to 20 May 2027
65.	U.bonny	25 ^(Note 21)	Zhejiang Bonny	PRC	18847563	21 May 2017 to 20 May 2027
66.	Bonny Kids	25 ^(Note 21)	Zhejiang Bonny	PRC	19183456	14 June 2017 to 13 June 2027
67.	博尼生活+	25 ^(Note 21)	Zhejiang Bonny	PRC	19183548	7 April 2017 to 6 April 2027
68.	博尼生活家	25 ^(Note 21)	Zhejiang Bonny	PRC	19183582	7 April 2017 to 6 April 2027
69.	博尼优品	25 ^(Note 21)	Zhejiang Bonny	PRC	19447678	7 May 2017 to 6 May 2027
70.	 bonny 博尼	25 ^(Note 21)	Zhejiang Bonny	PRC	14199872	28 July 2016 to 27 July 2026
71.	 bonny	25 ^(Note 21)	Zhejiang Bonny	PRC	16245514	7 February 2017 to 6 February 2027
72.	博尼尚品	25 ^(Note 21)	Zhejiang Bonny	PRC	19447646	21 July 2017 to 20 July 2027
73.	U=bonny	25 ^(Note 21)	Zhejiang Bonny	PRC	21061772	21 October 2017 to 20 October 2027
74.	U+bonny	25 ^(Note 21)	Zhejiang Bonny	PRC	21061851	21 October 2017 to 20 October 2027
75.	博尼生活家	25 ^(Note 21)	Zhejiang Bonny	PRC	21061899	21 October 2017 to 20 October 2027
76.	 fayue·法悦	25 ^(Note 21)	Shanghai Bonny	PRC	8201811	14 April 2011 to 13 April 2021
77.	 梵 貝 卡 VENBECAI	25 ^(Note 21)	Shanghai Bonny	PRC	8857162	7 December 2011 to 6 December 2021

Notes:

1. The goods covered under class 1 include chemicals used in industry, science and photography, as well as in agriculture, horticulture and forestry; unprocessed artificial resins, unprocessed plastics; manures; fire extinguishing compositions; tempering and soldering preparations; chemical substances for preserving foodstuffs; tanning substances; adhesives used in industry; unprocessed plastics in the form of liquids, chips or granules.
2. The goods covered under class 2 include paints, varnishes, lacquers; preservatives against rust and against deterioration of wood; colorants; mordants; raw natural resins; metals in foil and powder form for painters, decorators, printers and artists.
3. The goods covered under class 5 include pharmaceutical and veterinary preparations; sanitary preparations for medical purposes; dietetic food and substances adapted for medical or veterinary use, food for babies; dietary supplements for humans and animals; plasters, materials for dressings; material for stopping teeth, dental wax; disinfectants; preparations for destroying vermin; fungicides, herbicides.
4. The goods covered under class 6 include common metals and their alloys; metal building materials; transportable buildings of metal; materials of metal for railway tracks; non-electric cables and wires of common metal; ironmongery, small items of metal hardware; pipes and tubes of metal; safes; goods of common metal not included in other classes; ores; unwrought and partly wrought common metals; metallic windows and doors; metallic framed conservatories.
5. The goods covered under class 7 include machines and machine tools; motors and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles); agricultural implements other than hand-operated; incubators for eggs; automatic vending machines.
6. The goods covered under class 8 include hand tools and hand operated implements; cutlery; side arms; razors; electric razors and hair cutters.
7. The goods covered under class 9 include scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life-saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulating, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images; magnetic data carriers, recording discs; compact discs, DVDs and other digital recording media; mechanisms for coin-operated apparatus; cash registers, calculating machines, data processing equipment, computers; computer software; fire-extinguishing apparatus.
8. The goods covered under class 10 include surgical, medical, dental and veterinary apparatus and instruments, artificial limbs, eyes and teeth; orthopaedic articles; suture materials; sex aids; massage apparatus; supportive bandages; furniture adapted for medical use.
9. The goods covered under class 12 include vehicles; apparatus for locomotion by land, air or water; wheelchairs; motors and engines for land vehicles; vehicle body parts and transmissions.
10. The goods covered under class 13 include firearms; ammunition and projectiles, explosives; fireworks.
11. The goods covered under class 14 include precious metals and their alloys; jewellery, costume jewellery, precious stones; horological and chronometric instruments, clocks and watches.
12. The goods covered under class 15 include musical instruments; stands and cases adapted for musical instruments.
13. The goods covered under class 16 include paper, cardboard and goods made from these materials, not included in other classes; printed matter; bookbinding material; photographs; stationery; adhesives for stationery or household purposes; artists' materials; paint brushes; typewriters and office requisites (except furniture); instructional and teaching material (except apparatus); plastic materials for packaging (not included in other classes); printers' type; printing blocks.

14. The goods covered under class 17 include rubber, gutta-percha, gum, asbestos, mica and goods made from these materials; plastics in extruded form for use in manufacture; semi-finished plastics materials for use in further manufacture; stopping and insulating materials; flexible non-metallic pipes.
15. The goods covered under class 18 include leather and imitations of leather; animal skins, hides; trunks and travelling bags; handbags, rucksacks, purses; umbrellas, parasols and walking sticks; whips, harness and saddlery; clothing for animals.
16. The goods covered under class 20 include furniture, mirrors, picture frames; articles made of wood, cork, reed, cane, wicker, horn, bone, ivory, whalebone, shell, amber, mother-of-pearl, meerschaum or plastic which are not included in other classes; garden furniture; pillows and cushions.
17. The goods covered under class 21 include household or kitchen utensils and containers; combs and sponges; brushes (except paintbrushes); brush-making materials; articles for cleaning purposes; steel wool; articles made of ceramics, glass, porcelain or earthenware which are not included in other classes; electric and non-electric toothbrushes.
18. The goods covered under class 22 include ropes, string, nets, tents, awnings, tarpaulins, sails, sacks for transporting bulk materials; padding and stuffing materials which are not made of rubber or plastics; raw fibrous textile materials.
19. The goods covered under class 23 include yarns and threads, for textile use.
20. The goods covered under class 24 include textiles and textile goods; bed and table covers; travellers' rugs, textiles for making articles of clothing; duvets; covers for pillows, cushions or duvets.
21. The goods covered under class 25 include clothing, footwear, headgear.
22. The goods covered under class 26 include lace and embroidery, ribbons and braid; buttons, hooks and eyes, pins and needles; artificial flowers.
23. The goods covered under class 27 include carpets, rugs, mats and matting, linoleum and other materials for covering existing floors; wall hangings (non-textile); wallpaper.
24. The goods covered under class 28 include games and playthings; playing cards; gymnastic and sporting articles; decorations for Christmas trees; children's toy bicycles.
25. The goods covered under class 29 include meat, fish, poultry and game; meat extracts; preserved, dried and cooked fruits and vegetables; jellies, jams, compotes; eggs, milk and milk products; edible oils and fats; prepared meals; soups and potato crisps.
26. The goods covered under class 30 include coffee, tea, cocoa, sugar, rice, tapioca, sago, artificial coffee; flour and preparations made from cereals, bread, pastry and confectionery, edible ices; honey, treacle; yeast, baking-powder; salt, mustard; vinegar, sauces (condiments); spices; ice; sandwiches; prepared meals; pizzas, pies and pasta dishes.
27. The goods covered under class 31 include agricultural, horticultural and forestry products; live animals; fresh fruits and vegetables, seeds, natural plants and flowers; foodstuffs for animals; malt; food and beverages for animals.
28. The goods covered under class 32 include beers; mineral and aerated waters; non-alcoholic drinks; fruit drinks and fruit juices; syrups for making beverages; shandy, de-alcoholised drinks, non-alcoholic beers and wines.
29. The goods covered under class 33 include alcoholic beverages (except beers); alcoholic wines; spirits and liqueurs; alcopops; alcoholic cocktails.
30. The goods covered under class 34 include tobacco; smokers' articles; matches; lighters for smokers.

31. The services covered under class 35 include advertising; business management; business administration; office functions; organisation, operation and supervision of loyalty and incentive schemes; advertising services provided via the Internet; production of television and radio advertisements; accountancy; auctioneering; trade fairs; opinion polling; data processing; provision of business information; retail services connected with the sale of pharmaceutical products.
32. The services covered under class 36 include insurance; financial services; real estate agency services; building society services; banking; stockbroking; financial services provided via the Internet; issuing of tokens of value in relation to bonus and loyalty schemes; provision of financial information.
33. The services covered under class 37 include building construction; repair; installation services; installation, maintenance and repair of computer hardware; painting and decorating; cleaning services.
34. The services covered under class 38 include telecommunications services; chat room services; portal services; e-mail services; providing user access to the Internet; radio and television broadcasting.
35. The services covered under class 39 include transport; packaging and storage of goods; travel arrangement; distribution of electricity; travel information; provision of car parking facilities.
36. The services covered under class 40 include treatment of materials; development, duplicating and printing of photographs; generation of electricity.
37. The services covered under class 41 include education; providing of training; entertainment; sporting and cultural activities.
38. The services covered under class 42 include scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware and software; computer programming; installation, maintenance and repair of computer software; computer consultancy services; design, drawing and commissioned writing for the compilation of web sites; creating, maintaining and hosting the web sites of others; design services.

(b) Domain Names

As at the Latest Practicable Date, the Group had registered the following domain names:

Domain Name	Registered Owner	Date of Registration	Expiry Date
bonnychina.com	Zhejiang Bonny	10 March 2004	10 March 2027
bonnychina.com.cn	Shanghai Bonny	16 February 2008	16 February 2024
luiseon.cn	Yiwu Leyishang	20 September 2017	20 September 2020
luiseon.com	Yiwu Leyishang	20 September 2017	20 September 2019

(c) Patents

As at the Latest Practicable Date, the Group had registered the following patents:

No.	Patent No.	Patent Name	Patent Holder(s)	Place of Registration	Class of Patents	Patent Application Date	Valid Period
1.	2009201197952	束腰收腹內褲 (translated as “waist and tummy control knickers”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
2.	200920119790X	束腰提臀內褲 (translated as “waist-control and hip-lifting knickers”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
3.	2009201198014	連體塑身內衣 (translated as “shaping bodysuits”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
4.	2009201197967	新型男士內褲 (translated as “new type of men’s underwear”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
5.	2009201197914	女式運動雙層背心 (translated as “double layer sports vest for women”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
6.	200920119800X	無痕背心 (translated as “seamless vest”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
7.	2009201197929	按摩褲 (translated as “trousers with massage function”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
8.	2011201895307	無縫保暖褲 (translated as “seamless thermal leggings”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
9.	2011201895561	無縫保暖內衣 (translated as “seamless thermal innerwear”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
10.	2011201895519	提臀收腹女內褲 (translated as “hip-lifting and tummy control knickers”)	Zhejiang Bonny	PRC	Utility model	14 May 2009	10 years
11.	2011203982545	多功能彈性塑身連體托胸內衣 (translated as “multi-functional elastic shaping push-up bodysuits”)	Zhejiang Bonny	PRC	Utility model	19 October 2011	10 years
12.	2012201182272	長褲 (translated as “long trousers”)	Zhejiang Bonny	PRC	Utility model	26 March 2012	10 years

No.	Patent No.	Patent Name	Patent Holder(s)	Place of Registration	Class of Patents	Patent Application Date	Valid Period
13.	2012201207068	長腿束褲 (translated as “long leg shapewear”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
14.	2012201208107	短腿束褲 (translated as “shaping knickers”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
15.	201220117349x	束褲 (translated as “shaping shorts”)	Zhejiang Bonny	PRC	Utility model	26 March 2012	10 years
16.	2012201201409	托胸背心 (translated as “breast support vest”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
17.	2012201201273	腰封 (translated as “girdle”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
18.	2012201191479	圓領長袖內衣 (translated as “round-neck long sleeve underwear”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
19.	2012201207072	短袖束身衣 (translated as “short sleeve shapewear”)	Zhejiang Bonny	PRC	Utility model	27 March 2012	10 years
20.	2012207195685	一種運動背心 (translated as “sports vest”)	Zhejiang Bonny	PRC	Utility model	21 December 2012	10 years
21.	2013201295487	一種男士內褲 (translated as “men’s underwear”)	Zhejiang Bonny	PRC	Utility model	20 March 2013	10 years
22.	2013208560591	抗菌男士平角褲 (translated as “antibacterial men’s trunks”)	Zhejiang Bonny	PRC	Utility model	23 December 2013	10 years
23.	2013208560712	局部抗菌運動短袖 (translated as “topical antibacterial short sleeve sports top”)	Zhejiang Bonny	PRC	Utility model	23 December 2013	10 years
24.	2013208560799	局部抗菌運動長袖 (translated as “topical antibacterial long sleeve sports top”)	Zhejiang Bonny	PRC	Utility model	23 December 2013	10 years
25.	2014104954733	一種具有護膚功能的複合無縫針織內衣的生產方法 (translated as “production method of composite seamless knitted underwear with skin care function”)	Zhejiang Bonny	PRC	Invention	24 September 2014	20 years

No.	Patent No.	Patent Name	Patent Holder(s)	Place of Registration	Class of Patents	Patent Application Date	Valid Period
26.	201410494822X	一種具有抗菌功能的複合無縫針織內衣的生產方法 (translated as “production method of composite seamless knitted underwear with antibacterial function”)	Zhejiang Bonny	PRC	Invention	24 September 2014	20 years
27.	2014104958081	一種具有保健功能的無縫針織內衣的生產方法 (translated as “production method of seamless knitted underwear with health care function”)	Zhejiang Bonny	PRC	Invention	24 September 2014	20 years
28.	2016202816790	一種內置口袋的運動褲 (translated as “sports pants with built-in pockets”)	Zhejiang Bonny	PRC	Utility model	6 April 2016	10 years
29.	2016209246478	一種文胸及其文胸的後比裝置 (translated as “a type of bra and its bra back device”)	Zhejiang Bonny	PRC	Utility model	23 August 2016	10 years
30.	201721553177X	男士短褲 (translated as “men’s shorts”)	Zhejiang Bonny	PRC	Utility model	20 November 2017	10 years

(d) Software Copyrights

As at the Latest Practicable Date, our Group had registered the following software copyrights:

No.	Registration Number	Software Copyright Name	Holder	Place of Registration	Award Date
1.	2012SR073300	博尼織造製衣MRP管理控制系統 (translated as “Bonny Weaving MRP Management Control System”)	Zhejiang Bonny	PRC	10 August 2012
2.	2012SR073307	生產計劃管理系統 (translated as “Production Planning and Management System”)	Zhejiang Bonny	PRC	10 August 2012

No.	Registration Number	Software Copyright Name	Holder	Place of Registration	Award Date
3.	2012SR073301	博尼企業HR人事管理系統 (translated as “Bonny Enterprise HR Management System”)	Zhejiang Bonny	PRC	10 August 2012
4.	2012SR073302	博尼服飾進銷存管理系統 (translated as “Bonny Garment Inventory Management System”)	Zhejiang Bonny	PRC	10 August 2012
5.	2012SR073304	博尼工資管理系統 (translated as “Bonny Wages Management System”)	Zhejiang Bonny	PRC	10 August 2012
6.	2012SR073305	博尼財務總賬管理系統 (translated as “Bonny Finance Management System”)	Zhejiang Bonny	PRC	10 August 2012
7.	2012SR073309	博尼包裝物管理系統 (translated as “Bonny Packaging Management System”)	Zhejiang Bonny	PRC	10 August 2012
8.	2012SR074772	博尼網上商城系統 (translated as “Bonny Online Sales Platform System”)	Zhejiang Bonny	PRC	14 August 2012
9.	2012SR074775	博尼服飾網上協同辦公系統 (translated as “Bonny Clothing Online Office System”)	Zhejiang Bonny	PRC	14 August 2012
10.	2012SR074780	博尼服飾條碼倉儲管理軟件 (translated as “Bonny Clothing Barcode Management System”)	Zhejiang Bonny	PRC	14 August 2012
11.	2012SR075971	手持式無線PDA倉儲出入庫及盤點管理工具軟件 (translated as “Handheld Wireless PDA Software for Inventory Management”)	Zhejiang Bonny	PRC	16 August 2012

No.	Registration Number	Software Copyright Name	Holder	Place of Registration	Award Date
12.	2012SR075973	產品創新設計知識文檔管理系統 (translated as “New Product Design Data Management System”)	Zhejiang Bonny	PRC	16 August 2012
13.	2012SR075975	化纖自動稱重條碼倉儲物流管理系統 (translated as “Inventory and Logistic Management System for Chemical Fibres”)	Zhejiang Bonny	PRC	16 August 2012
14.	2012SR068055	服裝條碼管理軟件 (translated as “Clothing Barcode Management Software”)	Zhejiang Bonny	PRC	26 July 2012

C. FURTHER INFORMATION ABOUT THE DIRECTORS, MANAGEMENT AND STAFF AND EXPERT

1. Directors

(a) *Disclosure of interests*

- (i) Each of Mr. Jin, Ms. Gong and Mr. Luo Weixing is interested in the Reorganization, details of which are disclosed in the section headed “History, Development and Corporate Structure” in this prospectus.
- (ii) Save as disclosed in the section headed “Continuing Connected Transactions”, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this prospectus.

(b) *Particulars of service contracts*

Each of our executive Directors has entered into a service contract with our Company pursuant to which each of them has agreed to act as an executive Director for an initial term of three years commencing from the Listing Date.

Each of these executive Directors is entitled to a basic salary subject to an annual review by the remuneration committee of our Board during the term. In addition, each of our executive Directors is also entitled to a discretionary management bonus to be recommended by the remuneration committee of the Board and as approved by the majority of the Board. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him. The annual salaries of the executive Directors provided under the service contracts are as follows:

Name	Annual Salary <i>RMB'000</i>
Mr. Jin	420
Mr. Zhao Hui	360

Each of the non-executive Directors and independent non-executive Directors has been appointed for an initial term of three years commencing from the Listing Date. The annual directors' fees which our Company intends to pay to all our non-executive Directors and independent non-executive Directors are as follows:

Name	Annual director's fee <i>RMB'000</i>
Ms. Gong Lijin	360
Mr. Luo Weixing	nil
Mr. Li Youxing	120
Mr. Wang Jian	120
Mr. Zhang Senquan	120

Save for directors' fees, none of the non-executive Directors and the independent non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director or an independent non-executive Director.

Save as aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries (other than contracts expiring or terminable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) Directors' remuneration

- (i) During the year ended 31 December 2018, the aggregate emoluments paid by our Group to our Directors were RMB480,000.
- (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 RMB1,500,000.

(iii) None of our Directors or any past directors of any member of our Group has 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 were no arrangement under which a Director has waived or agreed to waive any emoluments during the Track Record Period.

(d) Interests and short positions of Directors and chief executive in the shares, underlying shares or debentures of our Company and our associated corporations

Immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option), the interests and short positions of our Directors and chief executive of our Company in the shares, underlying shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are 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 to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, will be as follows:

Name of Director	Relevant company	Capacity	Number of securities or underlying securities ⁽¹⁾	Percentage of shareholding
Mr. Jin	Our Company	Interest in controlled corporation ⁽²⁾	634,500,000 (L)	52.88%
	Maximax	Beneficial owner	1 (L)	100%
Ms. Gong	Our Company	Interest of spouse ⁽³⁾	634,500,000 (L)	52.88%
Mr. Luo Weixing	Our Company	Interest in controlled corporation ⁽⁴⁾	13,500,000 (L)	1.125%
	Luo Weixing Holding Limited	Beneficial owner	1 (L)	100%
Ms. Huang Xujuan	Our Company	Interest of spouse ⁽⁵⁾	13,500,000 (L)	1.125%

Notes:

1. The letter “L” denotes the Director’s long position in the securities.
2. These Shares are held by Maximax, which is wholly owned by Mr. Jin. By virtue of the SFO, Mr. Jin is deemed to be interested in the Shares held by Maximax.
3. These Shares are held by Maximax, which is wholly owned by Mr. Jin. Mr. Jin is the spouse of Ms. Gong. By virtue of the SFO, Ms. Gong is deemed to be interested in the Shares interested by Mr. Jin.
4. These Shares are held by Luo Weixing Holding Limited, which is wholly owned by Mr. Luo Weixing. By virtue of the SFO, Mr. Luo Weixing is deemed to be interested in the Shares held by Luo Weixing Holding Limited.
5. These Shares are held by Luo Weixing Holding Limited, which is wholly owned by Mr. Luo Weixing, spouse of Ms. Huang Xujuan. By virtue of the SFO, Ms. Huang Xujuan is deemed to be interested in the Shares interested by Mr. Luo Weixing.

2. Interest discloseable under the SFO and substantial shareholders

So far as is known to our Directors and chief executive officer of our Company, immediately following the completion of the Global Offering and the Capitalization Issue (but without taking account any Shares which may be taken up under the Global Offering and any Shares which may be allotted and issued upon the exercise of the Over-allotment Option), the following persons (other than our Directors or chief executive officer of our Company) will have an interest or short position in the Shares or 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 expected, directly or indirectly, to be interested in 10% or more of the issued voting shares of our Company or any other member of our Group.

(i) Our Company

Name	Nature of interest	Number of Shares⁽¹⁾	Percentage of shareholding
Maximax	Beneficial owner	634,500,000 (L)	52.88%

(ii) Members of our Group

Name	Name of member of our Group	Nature of interest	Percentage of equity interest
Mr. Zhu Zhengxi	Yiwu Leyishang	Beneficial owner	40%
Ms. Tai Yuanhui ⁽²⁾	Yiwu Leyishang	Interest of spouse	40%
Shanghai Zhuoshi ⁽³⁾	Yiwu Bonny	Beneficial owner	30%
Mr. Chen ⁽³⁾	Yiwu Bonny	Interest in controlled corporation	30%
Ms. Zhang Li ⁽⁴⁾	Yiwu Bonny	Interest of spouse	30%

Notes:

1. The letter “L” denotes the long position in the Shares.
2. Ms. Tai Yuanhui is the spouse of Mr. Zhu Zhengxi and is deemed to be interested in the equity interest held by Mr. Zhu Zhengxi in Yiwu Leyishang.
3. Shanghai Zhuoshi is wholly owned by Mr. Chen. Mr. Chen is deemed to be interested in the equity interest held by Shanghai Zhuoshi in Yiwu Bonny.
4. Ms. Zhang Li is the spouse of Mr. Chen and is deemed to be interested in the equity interest held by Mr. Chen in Yiwu Bonny.

3. Related party transactions

Save as disclosed in note 33 to the Accountants’ Report, during the two years immediately preceding the date of this prospectus, our Group did not engage in any other material related party transactions.

4. Disclaimers

- (a) Taking no account of any Shares which may be taken up or acquired under the Global Offering or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, our Directors are not aware of any person who, save as disclosed in this paragraph in this appendix, will, immediately following the completion of the Global Offering and the Capitalization Issue, have an interest or a short position in Shares or 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, directly or indirectly, be interested in 10% or more of the issued voting shares of our Company or any other member of our Group;
- (b) Save as disclosed in this paragraph in this appendix, none of our Directors has for the purpose of Divisions 7 and 8 of Part XV of the SFO or the Listing Rules, nor is any of them taken to or deemed to have under such provisions of the SFO, any interests or short position in the shares or underlying shares and debentures of our Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which will have to be entered in the register to be kept by our Company pursuant to section 352 of the SFO or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, once the Shares are listed on the Main Board;
- (c) None of our Directors nor the experts named in paragraph E-6 of this appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of our Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of our Group nor will any Director apply for Shares either in his own name or in the name of a nominee;

- (d) Save as disclosed in note 23 to the Accountants' Report and in connection with the Underwriting Agreements, the material contracts referred to in paragraph B-1 of this appendix and the service agreements and letters of appointments referred to in paragraph C-1(b) of this appendix, none of our Directors nor the experts named in paragraph E-6 of this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole; and
- (e) none of the experts named in paragraph E-6 in this appendix has any shareholding in any member in our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member in our Group.

D. SHARE OPTION SCHEME

(a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing of the all Shareholders passed on 19 March 2019:

(i) Purpose of the scheme

The purpose of the Share Option Scheme is to enable our Group to grant options to selected participants as incentives or rewards for their contribution to our Group. Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable our Group to reward the employees, our Directors and other selected participants for their contributions to our Group.

(ii) Who may join

Our Directors (which expression shall, for the purpose of this paragraph D, include a duly authorized committee thereof) may, at their absolute discretion, invite any person belonging to any of the following classes of participants ("**Eligible Participants**"), to take up options to subscribe for Shares:

- (aa) any employee (whether full-time or part-time, including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries ("**Subsidiaries**") or any entity ("**Invested Entity**") in which our Group holds an equity interest ("**Eligible Employee**");
- (bb) any non-executive director (including independent non-executive directors) of our Company, any Subsidiary or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;

- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement and growth of our Group, and, for the purposes of the Share Option Scheme, the options may be granted to any company wholly owned by one or more Eligible Participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who falls within any of the above classes of Eligible Participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of option under the Share Option Scheme.

The eligibility of any of the Eligible Participants to the grant of options shall be determined by our Directors from time to time on the basis of our Directors' opinion as to his contribution to the development and growth of our Group.

(iii) Maximum number of Shares

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of our Group shall not exceed 30% of the issued share capital of our Company from time to time.
- (bb) The total number of Shares which may be allotted and issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of the Shares in issue on the day on which dealings in the Shares first commence on the Stock Exchange (i.e. not exceeding 120,000,000 Shares) (the "**General Scheme Limit**") but excluding any Shares which may be issued upon the exercise of the Over-Allotment Option.

(cc) Subject to paragraph (aa) above but without prejudice to paragraph (dd) below, our Company may issue a circular to its Shareholders and seek approval of its Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options scheme of our Group shall not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, canceled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to its Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to paragraph (aa) above and without prejudice to paragraph (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the refreshed limit referred to in (cc) above to Eligible Participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to its Shareholders containing a general description of the specified participants, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(iv) Maximum entitlement of each participant

Subject to paragraph (v)(bb) below, the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being ("**Individual Limit**"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such participant and his close associates (or his associates if the participant is a connected person) abstaining from voting. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

(v) *Grant of options to connected persons*

- (aa) Without prejudice to paragraph (bb) below, any grant of options under the Share Option Scheme to a director, chief executive or substantial shareholder of our Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the proposed grantee of the option).
- (bb) Without prejudice to paragraph (aa) above, where any grant of options to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1% of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million;

such further grant of options must be approved by the Shareholders in general meeting. Our Company must send a circular to the Shareholders. The grantee, his associates and all connected persons of our Company must abstain from voting in favor at such general meeting. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of our Company or any of their respective associates must be approved by the Shareholders in general meeting.

(vi) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(vii) *Performance targets*

Unless our Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

(viii) Subscription price for Shares and consideration for the option

The subscription price per Share under the Share Option Scheme shall be determined at the discretion of our Directors, provided that it shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a Business Day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations for the five Business Days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Share.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares allotted and issued upon the exercise of an option will be subject to all the provisions of the Articles of Association and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "Exercise Date") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the Exercise Date. A Share allotted and issued upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary share capital of our Company of such nominal amount as shall result from a sub-division, consolidation, re-classification, reduction or re-construction of the share capital of our Company from time to time.

(x) Restrictions on the time of grant of options

Our Company may not make any offer for grant of options after inside information has come to our knowledge until our Company has announced the information. In particular, our Company may not make any offer during the period commencing one month immediately before the earlier of (aa) the date of the meeting of the Board (as such date is first notified to the Stock Exchange under the Listing Rules) for approving our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for our Company to announce our results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules) and ending on the date of the results announcement.

Our Directors may not make any offer to an Eligible Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

(xi) Period of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not.

Eligible Employee means any employee (whether full time or part time employee, including any executive director but not any non-executive director) of our Company, any of its Subsidiaries or any Invested Entity.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with our Company, the relevant Subsidiary or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of persistent and serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offense

(other than an offense which in the opinion of our Directors does not bring the grantee or our Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If our Directors shall at their absolute discretion determine that (aa) the grantee of any option (other than an Eligible Employee) or his close associate (or his associates if the grantee is a connected person) has committed any breach of any contract entered into between the grantee or his close associate on the one part and our Group or any Invested Entity on the other part; or (bb) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (cc) the grantee could no longer make any contribution to the growth and development of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever, then the option granted to the grantee under the Share Option scheme shall lapse as a result of any event specified in sub-paragraph (aa), (bb) or (cc) above.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavors to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of our Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

(xvii) Rights on winding up

In the event of a resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two Business Days before the date on which such resolution is to be considered and/or passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option

Scheme and our Company shall allot and issue to the grantee the Shares in respect of which such grantee has exercised his option not less than one Business Day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of the Shares allotted and issued to him in the aforesaid manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

(xviii) Grantee being a company wholly owned by Eligible Participants

If the grantee is a company wholly owned by one or more Eligible Participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the options to such grantee, *mutatis mutandis*, as if such options had been granted to the relevant Eligible Participant, and such options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant Eligible Participant; and
- (ii) the options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant Eligible Participant provided that our Directors may in their absolute discretion decide that such options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

(xix) Adjustments to the subscription price

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of our Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such adjustment; (ii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules and such other applicable guidance and/or interpretation of the Listing Rules from time to time issued by the Stock Exchange.

(xx) Cancellation of options

Any cancellation of options granted but not exercised must be subject to the consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the new limits approved by the Shareholders pursuant to sub-paragraphs (iii) (cc) and (dd) above.

(xxi) Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any 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.

(xxii) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxiii) Lapse of options

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the period referred to in paragraph (vi);
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvii) and (xviii);
- (cc) the date on which our Directors shall exercise our Company's right to cancel the option by reason of a breach of paragraph (xxii) by the grantee in respect of that or any other options.

(xxiv) Others

- (aa) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.
- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the Shareholders in general meeting.

- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules, the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rule 23.03(13) and the Note Immediately After the Rule” set out in the letter from the Stock Exchange to all listed issues dated 5 September 2005 and other relevant guidance of the Stock Exchange.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

(b) Present status of the Share Option Scheme

(i) Approval of the Listing Committee required

The Share Option Scheme, which complies with Chapter 17 of the Listing Rules, is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit.

(ii) Application for approval

Application has been made to the Listing Committee for the listing of and permission to deal in the Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) Grant of option

As at the date of this prospectus, no options have been granted or agreed to be granted under the Share Option Scheme.

(iv) Value of options

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

E. OTHER INFORMATION**1. Estate duty, tax and other indemnities**

Mr. Jin and Maximax (collectively the “**Indemnifiers**”) have executed the Deed of Indemnity in favor of our Company (for itself and as trustee for each of its present 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 Hong Kong estate duty which might be incurred by us by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to us on or before the date on which the Global Offering becomes unconditional (the “**Effective Date**”);
- (b) taxation which might fall on us in respect of any income, profits or gains earned, accrued or received on or before the Effective Date, subject to certain exceptions set out below;
- (c) taxation which may fall on us arising from the Reorganization payable under the Notice on Strengthening Enterprise Income Taxation on Non-Resident Enterprises with respect to Gains from Equity Transfer* (國家稅務總局關於加強非居民企業股權轉讓所得企業所得稅管理的通知) promulgated by the SAT or any event or transaction on or before the Effective Date, subject to certain exceptions set out below; and
- (d) any damages, losses, liabilities, claims, fines, penalties, orders, expenses and costs, or loss of profits, benefits which are or become payable or suffered by us directly or indirectly as a result of and in connection with any non-compliance(s) of our Group with all applicable laws, rules or regulations on or before the Effective Date.

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 31 December 2018 which arises in our ordinary course of business; or
- (2) to the extent that such taxation falls on us in respect of the accounting period commencing on or after 1 January 2019 unless such taxation would not have arisen but for an act or omission of, or transaction voluntarily effected by the Indemnifiers or us otherwise than in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets, before the Effective Date; or

- (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; or
- (4) to the extent that such taxation arises 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 December 2018 and which is finally established to be an over-provision or an excessive reserve.

2. Litigation

Neither our Company nor any of our 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 our 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 that may be issued upon the exercise of the Over-allotment Option or any Shares to be issued pursuant to the exercise of any options 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 the Company a total fee of HK\$4 million to act as the sponsor to the Company in connection with the Global Offering. The Sole Sponsor is entitled to a bonus of HK\$500,000 upon successful listing of our Company.

4. Preliminary expenses

The preliminary expenses incurred by our Company were approximately RMB173,000 and were 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. Qualification of experts

The qualifications of the experts who have given opinions or advice in this prospectus are as follows:

Name	Qualifications
Innovax Capital Limited	Licensed corporation to conduct Type 1 and Type 6 regulated activities under the SFO
Ernst & Young	Certified Public Accountants
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant
King & Wood Mallesons	Qualified legal advisers as to PRC law
Harney Westwood & Riegels	Cayman Islands attorneys-at-law
AVISTA Valuation Advisory Limited	Independent valuer

7. Consents of experts

Each of the experts named in paragraph E-6 above has given and has not withdrawn its written consents 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 names 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 present Cayman Islands 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) Save as disclosed in "History, Development and Corporate Structure" and "Structure of the Global Offering" and paragraph A-2 in this appendix within two years immediately preceding the date of this prospectus:
 - (aa) 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;
 - (bb) 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
 - (cc) 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) There has been no material adverse change in the financial position or prospects of our Group since 31 December 2018 (being the date to which the latest audited consolidated financial statements of our Group were made up);
- (iv) 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;

- (v) There is no arrangement under which future dividends are waived or agreed to be waived;
- (vi) There are no founder, management or deferred shares in our Company or any of its subsidiaries;
- (vii) Our Group does not have any outstanding convertible debt securities or debentures;
- (viii) No securities of our Group are listed, and no listing of any such securities is proposed to be sought, on any other stock exchange;
- (ix) All necessary arrangements have been made to enable the Shares to be admitted into CCASS; and
- (x) 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).

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES IN HONG KONG AND
AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE, YELLOW, and GREEN** Application Forms;
- (b) a copy of each of the material contracts referred to in “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix V to this prospectus; and
- (c) the written consents referred to in “Statutory and General Information – E. Other Information – 7. Consents of Experts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Loeb & Loeb LLP at 21st Floor, CCB Tower, 3 Connaught Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and Articles of Association of our Company;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the letter from Ernst & Young in respect of the unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the consolidated audited financial statements of our Group for three years ended 31 December 2016, 2017 and 2018;
- (e) the letter, summary of valuations and valuation certificates relating to the property interests of the Group prepared by AVISTA Valuation Advisory Limited, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter of advice prepared by Harney Westwood & Riegels, our Cayman Islands legal advisor, summarising certain aspects of the Cayman Companies Law referred to in Appendix IV to this prospectus;
- (g) the PRC legal opinions on our Group’s operations and property interests in the PRC issued by King & Wood Mallesons, our Company’s PRC legal adviser;
- (h) the service agreements and letters of appointment referred to in “Statutory and General Information – C. Further Information about the Directors – 1. Directors – (b) Particulars of service contracts” in Appendix V to this prospectus;

**APPENDIX VI DOCUMENTS DELIVERED TO THE REGISTRAR
OF COMPANIES IN HONG KONG AND
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- (i) the material contracts referred to in “Statutory and General Information – B. Further Information about Our Business – 1. Summary of Material Contracts” in Appendix V to this prospectus;
- (j) the written consents referred to in “Statutory and General Information – E. Other Information – 7. Consents of Experts” in Appendix V to this prospectus;
- (k) the rules of the Share Option Scheme;
- (l) the industry report issued by Frost & Sullivan, the summary of which is set forth in “Industry Overview” to this prospectus; and
- (m) the Cayman Companies Law.



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