

CIRTEK HOLDINGS LIMITED

常達控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock code: 1433

GLOBAL OFFERING

Sole Sponsor

千里碩 
ELSTONE

Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers

千里碩 
ELSTONE

 一盈證券有限公司
I WIN SECURITIES LTD.

IMPORTANT

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

CIRTEK HOLDINGS LIMITED

常達控股有限公司

(Incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares	: 500,000,000 Shares (subject to the Over-allotment Option)
Number of Hong Kong Offer Shares	: 50,000,000 Shares (subject to reallocation)
Number of International Placing Shares	: 450,000,000 Shares (subject to reallocation and the Over-allotment Option)
Maximum Offer Price	: HK\$0.29 per Offer Share, plus brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 1433

Sole Sponsor



Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers



Joint Bookrunners and Joint Lead Managers



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 and available for public inspection in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about Wednesday, 4 March 2020 and, in any event, unless otherwise announced, not later than Monday, 9 March 2020. The Offer Price will be no more than HK\$0.29 and is currently expected to be no less than HK\$0.25 unless otherwise announced. Investors applying for the Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$0.29 for each Offer Share together with a brokerage fee of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is lower than HK\$0.29. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us on or before Monday, 9 March 2020, unless otherwise announced, the Global Offering will not proceed and will lapse.

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

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

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state of the United States, and may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares will be offered and sold only outside the United States in offshore transactions in reliance on Regulation S.

28 February 2020

EXPECTED TIMETABLE⁽¹⁾

Hong Kong Public Offering commences and **WHITE** and **YELLOW** Application Forms available from 9:00 a.m. on Friday, 28 February 2020

Latest time to complete electronic applications under **HK eIPO White Form** service through one of the below ways⁽²⁾:
(1) the designated website **www.hkeipo.hk**
(2) the **IPO App**, which can be downloaded by searching “**IPO App**” in App Store or Google Play or downloaded at **www.hkeipo.hk/IPOApp** or **www.tricorglobal.com/IPOApp** 11:30 a.m. on Wednesday, 4 March 2020

Application lists open⁽³⁾ 11:45 a.m. on Wednesday, 4 March 2020

Latest time to lodge **WHITE** and **YELLOW** Application Forms and **electronic application instructions** to HKSCC⁽⁴⁾ 12:00 noon on Wednesday, 4 March 2020

Latest time to complete payment of **HK eIPO White Form** applications by effecting internet banking transfer(s) or PPS payment transfer(s) 12:00 noon on Wednesday, 4 March 2020

Application lists close 12:00 noon on Wednesday, 4 March 2020

Expected Price Determination Date⁽⁵⁾ on or around Wednesday, 4 March 2020

Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Placing; and
- the basis of allotment of the Hong Kong Offer Shares,

to be published on the websites of the Stock Exchange at **www.hkexnews.hk** and of our Company at **www.cirtek.com** on or before Wednesday, 11 March 2020

Results of allocations of the Hong Kong Public Offering (including successful applicants’ identification document numbers, where appropriate) to be available through a variety of channels (see the section headed “How to apply for our Hong Kong Offer Shares — 11. Publication of results” in this prospectus) Wednesday, 11 March 2020

EXPECTED TIMETABLE⁽¹⁾

Results of allocations in the Hong Kong Public Offering to be available at www.tricor.com.hk/ipo/result (alternatively: <https://www.hkeipo.hk/IPOResult>) or at “Allotment Result” function in the **IPO App**, with a “search by ID” function Wednesday, 11 March 2020

Despatch/collection of refund cheques or **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially unsuccessful applications and wholly or partially successful applications if the final Offer Price is less than the price payable on application (if applicable) on or before⁽⁶⁾ Wednesday, 11 March 2020

Despatch/collection of Share certificates or deposit of Share certificates into CCASS in respect of wholly or partially successful applications on or before⁽⁶⁾ Wednesday, 11 March 2020

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on Thursday, 12 March 2020

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure and conditions of the Global Offering, including its conditions, are set out in the section headed “Structure and conditions of the Global Offering” in this prospectus.
- (2) You will not be permitted to submit your application to the **HK eIPO White Form** Service Provider through the designated website at www.hkeipo.hk or the **IPO App** after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above or “Extreme Conditions” in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2020, the application lists will not open on that day. Further information is set out in the section headed “How to apply for our Hong Kong Offer Shares — 10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists” in this prospectus.
- (4) If you apply by giving **electronic application instructions** to HKSCC, you should refer to the section headed “How to apply for our Hong Kong Offer Shares — 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
- (5) We expect to determine the Offer Price by agreement with the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Wednesday, 4 March 2020 and, in any event, unless otherwise announced, not later than Monday, 9 March 2020. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and us by Monday, 9 March 2020, unless otherwise announced, the Global Offering will not proceed and will lapse.

EXPECTED TIMETABLE⁽¹⁾

- (6) We will issue refund cheque or e-Auto Refund payment instructions to you if your application is wholly or partially unsuccessful or if the final Offer Price is less than the price per Offer Share payable on application. We will despatch Share certificates and refund cheque(s) by ordinary post to you at your own risk to the address you specified in your Application Form. If you have applied for 1,000,000 Hong Kong Offer Shares or more and have provided all information required in your Application Form, you may collect refund cheque(s) and/or Share certificates from our Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2020 or any other place and date we announce on the websites of the Stock Exchange and of our Company as the place and date of despatch of Share certificates/e-Auto Refund payment instructions/refund cheque(s). If you are an individual applicant, you may not authorise any other person to collect on your behalf. If you are a corporate applicant, you must attend by your authorised representative with your letter of authorisation stamped with your corporate chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to Hong Kong Branch Share Registrar. If you fail to collect within the time specified for collection, we will despatch uncollected Share certificates and refund cheque(s) by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed "How to apply for our Hong Kong Offer Shares" in this prospectus.

Share certificates are expected to be issued on Wednesday, 11 March 2020 but will only become valid certificates of title if the Global Offering has become unconditional in all respects and neither of the Underwriting Agreements are terminated in accordance with their respective terms before 8:00 a.m. on the Listing Date, which is expected to be Thursday, 12 March 2020.

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed "Structure and conditions of the Global Offering" in this prospectus.

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IMPORTANT NOTICE TO INVESTORS

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

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not contained nor made in this prospectus and the Application Forms must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents or representatives or any other parties involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety before you decide to invest in the Hong Kong Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Hong Kong Offer Shares are set out in the section headed “Risk factors” in this prospectus. You should read that section carefully before you decide to invest in the Hong Kong Offer Shares. Various expressions used in this section are defined or explained in the section headed “Definitions” in this prospectus.

OVERVIEW

We principally manufacture and sell apparel labels and trim products, which are largely accessories attached to apparel products, such as hang tags, woven labels, printed labels and heat transfer products. According to the F&S Report, we ranked fifth in terms of revenue in the apparel labels and trim products manufacturing market in the PRC in 2018. During the Track Record Period, we generated over 70% of our revenue from the sales of hang tags and woven labels.

SUMMARY

The table below sets out the breakdown of our revenue, sales volume, average sales price, gross profit and gross profit margin of our products by product types during the Track Record Period:

Products	For the year ended 31 December											For the eight months ended 31 August																		
	2016				2017				2018				2018				2019													
	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Gross profit margin (Note 5) (%)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Gross profit margin (Note 5) (%)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Gross profit margin (Note 5) (%)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Gross profit margin (Note 5) (%)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Gross profit margin (Note 5) (%)										
Hang tags (Note 1)	141,529	58.6	490.2	0.29	62,775	44.4	168,793	55.3	546.9	0.31	75,386	44.7	196,749	52.9	626.6	0.31	87,575	44.5	130,402	51.7	413.5	0.32	57,805	44.3	122,209	54.0	441.7	0.28	59,697	48.8
Woven labels (Note 1)	36,201	15.0	141.8	0.26	18,517	51.2	46,543	15.3	181.3	0.26	22,823	49.0	67,670	18.2	255.6	0.26	33,153	49.0	46,390	18.4	169.5	0.27	22,664	48.9	38,333	16.9	141.4	0.27	21,600	56.3
Printed labels (Note 1)	19,395	8.0	94.7	0.20	10,331	53.3	28,887	9.5	133.8	0.22	14,998	51.9	38,206	10.3	170.1	0.22	19,708	51.6	23,699	9.4	112.8	0.21	12,495	52.7	24,338	10.7	110.8	0.22	13,183	54.2
Heat transfer products	24,332	10.1	109.5	0.22	14,887	61.1	26,760	8.8	107.9	0.25	16,148	60.3	24,432	6.6	99.8	0.25	14,116	57.7	16,715	6.6	68.2	0.25	9,679	57.9	12,675	5.6	50.6	0.25	7,118	56.2
Stickers	11,290	4.7	86.8	0.13	6,809	60.3	8,749	2.9	68.1	0.13	5,004	57.2	10,453	2.8	86.2	0.12	5,755	54.9	6,949	2.8	54.0	0.13	3,770	54.3	8,766	3.9	79.1	0.11	4,714	53.8
Strings and seals	4,960	2.1	40.3	0.12	2,026	40.9	7,055	2.3	54.2	0.13	2,851	40.4	9,594	2.6	74.3	0.13	3,889	40.9	6,265	2.5	47.6	0.13	2,547	40.7	5,420	2.4	49.4	0.11	2,150	39.7
Other products (Note 2)	13,837	5.6	32.9	N/A	1,699	N/A	28,418	9.2	106.7	N/A	3,498	N/A	32,136	8.6	38.0	N/A	5,521	N/A	27,118	10.7	24.0	N/A	4,983	N/A	18,137	8.0	21.4	N/A	4,121	N/A
Rebate expenses (Note 3)	(9,556)	(4.1)	N/A	N/A	(9,956)	N/A	(10,184)	(3.3)	N/A	N/A	(10,184)	N/A	(7,287)	(2.0)	N/A	N/A	(7,287)	N/A	(5,383)	(2.1)	N/A	N/A	(5,383)	N/A	(3,367)	(1.5)	N/A	N/A	(3,367)	N/A
Total	241,628	100.0	996.2	0.24	107,108	44.3	305,021	100.0	1,198.9	0.25	130,524	42.8	371,883	100.0	1,350.6	0.28	162,410	43.7	252,155	100.0	889.6	0.28	108,590	43.1	226,511	100.0	894.4	0.25	109,216	48.2

SUMMARY

Notes:

- (1) The revenues generated by the sale of our RFID products are included in the revenues of hang tags and labels in which these products are embedded. The revenues generated by the sale of our RFID products were approximately HK\$0.6 million, HK\$4.7 million, HK\$4.4 million and HK\$2.1 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, which accounted for approximately 0.3%, 1.5%, 1.2% and 0.9% of our total revenue for the corresponding period, respectively.
- (2) Other products comprise packaging boxes, sequins, patches, bags and badges. Our Directors believe that it is not meaningful to produce an average sales price and gross profit margin for this category because these products have a diverse price range and gross profit margin range.
- (3) Please refer to the section headed “Business — Sales, marketing and customers — Rebate arrangement” in this prospectus for details.
- (4) The sales prices of our products are affected by various factors such as costs of raw materials, the level of technical skills required in the production, quantity of purchase orders and labour costs. The sales volumes and the average sales prices of our RFID and NFC products are included in the sales volumes and the average sales prices of hang tags and labels in which these products are embedded.
- (5) The breakdown of gross profit and gross profit margin by product types during the Track Record Period is based on the best estimation of our Directors and is for illustration purpose.

During the first three years of the Track Record Period, our gross profit margin had remained relatively stable, at approximately 44.3% for the year ended 31 December 2016, with slight decreases to approximately 42.8% and approximately 43.7% for the years ended 31 December 2017 and 2018, respectively. Our gross profit margin increased from approximately 43.1% for the eight months ended 31 August 2018 to approximately 48.2% for the eight months ended 31 August 2019 mainly due to (i) lower cost of sales as a result of the depreciation of RMB against HKD during the period; and (ii) the decrease in subcontracting fee in relation to the production of woven labels.

Our average sales price decreased from HK\$0.28 per piece for the eight months ended 31 August 2018 to HK\$0.25 per piece for the eight months ended 31 August 2019 mainly due to the decrease in average sales price of hang tags from HK\$0.32 per piece for the eight months ended 31 August 2018 to HK\$0.28 per piece for the eight months ended 31 August 2019. Such decrease was mainly attributed by the decrease in average sales price of hang tags attributable to Apparel Brand B and that purchased in larger volume attributable to Apparel Brand D and another brand for the eight months ended 31 August 2019 as their ordered products were generally of simpler design which were less costly to manufacture.

The sales volume of woven labels decreased from approximately 169.5 million for the eight months ended 31 August 2018 to approximately 141.4 million for the eight months ended 31 August 2019 mainly due to the decrease in demand of woven labels from apparel brands, such as Apparel Brand B and Apparel Brand F, during the period. Our revenue generated from other products decreased from approximately HK\$27.1 million for the eight months ended 31 August 2018 to HK\$18.1 million for the eight months ended 31 August 2019 mainly due to (i) the decrease in sales of badges by approximately HK\$3.3 million during the period as compared to the corresponding period in 2018; (ii) no sales of sequins during the period as compared to the sales of sequins of approximately HK\$2.9 million for the eight months ended 31 August 2018; and (iii) the general decrease in the aggregated sales of bags, packaging boxes and patches by approximately HK\$2.8 million during the period as compared to the corresponding period in 2018.

SUMMARY

Please refer to the section headed “Business — Products” in this prospectus for further details on our products.

We mainly sell our products to apparel manufacturers which are the manufacturers for some U.S. and European apparel brands’ apparel products. In some cases, our products are directly sold to certain apparel brands and sourcing agents appointed by apparel brands or apparel manufacturers. During the Track Record Period, we generated revenue from over 40 countries mainly from Hong Kong, the PRC, Bangladesh, Turkey, Vietnam and the U.S..

The table below sets out a breakdown of revenue according to geographical locations of our customers during the Track Record Period:

Countries/region	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Hong Kong	86,841	35.9	104,344	34.2	112,996	30.4	76,959	30.5	62,075	27.4
The PRC	64,890	26.9	84,152	27.6	92,602	24.9	65,120	25.8	58,104	25.7
Bangladesh	16,177	6.7	25,673	8.4	37,350	10.0	24,695	9.8	22,018	9.7
Vietnam	9,495	3.9	11,758	3.9	19,382	5.2	11,296	4.5	12,342	5.5
United States	13,692	5.7	15,485	5.1	19,074	5.1	14,467	5.7	12,205	5.4
Turkey	9,841	4.1	13,049	4.3	15,112	4.1	8,457	3.4	10,525	4.6
India	5,551	2.3	8,139	2.7	14,131	3.8	8,157	3.2	7,467	3.3
Pakistan	4,638	1.9	6,963	2.3	8,822	2.4	5,417	2.1	5,637	2.5
Others ^(Note)	40,439	16.7	45,642	14.8	59,701	16.1	42,970	17.1	39,505	17.4
Rebate expenses	(9,936)	(4.1)	(10,184)	(3.3)	(7,287)	(2.0)	(5,383)	(2.1)	(3,367)	(1.5)
Total	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0

Note: Others mainly include our revenue generated from over 40 countries, including Tunisia and Germany, and none of them generated more than 5% of our revenue during the Track Record Period.

SUMMARY

For the eight months ended 31 August 2019, the decrease in revenues (i) from Hong Kong was mainly due to the decrease in aggregated revenue of approximately HK\$8.9 million generated from Customer A, Customer B and Customer F during the period which were in turn caused mainly by decrease in demand from Apparel Brand B and a number of apparel brands generally sourced by Customer A; (ii) from the PRC was mainly due to the decrease in aggregated revenue of approximately HK\$1.5 million generated from Customer A and Customer C which were in turn caused mainly by decrease in demand from Apparel Brand B and a number of apparel brands generally sourced by Customer A and the decrease in total number of customers in the PRC during the period which our Directors consider that may due to the general economic downturn and the trade war between China and the U.S.; (iii) from Bangladesh was mainly due to the decrease in revenue of approximately HK\$2.2 million generated from Customer B during the period which were in turn caused mainly by decrease in demand from Apparel Brand B and Apparel Brand D; (iv) from the United States was mainly due to the decrease in aggregated revenue of approximately HK\$2.3 million generated from two of our apparel brands during the period which our Directors consider that may due to the general economic downturn; and (v) from India was mainly due to the decrease in revenue of approximately HK\$0.8 million generated from one of our customers during the period which were in turn caused mainly by decrease in demand from Apparel Brand B.

Please refer to the sections headed “Business — Business model and business operations — Business model” and “Business — Sales, marketing and customers — Customers” in this prospectus for further details on our customers.

We have sales and marketing teams (including marketing services consultants) located in the U.S., Europe, Hong Kong, the PRC, Bangladesh, Vietnam, India, Pakistan and Cambodia responsible for identifying new business opportunities as well as establishing and maintaining relationships with our customers. Please refer to the section headed “Business — Sales, marketing and customers” in this prospectus for further details on our customers.

We commenced our printing operation in Hong Kong in 1992 and subsequently set up our main production facilities in the PRC, Bangladesh and Vietnam with an aggregate gross floor area of approximately 37,902 sq. m., 3,300 sq. m. and 2,370 sq. m., respectively. In addition, we have a supporting production line in the U.S.. We have more than 400 machines, including offset printing machines with one, two, four, five and six colours, digital printing machines, flexographic printing machines, weaving machines, cutting machines, surface treatment machines, die-cutter machines and cut-fold machines, which enable us to produce a wide range of apparel labels and trim products to cater our customers’ need. Depending on customers’ requirements, our apparel labels and trim products are typically produced according to the designs and specifications approved by the relevant apparel brands. Please refer to the section headed “Business — Production” in this prospectus for further details on our production. As at the Latest Practicable Date, we had a total of approximately 1,060 employees.

The apparel brands typically engage apparel manufacturers for manufacturing the apparel products. In addition, the apparel brands may source for apparel labels and trim products from us for use in the production of apparel products either directly or through sourcing agents or apparel manufacturers. In most cases, if the apparel brands appoint their apparel manufacturers to source the apparel accessories from us, the apparel brands will discuss with us on the product designs, specifications and price target. As at the Latest Practicable Date, we were informed that we were on the list of approved suppliers of over 90 apparel brands. The apparel manufacturers will contact us to discuss other detailed terms of the orders, such as quantity, final price per unit, delivery arrangement and payment terms.

SUMMARY

COMPETITIVE STRENGTHS

Our principal competitive strengths are:

- Wide range of apparel labels and trim products;
- Well-established geographical presence to maintain strong relationship with apparel brands and their manufacturers;
- Strong product development and technical capabilities enable us to successfully and continuously expand our product range and increase our production efficiency;
- High standard of production and commitment to quality control; and
- Experienced management team with extensive knowledge of the apparel labels and trim products manufacturing industry.

BUSINESS STRATEGIES

Our aim is to strengthen our position in the apparel labels and trim products manufacturing industry. To achieve this objective, we have formulated the following major business strategies:

- Expand our production facilities and increase the production capacity in Bangladesh; and
- Enhance our productivity through the purchase of new printing machines.

PRICING POLICY

Our sales and marketing teams negotiate our quote directly with the apparel brands once a year and such quoted fee generally remain as the quote for our products during the year. In general, the price of our products is fixed between us and the apparel brands directly or through the sourcing agents. Occasionally, the apparel manufacturers may negotiate for a discount on the unit price of the fee quote that has been agreed with the apparel brands. Such requests for discounts are handled on a case-by-case basis. In determining our quote, we take into account the raw materials, the level of technical skills required, quantity of purchase orders, the number of delivery places, locations and labour cost.

SUMMARY

OUR CUSTOMERS

Our customers are mainly apparel manufacturers which are the manufacturers of some U.S. and European apparel brands. In addition, our products are directly sold to certain apparel brands and sourcing agents appointed by some apparel brands or apparel manufacturers.

The table below sets out the breakdown of revenue by customer types:

Customer types	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	% (HK\$'000)	(HK\$'000)	% (HK\$'000)	(HK\$'000)	% (HK\$'000)	(HK\$'000)	% (HK\$'000)	(HK\$'000)	% (HK\$'000)
Apparel										
Manufacturers	174,529	72.2	223,481	73.2	288,191	77.5	193,073	76.6	179,543	79.3
Apparel brands	18,972	7.9	19,183	6.3	20,671	5.6	14,757	5.9	12,688	5.6
Sourcing agents	53,881	22.3	59,071	19.4	52,750	14.2	36,565	14.5	28,709	12.7
Others ^(Note)	4,182	1.7	13,470	4.4	17,558	4.7	13,143	5.1	8,938	3.9
Subtotal	251,564	104.1	315,205	103.3	379,170	102.0	257,538	102.1	229,878	101.5
Rebate expenses	(9,936)	(4.1)	(10,184)	(3.3)	(7,287)	(2.0)	(5,383)	(2.1)	(3,367)	(1.5)
Total	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0

Note: Others mainly represent online store for sale of third party designer brands and agents for apparel manufacturers (which are not sourcing agents).

Our top five customers, which were Independent Third Parties, in aggregate accounted for approximately 30.8%, 28.4%, 24.5% and 22.7%, of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Our largest customer accounted for approximately 20.2%, 17.4%, 12.8% and 11.6%, of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Please refer to the section headed “Business — Sales, marketing and customers” in this prospectus for further details of our major customers.

OUR SUPPLIERS

We mainly source raw materials such as papers, chemical products, strings and seals, and yarns from suppliers located in the PRC.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our top five suppliers, which were Independent Third Parties, in aggregate accounted for approximately 12.1%, 10.3%, 13.0% and 9.4%, and our largest supplier accounted for approximately 4.3%, 2.3%, 3.3% and 2.8%, of our total cost of sales (including subcontracting services), respectively. Please refer to the section headed “Business — Raw materials and suppliers” in this prospectus for further details of our major suppliers.

SUMMARY

OUR SUBCONTRACTORS

We engage external subcontractors to produce some of our products to meet demands of some of our customers where we do not have production facilities, or to conduct certain production processes which are more labour intensive and for better time management and efficiency, such as folding of bags and packaging boxes and putting strings through hang tags. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, the total amount we paid to our subcontractors accounted for approximately 11.5%, 9.3%, 10.7% and 9.0% of our cost of sales, respectively.

SUMMARY OF KEY OPERATIONAL AND FINANCIAL INFORMATION

Summary of consolidated statements of profit or loss

The table below sets out selected items of our consolidated statements of profit or loss for the Track Record Period which are extracted from the Accountants' Report as set out in Appendix I to this prospectus:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Revenue	241,628	305,021	371,883	252,155	226,511
Cost of sales	(134,520)	(174,497)	(209,473)	(143,595)	(117,295)
Gross profit	107,108	130,524	162,410	108,560	109,216
Profit before tax	25,917	33,768	41,755	31,189	19,409
Net profit	19,556	25,748	33,735	25,693	12,482
Profit attributable to owners of our Company	19,229	24,208	31,940	24,497	11,331

SUMMARY

Our growth in revenue for the years ended 31 December 2016, 2017 and 2018 was mainly attributable to an increase in sales of certain major products to the apparel manufacturers produced for our major apparel brands. Our cost of sales increased in proportion to the increase in revenue and hence our growth in gross profit. Despite our revenue decreased by approximately 10.2% between the eight months ended 31 August 2018 and 2019 mainly as a result of (i) the decrease in revenue generated from our four major customers during the period; and (ii) the decrease in average sales price of hang tags which was partially offset by the increase in sales volume during the period, our gross profit slightly increased mainly due to (i) the decrease in cost of sales as a result of the depreciation of RMB against HKD during the period; and (ii) the decrease in subcontracting fee in relation to the production of woven labels during the period. As a result of the incurred listing expenses of approximately HK\$10.0 million for the eight months ended 31 August 2019 and the increase in our administrative expenses by approximately 8.6%, when compared with the corresponding expenses for the eight months ended 31 August 2018, our net profit for the eight months ended 31 August 2019 decreased by approximately 51.4% when compared with the net profit for the eight months ended 31 August 2018. For further details, please refer to “Financial Information” in this prospectus.

Non-HKFRS financial measures

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year/period	19,556	25,748	33,735	25,693	12,482
Add: Listing expenses	–	–	4,030	–	9,958
Adjusted profit for the year/period	<u>19,556</u>	<u>25,748</u>	<u>37,765</u>	<u>25,693</u>	<u>22,440</u>

Note: Adjusted profit has been arrived at by adding back the Listing expenses as presented in accordance with HKFRS.

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted profit for the year as additional financial measures. We present these financial measures as they are used by our Directors to evaluate our operating performance. We also believe that these financial measures provide useful information in understanding and evaluating our consolidated results of operations. For further details, please refer to “Financial Information — Non-HKFRS financial measures”.

SUMMARY

Summary of consolidated statements of financial position

The table below sets out the principal components of our assets and liabilities as at 31 December 2016, 2017 and 2018 and 31 August 2019:

	As at 31 December			As at
	2016	2017	2018	31 August
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Non-current assets	76,962	113,163	153,424	140,721
Current assets	95,677	122,520	117,442	123,300
Current liabilities	82,737	122,176	113,451	101,088
Net current assets	12,940	344	3,971	22,212
Non-current liabilities	16,772	29,594	40,679	34,224
Net assets	73,130	83,913	116,716	128,709

Summary of consolidated statements of cash flows

The table below sets out selected items of our key consolidated cash flows for the Track Record Period:

	For the year ended 31 December			For the eight months ended	
	2016	2017	2018	31 August	
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Net cash generated from					
operating activities	34,140	43,609	56,081	57,649	27,965
Net cash used in investing activities	(3,606)	(18,092)	(41,104)	(41,361)	(9,180)
Net cash used in financing activities	(20,510)	(13,558)	(26,009)	(19,908)	(18,028)
Cash and cash equivalents					
at the end of the year/period	22,157	34,209	22,958	30,477	23,620

SUMMARY

Summary of production capacity

The table below sets out the estimated average utilisation rate of our machines for production in our production facilities in the PRC, Bangladesh and Vietnam during the Track Record Period:

Utilisation rate (%)	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
The PRC Factories					
Printing	80.4	74.9	80.2	80.8	80.7
Weaving	65.2	71.1	109.1	104.0	111.7
Post-production	61.4	61.7	64.1	66.2	58.8
RFID	73.6	37.0	25.4	29.2	29.4
Bangladesh Factory					
Printing	40.0	48.8	48.7	49.4	93.5
Weaving	-	-	62.4	67.8	116.0
Post-production	46.9	49.2	54.5	56.2	73.5
Vietnam Factory					
Printing	19.7	32.0	40.8	39.4	46.8
Weaving	-	-	-	-	21.0
Post-production	15.8	26.3	35.4	34.8	37.5

The increase in the average utilisation rate of our Bangladesh Factory for the eight months ended 31 August 2019 was primarily due to (i) the increase in the percentage of sales of our products which were being manufactured in the Bangladesh Factory and sold in Bangladesh locally; and (ii) the Bangladesh Factory having manufactured products that were sold to India and Pakistan in 2019.

Please refer to the sections headed “Business — Production capacity” in this prospectus for details of the utilisation rate and the underlying assumptions of the calculation.

SUMMARY

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at each of the dates indicated:

	As at/For the year ended 31 December			For the eight months ended 31 August 2019
	2016	2017	2018	
Gross Profit Margin (%) ^(Note 1)	44.3	42.8	43.7	48.2
Net Profit Margin (%) ^(Note 2)	8.1	8.4	9.1	5.5
Return on equity (%) ^(Note 3)	26.7	30.7	28.9	N/A
Return on total assets (%) ^(Note 4)	11.3	10.9	12.5	N/A
Current ratio (times) ^(Note 5)	1.2	1.0	1.0	1.2
Quick ratio (times) ^(Note 6)	0.7	0.7	0.7	0.8
Gearing ratio (%) ^(Note 7)	37.8	69.2	57.7	53.1
Net debt to equity ratio (%) ^(Note 8)	7.5	28.4	38.0	34.7

Notes:

- (1) Gross profit margin was calculated on gross profit for the year/period divided by revenue for the respective years/period and multiplied by 100%. Please refer to the section headed “Financial information — Review of historical results of operation” in this prospectus for more details on our gross profit margins.
- (2) Net profit margin was calculated on profit for the year/period divided by revenue for the respective years/period and multiplied by 100%. Please refer to the section headed “Financial information — Review of historical results of operation” in this prospectus for more details on our net profit margins.
- (3) Return on equity was calculated based on the profit for the year divided by the total equity as at the respective dates and multiplied by 100%. The ratio for the eight months ended 31 August 2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (4) Return on total assets was calculated based on the profit for the year divided by the total assets as at the respective dates and multiplied by 100%. The ratio for the eight months ended 31 August 2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (5) Current ratio was calculated based on the total current assets divided by the total current liabilities as at the respective dates.
- (6) Quick ratio was calculated based on the total current assets less inventories and divided by total current liabilities as at the respective dates.
- (7) Gearing ratio was calculated based on the total debt (comprised interest bearing bank borrowings and lease liabilities) divided by total equity as at the respective years and multiplied by 100%.
- (8) Net debt to equity ratio was calculated based on net debts (being total borrowings which include interest bearing bank borrowings and lease liabilities and net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective years/period and multiplied by 100%.

SUMMARY

OFFER STATISTICS

We have prepared the following offer statistics on the basis of hypothetical Offer Prices without taking into account the 1% brokerage fee, 0.0027% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

	Based on Offer Price of HK\$0.25 per Share	Based on Offer Price of HK\$0.29 per Share
Market capitalisation of our Shares <i>(Note 1)</i>	HK\$500 million	HK\$580 million
Unaudited pro forma adjusted consolidated net tangible assets per Share <i>(Notes 1 and 2)</i>	HK\$0.11	HK\$0.12

Notes:

- (1) Based on 2,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering.
- (2) After adjustment referred to in the section headed “Unaudited pro forma financial information” in Appendix IIA to this prospectus.
- (3) The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of our Company does not take into account the dividend of HK\$10,000,000 declared by our Company to our Shareholders in February 2020. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK\$0.10 (assuming an Offer Price of HK\$0.25 per Share) and HK\$0.11 (assuming an Offer Price of HK\$0.29 per Share), respectively.

DIVIDEND POLICY

During the Track Record Period, the dividends declared by our Company were HK\$10.0 million, HK\$15.0 million, nil and nil for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, and the dividends payable had been fully settled as at the Latest Practicable Date. For the year ended 31 December 2019, dividends of HK\$10.0 million were declared by our Company and the same have been settled in February 2020. We do not have a fixed dividend payout ratio. The declaration of dividends is subject to the discretion of our Board, and any declaration of final dividend for the year will be subject to the approval of our Shareholders after the Listing. Our Directors may recommend a payment of dividend in the future after taking into account, among other things, our operations and earnings, capital requirements and surplus, general financial condition, contractual or any restrictions on payment of dividends that our lenders may impose, capital expenditure and future development requirements, shareholders’ interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders (except for interim dividends which can be approved by our Directors). Any historical declarations of dividends may or may not reflect our future declarations of dividends and will be at the absolute discretion of our Directors. No tax is payable or withheld on (if any) dividends or other distributions declared and paid by our Company.

SUMMARY

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.

FUTURE PLANS AND USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$83.6 million (assuming an Offer Price of HK\$0.27 per Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

We currently intend to apply these net proceeds in the following manner:

- approximately HK\$68.8 million or 82.3% of our total estimated net proceeds for increasing our production capacity in Bangladesh by (a) the construction of the New Bangladesh Factory; and (b) purchasing machinery for the New Bangladesh Factory;
- approximately HK\$7.0 million or 8.4% of our total estimated net proceeds for purchasing machinery for the PRC Factories; and
- approximately HK\$7.8 million or 9.3% of our total estimated net proceeds for our Group's working capital and general corporate purposes.

For details of our future plans and use of proceeds, please refer to the section headed "Future plans and use of proceeds" in this prospectus.

RISK FACTORS

Our business faces risks including those set out in the section headed "Risk factors" in this prospectus. As different investors may have different interpretations and criteria when determining the significance of a risk, you should read the section headed "Risk factors" in this prospectus in its entirety before you decide to invest in the Offer Shares.

A summary of certain of these risk factors is set out below and any of the following developments may have a material and adverse effect on our business, financial condition and operating results:

- We have not entered into long-term sales agreements with our customers and rely on demands from our major customers that, in turn, depend on future purchase orders from apparel brands which cannot be guaranteed.
- Increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations.
- Conducting business in overseas markets involves risks and uncertainties, such as political and economic uncertainty, which may lead to reduced overseas sales and reduced profitability associated with such sales.

SUMMARY

- We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business, financial condition and results of operations.

LEGAL COMPLIANCE

Our Directors confirm that save and except for some non-compliances as disclosed in the section headed “Business — Legal compliance” in this prospectus, we had complied with all applicable laws and regulations in Hong Kong, the PRC, Bangladesh and Vietnam (being the principal jurisdictions where we operate) in all material respects during the Track Record Period and up to the Latest Practicable Date.

COMPETITIVE LANDSCAPE

The apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam are highly fragmented and competitive with a majority of them being small-scale apparel labels and trim products companies. According to the F&S Report, the top 10 players in the apparel labels and trim products manufacturing market in the PRC accounted for approximately 18.4% of the market share in the PRC in 2018 in terms of revenue, and we ranked fifth in such market in terms of revenue and had a market share of approximately 2.0%. Further, according to the F&S Report, we had a market share of approximately 1.6% and 1.3% in the apparel labels and trim products manufacturing market in Bangladesh and Vietnam in 2018 in terms of revenue, respectively. Our Directors consider that there are entry barriers to the apparel labels and trim products manufacturing market, including the requirement to commit heavy capital investment and the possession of technical industry knowledge and know-how in production. However, we consider that we are well-positioned to compete effectively in the apparel labels and trim products manufacturing industry and that our strengths will distinguish us from our competitors. Please refer to the sections headed “Business — Competitive strengths” in this prospectus for further information.

LISTING EXPENSES

Based on the mid-point of the proposed Offer Price range, the total expenses for the Listing are estimated to be approximately HK\$51.4 million, of which approximately HK\$25.7 million is directly attributable to the issue of Offer Shares under the Global Offering and is expected to be accounted for as a deduction from equity. Listing expenses of approximately HK\$4.0 million and HK\$10.0 million were recorded to the statement of profit or loss and other comprehensive income of our Group for the year ended 31 December 2018 and the eight months ended 31 August 2019, respectively, and the remaining Listing expenses of approximately HK\$11.7 million in aggregate are expected to be charged to the statement of profit or loss and other comprehensive income of our Group for the years ending 31 December 2019 and 2020. The total expenses for the Listing represented approximately 38.1% of the gross proceeds from the Global Offering based on the mid-point of the proposed Offer Price range and the above estimated total expenses for the Listing.

SUMMARY

RECENT DEVELOPMENTS

Outbreak of COVID-19

Subsequent to the Track Record Period and since around December 2019, there has been an outbreak of COVID-19 in the PRC, Hong Kong and other countries. As a result of this outbreak, factories in the Guangdong Province of the PRC, including the PRC Factories, which are located in Boluo County, Huizhou, Guangdong Province, were required by the relevant PRC authority to postpone their resumption of operations following the Chinese New Year holidays until 10 February 2020. Our Directors confirm that the PRC Factories have gradually resumed operation since 10 February 2020. Subject to the instruction from the relevant PRC authority, the PRC Factories may be required to suspend its operation after the resumption of operations. Also, up to the Latest Practicable Date, certain cities in the PRC have been subject to lockdown by the relevant PRC authority to contain COVID-19.

Our Directors expect that there may be slight delays of seven to 10 days in meeting the delivery schedule in February 2020 for some of the purchase orders, which, as at the Latest Practicable Date, are expected to be in the aggregate amount of approximately HK\$2.1 million with a sales volume of approximately 5.3 million, from our customers. As the subject purchase orders do not contain any compensation clause for delay in delivery of products, the expected delay in delivery will not result in any penalty or compensation to be paid by our Group. Our Directors also confirm that there was no cancellation of the subject purchase orders and there was no other actual and/or expected loss of sales orders as at the Latest Practicable Date. Based on the current situation of COVID-19 as at the Latest Practicable Date, our Directors expect that the delivery of our products will resume to normal in seven to 10 days after the full resumption of operations of the PRC Factories. Based on the above, our Directors consider that our ability in meeting upcoming purchase orders will not be materially affected by the outbreak of COVID-19. We maintain active and continuous dialogues with our customers and if the situation of delay in delivery of our products to our customers continues, we will negotiate with our customers as to a practical delivery schedule. Save for the expected delay in the delivery schedule and assuming the impact of COVID-19 will gradually fade out, our Directors consider that the postponement in resumption of operations of the PRC Factories as a result of the outbreak of COVID-19 would have no material adverse impact on our business, including our Group's financial performance for the year ending 31 December 2020.

While some countries have implemented travel restrictions on, among others, travellers coming from the PRC and Hong Kong as a result of the outbreak of COVID-19, given that such restrictions apply only to travellers but not goods, including the raw materials from our suppliers and our products, our Directors consider that such restrictions did not have any adverse impact on the operation of our Group up to the Latest Practicable Date. Our Directors also confirm that there was no actual or foreseeable disruption on the supply of raw materials from our suppliers up to the Latest Practicable Date. Our Directors expect that our inventory of raw materials and work in progress as at the Latest Practicable Date may produce products of approximately 371.7 million in terms of sales volume. Given the nature of the raw materials (mainly being papers, chemical products, strings and seals, and yarns) required for our production, we consider that it is not difficult to replace majority of our current suppliers with other suppliers of comparable quality and price in the market. In case if the operation of our current suppliers is disrupted, suspended or locked down due to the outbreak, we will be able to find suitable replacements with comparable

SUMMARY

quality and if, in extreme circumstances, no supplier in the PRC is available, we will be able to source from suppliers in Hong Kong. Our Directors consider that sourcing raw materials from suppliers in Hong Kong will not materially increase our production cost. We will also prioritise the use of raw materials to more urgent purchase orders.

As at the Latest Practicable Date, as none of our major customers and major suppliers operate in cities that are subject to lockdown, such as Wuhan (武漢), our Directors consider that the operations of our major customers and major suppliers are not subject to material disruptions up to the Latest Practicable Date. Also, given that majority of our employees in the PRC Factories were neither from nor currently located in the Hubei Province and the period following the Chinese New Year in February had been historically a low season for our Group in the PRC, our Directors consider that the outbreak of COVID-19 did not have a material adverse impact on our Group's operations in the PRC and our Group as a whole up to the Latest Practicable Date.

Our Group has implemented measures aiming at preventing the spread of COVID-19 at the PRC Factories such as providing face masks and sanitiser to our employees and requiring them to undergo mandatory temperature checks. Our Group has also taken precautionary measures by imposing a 14 days' quarantine on all employees who returned from the Hubei Province, the PRC, which accounted for a very small number of our workforce in the PRC Factories. In case if any of our employees contracted or is suspected to have contracted with COVID-19, we are required to report to the relevant PRC authority and such employee would be taken to hospital for treatment. Up to the Latest Practicable Date, no direction has been given by the relevant PRC authority to the PRC Factories requiring the suspension of operations in case if employees are contracted with COVID-19.

In case if COVID-19 continues to spread and the situation prolongs which may affect or lead to a suspension of the operation of the PRC Factories, our Directors consider that we may engage more external subcontractors to produce some of our products, and certain of the purchase orders could be reallocated from the PRC Factories to the production facilities in Bangladesh and Vietnam. Our Directors consider that production of approximately HK\$0.5 million of the above subject purchase orders could be reallocated to the production facilities in Bangladesh and Vietnam. Following such reallocation, the production lead time may increase as we need to transport raw materials to Bangladesh and Vietnam and our cost of our raw materials may increase by approximately 15% given the additional urgent freight and transportation cost for importing raw materials into Bangladesh and Vietnam, which would result in an increase in production cost by approximately 7.5% but the reallocated production would still be profitable to our Group.

Please refer to the section headed "Risk Factors — Risks relating to Our Business" in this prospectus for further details of the risks relating to the continuing spread and prolonged occurrence of COVID-19.

SUMMARY

Other recent developments

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group continued to focus on developing its business. Subsequent to the Track Record Period and during the four months ended 31 December 2019, our Group had explored business opportunities and secured not less than 350 new customers which are mainly apparel manufacturers. Our Group recorded an aggregate sales amount of not less than HK\$3.9 million from these new customers for the four months ended 31 December 2019.

Based on the unaudited financial information, our Group recorded an increase in revenue for the four months ended 31 December 2019 as compared to the corresponding period in 2018. The increase in revenue was mainly due to the increase in sales volume during the four months ended 31 December 2019 as the Chinese New Year holidays in 2020 arrived earlier in late January 2020 (as compared to that in 2019, which was in early February 2019), which led to the earlier placement of orders by our customers in the end of 2019 in anticipation of the Chinese New Year holidays in 2020. In addition, our Directors confirm that our gross profit and gross profit margin continued to improve during the four months ended 31 December 2019 as compared to the corresponding period in 2018, primarily due to (i) the decrease in cost of sales as a result of the depreciation of RMB against HKD which led to lower cost of raw materials consumed and direct labour in terms of HKD; and (ii) the decrease in subcontracting fee in relation to the production of woven labels.

Our Directors estimate that our Group's revenue for the year ended 31 December 2019 would be lower than that of the corresponding period in 2018 mainly due to the decrease in revenue of hang tags and woven labels as a result of the decrease in average sales price of hang tags and sales volume of woven labels during the period and the general impact of the global economic downturn which led to lower demand of apparel related products; and our Group's net profit would also be lower due to the non-recurring amount of Listing expenses. Our Directors estimate that our Group's gross profit and gross profit margin for the year ended 31 December 2019 would be higher than that of the corresponding period 2018 given the depreciation of RMB against HKD which would led to a lower cost of raw materials consumed and direct labour in terms of HKD as well as the estimated decrease in subcontracting fee attributable to higher percentage of woven label being produced in-house in 2019. Compared to the year ended 31 December 2019, our Directors expect our Group's financial performance for the year ending 31 December 2020 would decline significantly mainly due to the additional administrative expenses including (i) a moderate increase in staff costs for general salary increment for administrative staff and additional headcounts for our administrative and finance department in the PRC and Bangladesh; (ii) a significant increase in depreciation expenses as a result of purchase of new computer equipment, software and motor vehicles in Hong Kong and Bangladesh; and (iii) an increase in Director's emoluments and a significant increase in professional fees after Listing. Overall, there was no material change in our business, revenue model and cost structure subsequent to the Track Record Period and up to the Latest Practicable Date.

Save for the Listing expenses, our Group did not have any significant non-recurring items in its consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

Our Directors confirm that there has been no material adverse change in our financial, operational, trading positions or prospects since 31 August 2019, which is the end of the period covered by the Accountants' Report as set out in Appendix I to this prospectus and up to the date of this prospectus.

SUMMARY

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate that, in the absence of unforeseeable circumstances and on the bases set out in “Appendix IIB — Profit Estimate” to this prospectus, the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 is as follows:

Estimated consolidated profit attributable to owners of our Company <i>(Notes 1 and 2)</i>	Not less than HK\$25 million
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Unaudited pro forma estimated earnings per Share <i>(Note 3)</i>	Not less than HK\$0.0125
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Notes:

1. The bases on which the above profit estimate for the year ended 31 December 2019 has been prepared are summarised in “Appendix IIB — Profit Estimate” to this prospectus. The estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019 has been prepared by our Directors based on (i) the audited consolidated results of our Group for the eight months ended 31 August 2019 as set out in the Accountants’ Report in Appendix I to this prospectus; and (ii) the unaudited consolidated results of our Group for the four months ended 31 December 2019 based on the management accounts of our Group. The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as set out in note 2 to the Accountants’ Report as set out in Appendix I to this prospectus.
2. The estimated consolidated profit attributable to owners of our Company has taken into account the incurred Listing expenses of approximately HK\$11.1 million for the year ended 31 December 2019 based on the unaudited consolidated results of our Group.
3. The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated unaudited consolidated profit attributable to owners of our Company for the year ended 31 December 2019 and on the assumption that the Global Offering and the Capitalisation Issue had been completed on 1 January 2019 and a total of 2,000,000,000 Shares had been issued during the entire year. The calculation of the unaudited pro forma estimated earnings per Share does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

Trade War between China and the U.S.

As a result of the trade war between China and the U.S., the U.S. government imposed tariffs at rates currently ranging from 7.5% to 25% on certain products imported from China with an economic value of about US\$550 billion. On 15 January 2020, China and the U.S. signed a phase one economic and trade agreement (the “**Phase One Economic and Trade Agreement**”). This Phase One Economic and Trade Agreement confirmed the U.S. Trade Representative’s (USTR) notice in December 2019, which stated that the additional tariffs of 15% on List 4B products scheduled to go into effect on 15 December 2019 are suspended indefinitely. The U.S. further agreed to reduce tariffs on List 4A products from a rate of 15% to a rate of 7.5%, effective 14 February 2020. The 25% tariffs on products of China on List 1, List 2, and List 3 will remain in place. For more details, please refer to the section headed “Business — Sales, marketing and customers — Trade war between China and the U.S.” in this prospectus.

SUMMARY

Given that our sales to customers situated in the U.S. did not contribute a significant portion of our revenue during the Track Record Period, our Directors do not expect that the Trade War Tariffs have or will have any material impact on our business and outlook. For the year ended 31 December 2018 and the eight months ended 31 August 2019, we have made net tariff payments under the Trade War Tariffs of approximately US\$7,000 and US\$7,700, respectively.

Further, a majority of our sales to customers in the U.S. are concluded under the pre-existing term that the sales prices are exclusive of any tax or tariff payments and accordingly, any tax or tariff payments would be borne by the customers. We endeavour to negotiate and conclude our sales to any new customers in the U.S. based on this similar term as well going forward. In cases where sales could not be concluded on this basis, we have negotiated with the relevant U.S. customers for a price adjustment on the price of our products sold to them. For more details, please refer to the sections headed “Risk Factors — Conducting business in overseas markets involves risks and uncertainties, such as political and economic uncertainty, which may lead to reduced overseas sales and reduced profitability associated with such sales” and “Business — Sales, marketing and customers — Trade war between China and the U.S.” in this prospectus.

SHAREHOLDER INFORMATION AND SHARE OPTION SCHEME

Controlling Shareholders

Immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme and the Over-allotment option), Mr. Barry Chan and Ms. Candy Law, through Charming International, will own 70.2% interest in the enlarged issued share capital of our Company and hence will be our Controlling Shareholders after Listing. Mr. Barry Chan, Ms. Candy Law and Charming International are regarded as a group of Controlling Shareholders after Listing under the Listing Rules. Save as mentioned above, there is no other person who will, immediately following completion of the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), be directly or indirectly interested in more than 30% or more of the Shares in issue. For details, please refer to the section headed “Relationship with controlling shareholders” in this prospectus.

Share Option Scheme

Our Company has conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the section headed “Share Option Scheme” in Appendix IV to this prospectus.

DEFINITIONS

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

In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“Accountants’ Report”	the accountants’ report of our Group as 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
“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
“Articles of Association” or “Articles”	the amended and restated articles of association of our Company, conditionally adopted on 21 February 2020 which will become effective upon Listing and as amended, supplemented or modified from time to time, a summary of which is set out in Appendix III to this prospectus
“BDT”	Bangladeshi Taka, the lawful currency of Bangladesh
“Board”	the board of Directors
“business day(s)”	any day(s) (other than a Saturday, Sunday or public holiday in Hong Kong) on which banks in Hong Kong are generally open for normal banking business
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalisation Issue”	the allotment and issue of 1,499,999,750 Shares to our Shareholders be made upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to under the heading “A. Further information about our Company” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law (as revised) of the Cayman Islands, as amended, consolidated or otherwise modified from time to time

DEFINITIONS

“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant(s)”	a person admitted to participate in CCASS as an investor participant, who may be an individual, 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(s)”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Charming Bangladesh”	Charming Trim & Packaging (BD) Ltd., a company incorporated in Bangladesh with limited liability on 14 March 2013 and an indirect wholly-owned subsidiary of our Company
“Charming Belgium”	Charming Europe BVBA (formerly known as Lowatag Europe), a company incorporated in Belgium with limited liability on 5 July 2011 and an indirect wholly-owned subsidiary of our Company
“Charming China”	博羅縣常美印刷有限公司 (Charming Printing (Boluo) Ltd.), a foreign-invested enterprise established in the PRC with limited liability on 11 August 2009, a wholly-owned subsidiary of Charming Printing
“Charming HK”	Charming Trim & Packaging Limited, a company incorporated in Hong Kong with limited liability on 20 November 2012 and an indirect wholly-owned subsidiary of our Company
“Charming India”	Charming Trim India Private Limited, a company incorporated in India with limited liability on 23 September 2016 and an indirect wholly-owned subsidiary of our Company

DEFINITIONS

“Charming International”	Charming International Limited, a company incorporated in the BVI with limited liability on 2 January 2019 and one of the Controlling Shareholders of our Company
“Charming Pakistan”	Charming Trim & Packaging (PVT.) Limited, a company incorporated in Pakistan on 24 June 2016 and an indirect wholly-owned subsidiary of our Company
“Charming Printing”	Charming Printing Limited (集美印刷有限公司), a company incorporated in Hong Kong with limited liability on 29 October 1991 and an indirect wholly-owned subsidiary of our Company
“Charming Shenzhen”	深圳集美南方印刷服務有限公司 (Charming Printing (SZ) Ltd), a company established in the PRC with limited liability on 16 July 2014 and an indirect wholly-owned subsidiary of our Company
“Charming Trim Bangladesh”	Charming Trim (BD) Ltd., a company incorporated in Bangladesh with limited liability on 22 March 2015 and an indirect wholly-owned subsidiary of our Company
“Charming US”	Charming Trim & Packaging, Inc, a company incorporated in California, the U.S. with limited liability on 17 August 2011 and an indirect wholly-owned subsidiary of our Company
“Charming Vietnam”	Charming Trim & Packaging (VN) Co., Ltd., a company incorporated in Vietnam with limited liability on 15 January 2014 and an indirect wholly-owned subsidiary of our Company
“China”, “PRC” or “People’s Republic of China”	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, the Macau Special Administrative Region of the PRC and Taiwan
“Cirtek Investment”	Cirtek Investment Limited, a company incorporated in the BVI with limited liability on 5 March 2019 and a wholly-owned subsidiary of our Company
“Co-Lead Managers”	All EverGreen Securities Limited, Alpha Financial Group Limited, Orient Securities Limited and Sinomax Securities Limited

DEFINITIONS

“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company”	Cirtek Holdings Limited 常達控股有限公司, a company incorporated in the Cayman Islands on 25 January 2019 as an exempted company with limited liability
“Controlling Shareholder(s)”	has the meaning given to it in the Listing Rules and, unless the context otherwise requires, refers to Mr. Barry Chan, Ms. Candy Law and Charming International individually and as a group where the context requires
“COVID-19”	the Novel Coronavirus, a coronavirus disease which has its outbreak in the PRC, Hong Kong and other countries since around December 2019
“Deed of Indemnity”	the deed of indemnity dated 21 February 2020 given by each of our Controlling Shareholders in favour of our Company (for itself and as trustee for each of its subsidiaries)
“Director(s)”	the director(s) of our Company
“EIT”	enterprise income tax of the PRC
“EIT Law”	the Enterprise Income Tax Law of the PRC 《中華人民共和國企業所得稅法》 promulgated on 16 March 2007, as amended, supplemented or otherwise modified from time to time
“EPZ(s)”	the export processing zone(s) in Bangladesh
“EUR”	the EURO, the official currency of the euro area of the European Union
“Extreme Conditions”	extreme conditions caused by a super typhoon as announced by the Government of Hong Kong
“Frost & Sullivan” or “F&S”	Frost & Sullivan Limited, an independent industry research consultant commissioned by us to prepare the F&S Report

DEFINITIONS

“F&S Report”	an industry research report commissioned by us and prepared by Frost & Sullivan in relation to the industry of our Group
“General Rules of CCASS”	the terms and conditions regulating the use of CCASS, as may be amended or modified from time to time and where the context so permits, shall include the CCASS Operational Procedures
“Global Offering”	the Hong Kong Public Offering and the International Placing
“ GREEN Application Form(s)”	the application form(s) to be completed by the HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and our subsidiaries or, where the context so requires, in respect of the period before our Company became the holding company of our present subsidiaries, the business operated by such subsidiaries as if they were our Company’s subsidiaries at the relevant time
“ HK eIPO White Form ”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of HK eIPO White Form at www.hkeipo.hk or the IPO App
“ HK eIPO White Form Service Provider”	the HK eIPO White Form Service Provider designated by our Company, as specified on the designated website at www.hkeipo.hk or the IPO App
“HKAS”	Hong Kong Accounting Standard
“HKFRS”	Hong Kong Financial Reporting Standards, including HKAS, amendments and the related interpretations, issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“HK\$” or “Hong Kong dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong

DEFINITIONS

“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Branch Share Registrar”	Tricor Investor Services Limited, our Hong Kong branch share registrar and transfer office
“Hong Kong Offer Shares”	the 50,000,000 Offer Shares initially being offered by our Company for subscription at the Offer Price under the Hong Kong Public Offering, representing 10% of the initial number of the Offer Shares, subject to reallocation as described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer of the Hong Kong Offer Shares for subscription by members of the public in Hong Kong for cash at the Offer Price (plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), on the terms and subject to the conditions described in this prospectus and the Application Forms
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed in the section headed “Underwriting — Hong Kong Underwriters” in this prospectus
“Hong Kong Underwriting Agreement”	the Hong Kong underwriting agreement dated 27 February 2020 relating to the Hong Kong Public Offering and entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Hong Kong Underwriting Agreement” in this prospectus
“Independent Third Party(ies)”	individual(s) or company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executive and substantial shareholders (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associates
“INR”	Indian Rupee, the lawful currency of India
“International Placing”	the conditional placing of the International Placing Shares at the Offer Price for and on behalf of our Company outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act, to professional, institutional, corporate and other investors in Hong Kong, as further described in the section headed “Structure and conditions of the Global Offering” in this prospectus

DEFINITIONS

“International Placing Shares”	the 450,000,000 Offer Shares being initially offered by our Company at the Offer Price for subscription under the International Placing together with any additional Shares that may be issued pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“International Underwriters”	the group of international underwriters expected to enter into the International Underwriting Agreement to subscribe or procure subscribers for International Placing Shares
“International Underwriting Agreement”	the international underwriting agreement relating to the International Placing and to be entered into by, among others, our Company, our Controlling Shareholders, our executive Directors, the Sole Sponsor, the Joint Global Coordinators and the International Underwriters on or about the Price Determination Date, as further described in the section headed “Underwriting — Underwriting Arrangements and Expenses — International Placing — International Underwriting Agreement” in this prospectus
“ IPO App ”	the mobile application for HK eIPO White Form service which can be downloaded by searching “ IPO App ” in App Store or Google Play or downloaded at www.hkeipo.hk/IPOApp or www.tricorglobal.com/IPOApp
“Joint Bookrunners”	Elstone Securities Limited, I Win Securities Limited, BOCOM International Securities Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, Great Roc Capital Securities Limited and Haitong International Securities Company Limited
“Joint Global Coordinators”	Elstone Securities Limited and I Win Securities Limited
“Joint Lead Managers”	Elstone Securities Limited, I Win Securities Limited, BOCOM International Securities Limited, CMBC Securities Company Limited, Essence International Securities (Hong Kong) Limited, Great Roc Capital Securities Limited, Haitong International Securities Company Limited, ChaoShang Securities Limited, Conrad Investment Services Limited, Head & Shoulders Securities Limited and Maxa Capital Limited
“Latest Practicable Date”	18 February 2020, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to the printing of this prospectus

DEFINITIONS

“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Committee”	the listing sub-committee of the board of director of the Stock Exchange
“Listing Date”	12 March 2020, being the date on which dealings in our Shares are expected to first commence on the Main Board of the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with GEM of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the amended and restated memorandum of association of our Company, adopted on 21 February 2020 which will become effective upon Listing and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“Mr. Barry Chan”	Mr. Chan Sing Ming Barry (陳醒明), an executive Director, the chairman of our Board, one of our Controlling Shareholders and the spouse of Ms. Candy Law
“Mr. James Chan”	Mr. Chan Tsz Fung (陳梓峰), an executive Director and the son of Mr. Barry Chan and Ms. Candy Law
“Mr. Leung”	Mr. Leung Wai Man (梁惠民), a director of Charming China
“Mr. Liao”	Mr. Liao Wenwei (廖文偉), one of our senior management members and a director of Charming Shenzhen
“Mr. Ringeisen”	Mr. Richard Phillip Ringeisen, one of our senior management members and a director of Charming US
“Mr. Van Duyse”	Mr. Andy Bertha H Van Duyse, a director of Charming Belgium
“Ms. Candy Law”	Ms. Law Miu Lan (羅妙蘭), an executive Director, our Chief Executive Officer, one of our Controlling Shareholders and the spouse of Mr. Barry Chan

DEFINITIONS

“New Bangladesh Factory”	our proposed new production facility in the Adamjee EPZ in Bangladesh
“Offer Price”	the final price per Offer Share (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%), expressed in Hong Kong dollars, at which the Hong Kong Offer Shares are to be subscribed under the Hong Kong Public Offering and the International Placing Shares are to be offered pursuant to the International Placing, to be determined in the manner further described in the section headed “Structure and conditions of the Global Offering — Pricing and allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Placing Shares, including the additional Shares that might be issued under any exercise of the Over-allotment Option
“Over-allotment Option”	the option which we expect our Company to grant to the Joint Global Coordinators pursuant to which our Company may be required to issue up to aggregate of 75,000,000 additional Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the final Offer Price, to cover over-allocations in the International Placing, if any, details of which are described in the section headed “Structure and conditions of the Global Offering” in this prospectus
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PKR”	Pakistani rupee, the lawful currency of Pakistan
“PRC Factories”	collectively, the PRC Factory 1 and the PRC Factory 2
“PRC Factory 1”	our production factory, office and staff dormitory located in the Southern Development Zone of Shiwan Town, Boluo County, Huizhou, Guangdong Province, the PRC, which is adjacent to the PRC Property 2
“PRC Factory 2”	our production factory and warehouse located in the Southern Industrial Zone of Shiwan Town, Boluo County, Huizhou, Guangdong Province, the PRC, which is adjacent to the PRC Property 1

DEFINITIONS

“PRC Legal Advisers”	JunHe LLP, the legal advisers to our Company as to PRC laws
“Price Determination Date”	the date on which the Offer Price will be fixed by the Joint Global Coordinators (on behalf of the Underwriters) and us for the purpose of the Global Offering, which we expect to be on or around Wednesday, 4 March 2020, or such latest date as the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company may agree in writing, and in any event not later than Monday, 9 March 2020
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganisation”	the corporate reorganisations undergone by our Group in preparation for the Listing described in the section headed “History, reorganisation and group structure — The Reorganisation” in 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”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with par value of HK\$0.01 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by the written resolutions of our Shareholders passed on 21 February 2020, the principal terms of which are summarised in “Statutory and General Information — E. Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Shares
“Sole Sponsor”	Elstone Capital Limited, a corporation licenced by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO
“sq. ft.”	square foot (feet)

DEFINITIONS

“sq. m.”	square metre(s)
“Stabilising Manager”	Elstone Securities Limited, a corporation licensed by the SFC to conduct Type 1 (dealing in securities) regulated activity under the SFO
“Stock Borrowing Agreement”	the stock borrowing agreement which we expect the Stabilising Manager (or its affiliates acting on its behalf) and Charming International to enter into on or about the Price Determination Date pursuant to which Charming International will agree to lend up to 75,000,000 Shares to the Stabilising Manager on terms set out therein
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Track Record Period”	the period comprising the three financial years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019
“Trade War Tariffs”	the additional tariffs imposed by the U.S. government pursuant to Section 301 of the U.S. Trade Act of 1974 (19 U.S.C. § 2411) at rates currently ranging from 7.5% to 25%, on certain products imported from China as a result of the trade war between China and the U.S.
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“United Kingdom” or “U.K.”	the United Kingdom, its territories and possessions, and all areas subject to its jurisdiction
“United States” or “U.S.”	the United States of America, its territories and possessions, and all areas subject to its jurisdiction
“VAT”	value added tax
“VND”	Vietnamese Dong, the lawful currency of Vietnam

DEFINITIONS

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

The terms “associate”, “close associate”, “connected person”, “connected transaction”, “core connected person”, “subsidiary” and “substantial shareholder” have the meanings given to such terms under the Listing Rules, unless the context otherwise requires.

This prospectus contains explanations and definitions of certain terms used in connection with our Group’s business. The terms and their meanings used in this prospectus may not correspond to standard industry meaning or usage of these terms. As there is no official industry classification, the classification of our products is determined based on our Directors’ knowledge and experience. Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date and all numerical figures are rounded to one decimal place.

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

* *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 certain terms used in this prospectus that relate to our Group and our business and the industry in which we operate. These terms and their meanings may not always correspond to standard industry meaning or usage of these terms.

“apparel accessories”	apparel labels and trim products which form part of the apparel products
“apparel brands”	well-known brand owners of major ready-to-wear clothing and apparel products
“die-cutting”	a process through which plastic or paper sheets are cut into pieces by “die” or “mould” according to users’ requirements through hydraulic or mechanical presses
“digital printing”	a technique of printing a digital-based image directly onto a printing medium, which eliminates many of the mechanical steps required for offset printing
“embossing”	a process through which three-dimensional images or designs are created on paper or other ductile materials, and is typically accomplished with a combination of heat and pressure on the paper
“FSC”	the Forest Stewardship Council
“Gearing ratio”	a ratio which is calculated based on the total debt (comprised interest bearing bank borrowings and lease liabilities) divided by total equity as at the respective years and multiplied by 100%
“G7”	an international standard for calibrating printing presses and proofing systems to a common visual neutral grayscale appearance
“heat transfer printing”	a printing technique that a design is printed in reverse on a release paper using, and combining, screen printing, lithographic printing and digital printing. The printed image is applied against the fabric with industrial heat press. Afterwards, the release paper is peeled away and the image will be transferred to the substrate
“hot foil stamping”	a printing technique where pre-dried ink or foils are transferred to a surface at high temperature
“ISO”	an acronym for a series of quality management and quality assurance standards published by International Organisation for Standardisation, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations

GLOSSARY

“ISO 9001”	ISO 9001 is an internationally recognised standard for a quality management system. It aims at the effectiveness of the quality management system in meeting customer requirements. It prescribes requirements for ongoing improvement of quality assurance in design, development, production, installation and servicing
“ISO 14001”	ISO 14001 is an internationally recognised standard for the environmental management of businesses. It aims at recognising the desirable behaviour of businesses concerning the environment. It prescribes controls for an encompassing range of corporate activities which include the use of natural resources, handling and treatment of waste and energy consumption
“NFC”	near field communication, a wireless communication technology between two devices
“offset printing”	a widely used printing technique where the inked image is transferred from a rubber plate to a rubber blanket, which then rolls and prints that image from the rubber blanket onto the printed surface (which is mainly paper)
“post-press”	a process and procedure that take place after the printing, which may include cutting, folding, assembling, UV spotting, embossing, varnishing and binding
“pre-press”	a process and procedure that take place between the creation of a print layout and the final printing
“printing plate”	a plate used in printing processes which may be made of metal, plastic, rubber or other materials
“printing process”	a process through which an image on the printing plate is printed on printed surface
“RFID”	radio-frequency identification, a technology that uses radio waves to read and capture information stored on a tag attached to an object
“RFID inlay”	a layer of material that comprises an integrated circuit that stores information which is attached to a small coil of wires that transmits and received radio frequency signals
“trim products”	accessories or materials that are attached to apparel products and used in apparel products manufacturing to either enhance the aesthetic appeal or functional aspects of the apparel products

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on various assumptions regarding our Group's present and future business strategy and the environment in which our Group will operate in the future and are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and our various measures and initiatives to implement them;
- our future business development and various business opportunities that we may pursue;
- fluctuations in general business conditions globally, particularly in the PRC, Hong Kong, the U.S. and Europe;
- changes in competitive conditions and our ability to compete under these conditions;
- changes in the political, economic, legal and social conditions globally, particularly in the PRC, Hong Kong, the U.S. and Europe;
- costs of bank loans and other forms of financing, and our ability to secure adequate financing for our business operations;
- our financial conditions;
- our dividend policy;
- our ability to enter into new geographic markets and expand our operations;
- our ability to obtain permits and licences to carry on our business;
- changes in foreign exchange rates;
- the other factors referenced in this prospectus, including without limitation, under the sections headed "Risk Factors", "Business" and "Financial Information"; and
- other factors beyond our control.

The words "anticipate", "believe", "could", "expect", "going forward", "intend", "may", "plan", "seek", "will", "would" and similar expressions, as they relate to us, in particular, in the sections headed "Business" and "Financial Information" in this prospectus, are intended to identify a number of these forward-looking statements. These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. They reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. Hence, should one

FORWARD-LOOKING STATEMENTS

or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

In this prospectus, statements of or references to our intentions or those of any of our Directors are made as of the date of this prospectus. Any such intentions may change in light of future developments.

RISK FACTORS

An investment in our Shares involves risks. You should carefully consider the following information, together with the other information contained in this prospectus, including our consolidated financial statements and related notes, before you decide to purchase our Shares. If any of the circumstances or events described below actually arises or occurs, our business, financial condition, results of operations and prospects may suffer. In any such case, the market price of our Shares may decline, and you may lose all or part of your investment. This prospectus also contains forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks described below and elsewhere in this prospectus.

RISKS RELATING TO OUR BUSINESS

We have not entered into long-term sales agreements with our customers and rely on demands from our major customers that, in turn, depend on future purchase orders from apparel brands which cannot be guaranteed.

According to the F&S Report, apparel manufacturers have not entered into long-term contracts with the apparel brands. We have not entered into long-term agreements with our customers, which mainly comprise apparel manufacturers, nor have we had entered into any agreements with the apparel brands. Accordingly, the quantity of purchase orders that we receive from our customers may fluctuate from time to time which makes it difficult for us to project future purchase orders.

Our success depends on receiving continuous purchase orders from our customers. During the Track Record Period, Customer A and Customer B were two of our top five customers. Our top five customers, which were Independent Third Parties, in aggregate accounted for approximately 30.8%, 28.4%, 24.5% and 22.7% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Customer A, being our largest customer, accounted for approximately 20.2%, 17.4%, 12.8% and 11.6% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Customer B accounted for approximately 3.8%, 4.0%, 4.5% and 3.4% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. For further details of Customer A and Customer B, please refer to the section headed “Business — Sales, marketing and customers” in this prospectus.

However, if for any reason (including product quality or product price), (i) these apparel brands do not place purchase orders with our customers at the same level or on similar terms which they have historically done so, or at all, in the future (such as a decrease in demands for apparel products due to economic downturn), or (ii) these apparel brands remove us from the list of approved suppliers, the apparel manufacturers and the sourcing agent will no longer purchase our products. In addition, there is no assurance that we will be able to develop new customers in the future. If that happens, or if there is a reduction or cessation of purchase orders from these customers and we are unable to obtain purchase orders in substitution, or we are unable to develop new customers, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

Increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations.

Our profitability depends on the price of key raw materials which are papers, chemical products, strings and seals, and yarns. Our total cost of raw materials consumed for production of our printing products accounted for approximately 51.3%, 55.5%, 48.9% and 47.8% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively.

The prices of the raw materials are affected by a number of factors beyond our control, such as global demand and supply of wood pulp, general economic condition, and environmental and conservation related regulations. Our suppliers may be affected by factors such as rising labour cost and other expenses which may be passed on to us. There is no assurance that we will be able to accurately anticipate and react to the changes in prices of our raw materials, or that we will be able to pass on the increased purchase cost of the raw materials to our customers. If we fail to manage effectively, our business, financial condition and results of operations may be materially and adversely affected.

For sensitivity analysis on cost fluctuation of our raw materials, please refer to the section headed “Financial information — Key factors affecting our results of operations” in this prospectus.

Conducting business in overseas markets involves risks and uncertainties, such as political and economic uncertainty, which may lead to reduced overseas sales and reduced profitability associated with such sales.

Our customers use our products in the apparel products of the apparel brands. A significant portion of our revenue is derived from the PRC. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we derived approximately 26.9%, 27.6%, 24.9% and 25.7% of our revenue, respectively, from sales to the PRC. While we did not derive a significant portion of our revenue from the U.S. and Europe, our customers mainly rely on purchase orders from the U.S. and European apparel brands. Any unfavourable global economic condition, such as the continuous trade war between China and the United States, and the uncertainties in financial markets over the decision by the United Kingdom to exit the European Union, may have a detrimental impact on apparel products supply and demand.

The current administration of the U.S. under President Donald Trump has made substantial changes to domestic and international policies, including but not limited to the above trade war between the U.S. and China, and the withdrawal from the Trans-Pacific Partnership Agreement, which led to a wave of public discontent and international tensions. It may adopt and implement further changes to the U.S. policies. Such changes may bring uncertainty to the global economy and/or political environment. In particular, the current administration of the U.S. has been imposing tariffs on goods imported from China. In such circumstances, demands from the U.S. for products produced in China will be affected which will, in turn, have a material and adverse effect on the demand for our products.

RISK FACTORS

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we derived approximately 5.7%, 5.1%, 5.1% and 5.4% of our revenue from sales to the U.S., respectively. Although we have taken measures in light of the potential impact of the trade war between China and the U.S. as set out in the section headed “Business — Sales, marketing and customers — Trade war between China and the U.S.” in this prospectus, any additional trade restrictions, such as tariffs imposed on our products, could significantly increase the prices of our products, which may, in turn, reduce demand for, and price-competitiveness of, our products. If we were not able to pass on such additional costs to our customers, or identify new customers, or if our mitigating measures are not effective, our business, financial condition and results of operations may be materially and adversely affected. We cannot accurately predict whether and when the U.S. will impose any tariffs in the future. Further, there is no assurance that future international trade regulations, quotas, tariffs and duties will not increase our costs or provide our competitors with an advantage over us. Accordingly, the occurrence of any of the above may have a material adverse effect on our business, financial position and results of operation. For details of the latest status of the trade war between China and the U.S. and its impact on our Group, please refer to the section headed “Business — Sales, marketing and customers — Trade war between China and the U.S.” in this prospectus.

Our business is highly correlated with the trend and development of the global apparel products industry. The demand for our products relies on the market condition of such industry which might fluctuate over time. There is no assurance that the global economy will continue to grow at a stable pace or at all, or will not experience a recession in the future. If the global economy grows at a lower than expected rate or experiences a recession in the future, the global demand for our products will decrease and our business, financial condition and results of operations would be materially and adversely affected.

The marketing and sales of our products to each relevant geographic market also expose us to a number of risks including:

- the imposition of trade barriers, such as import requirements, tariffs, taxes and other restrictions and expenses, which may increase the prices of our products and make our products less competitive in some countries;
- political tension arising from disputes between the countries;
- fluctuations in exchange rates of RMB and other currencies against the Hong Kong dollars and the U.S. dollars;
- impact of commercial and legal requirements in jurisdictions where our products are offered;
- unfavourable changes in the political, regulatory and business climate in jurisdictions where our products are offered; and
- our inability to obtain, maintain or enforce intellectual property rights in the overseas countries to which our products are exported.

We believe the above overseas risks and uncertainties could lead to reduced overseas sales and net profits. If we are unable to effectively manage these risks, our ability to conduct or expand our business abroad could be impaired, which would, in turn, have an adverse effect on our business, financial condition and results of operations.

RISK FACTORS

We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business, financial condition and results of operations.

Pursuant to relevant laws and regulations of the PRC, Bangladesh and Vietnam, we are required to maintain various approvals, licences and permits in order to operate our production facilities in these countries. We are required to obtain certificates of incorporation (enterprise registration certificate, investment registration certificate, and/or investment certificate) and land and building titles and licences in relation to environmental issues. Most of these licences are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

Compliance with the relevant laws and regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies. We may also experience adverse publicity arising from such non-compliance with any laws and regulations that negatively impact our reputation.

We may experience difficulties or failures in obtaining the necessary approvals, licences and permits for the New Bangladesh Factory or any other new production facilities in the future. In addition, there can be no assurance that we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain or maintain all licences required by us to operate our business, our production activities at our factory in the PRC, Bangladesh and Vietnam and our ongoing business in these countries could be interrupted. We may also be subject to fines and penalties.

Title defects related to certain properties leased by us may materially and adversely affect our ability to use such properties.

We leased two adjacent properties from Independent Third Parties in (i) the Southern Development Zone of Shiwan Town, Boluo County, Huizhou, Guangdong Province, the PRC with a gross floor area of approximately 23,828 sq. m. comprising, among others, the PRC Factory 1; and (ii) the Southern Industrial Zone of Shiwan Town, Boluo County, Huizhou, Guangdong Province, the PRC with a gross floor area of approximately 14,074.5 sq. m. comprising the PRC Factory 2.

As at the Latest Practicable Date, the lessor of the PRC Factory 1 had failed to provide us with the valid building ownership certificate and the lessor of the PRC Factory 2 had failed to provide us with both the valid land use right certificate and the building ownership certificate. According to our PRC Legal Advisers, the above title defects amount to non-compliance on the part of the landlords and notwithstanding this, the lease agreement of the PRC Factory 1 is valid and the chance of us being forced to relocate is very remote, and the risk that the lease agreement of the PRC Factory 2 being declared void and the chance of us being forced to relocate are remote. For further information about the title defects of these leased properties, please refer to the section headed the “Business — Property interests” in this prospectus.

RISK FACTORS

However, we cannot assure you that the validity of the above leases may not be subject to legal challenge. If the leases are terminated as a result of challenges therewith by third parties, we may be forced to relocate from the affected properties and incur additional costs or we may not be able to identify alternative premises for the relocation of our production facilities on time, our business, financial condition and results of operations may be materially and adversely affected.

We may fail to fully implement our expansion plan in Bangladesh and are subject to various risks in relation to implementation of this expansion plan.

We intend to expand our production capacity by investing in the construction of a new production plant in Bangladesh and purchase new equipment and machinery for use in this new production plant. In 2018, we leased a parcel of land in Bangladesh for a term of 30 years. For details, please refer to the section headed “Business — Business strategies” in this prospectus.

Our growth and future success will be dependent upon, among other factors, the successful completion and implementation of our proposed expansion plan and sufficient demand for our products. The construction of our new production plant in Bangladesh may be adversely affected by delays and cost overruns. Factors that may contribute to delays and cost overruns with respect to our expansion include risks relating to construction, changes in safety and/or environmental requirements, delay or failure in obtaining necessary government approvals, changes in general economic conditions in Bangladesh, adverse weather conditions, natural disasters, accidents, unanticipated changes in government policies and other unforeseen circumstances and problems. A significant delay in the completion of the above construction of the new production plant or a material increase in the costs of the above production facility could materially and adversely affect the competitive advantage that we hope to achieve by undertaking the expansion plan and may also divert our resources away from our other business operations.

Production capacity of our newly acquired machines may not be fully utilised or utilised as we have planned.

To meet the increasing demand, including the demand for better quality, larger quantity and shorter production lead time of our apparel labels and trim products from apparel manufacturers, and to enhance our productivity, we intend to purchase new machines to cater for the demand. Please refer to the section headed “Business — Business strategies” in this prospectus for further details. If the demand for our products decreases, our expanded production capacity in Bangladesh and the new machines we may have purchased for the PRC Factories may be under-utilised and costs incurred in relation thereto might not be recovered at an economical rate or at all. If this occurs, our business, financial condition and results of operations may be materially and adversely affected. As such, we cannot assure that we will be able to utilise the additional production capacity fully or as we have planned after our new machines commence operation. Any failure to do so will result in our Group incurring additional expenses without significant increase in its revenue.

RISK FACTORS

Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability.

Our Group operates mainly in Hong Kong, the PRC, Bangladesh, Vietnam and the U.S., and conducts businesses with customers and suppliers in different jurisdictions. Our Group's inter-company transactions and cross border business arrangements during the ordinary course of business may impose inherent uncertainty over our Group's profit allocation and its respective tax position across different jurisdictions. The tax treatments of these transactions or arrangements may be subject to the interpretation by respective tax authorities in different countries. During the Track Record Period, we identified certain transfer pricing risks in the intra-group transactions of our Group. Our Group would have quantified an aggregate tax payable amount of approximately HK\$627,607 for the Track Record Period. For details, please refer to the section headed "Business — Transfer pricing" in this prospectus.

There is no assurance that relevant tax authorities would not subsequently challenge the appropriateness of our Group's transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. In the event a competent tax authority later finds that the transfer prices and the terms that our Group has applied are not appropriate, such authority could require our relevant subsidiaries to re-determine transfer prices and thereby reallocate the income or adjust the taxable income or deduct cost and expense of the relevant subsidiary in order to accurately reflect such income. Any such reallocation or adjustment could result in a higher overall tax liability for us and if this occurs, it may have a material and adverse effect on our business, financial condition and results of operations.

We are exposed to risk of delay or defaults in payments by our customers which may materially and adversely affect our financial position and cash flow.

We generally issue monthly statements to our customers for the outstanding payments after delivery of the products. The range of credit period granted by our Group to our customers is generally within 90 days from the date of monthly statements for settling such outstanding amounts. As at 31 December 2016, 2017 and 2018, and 31 August 2019, the trade receivables amounted to approximately HK\$30.0 million, HK\$41.4 million, HK\$41.7 million and HK\$41.1 million, respectively, and the allowance for impairment of trade receivables were approximately HK\$42,000, HK\$31,000, HK\$40,000 and HK\$0.9 million, respectively.

In addition, the trade receivables turnover days were approximately 40.2 days, 42.7 days, 40.8 days and 44.4 days for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. There is no assurance that our customers will be able to meet their payment obligations on time, or at all, or that our average trade receivable days will not increase. If there is any delay or default in payments by the customers, our financial position and cash flow may be materially and adversely affected. For details of the fluctuations in our trade receivables from customers and trade receivables turnover days, please refer to the section headed "Financial information — Description of certain items of consolidated statements of financial position — Trade receivables" in this prospectus.

RISK FACTORS

We may not be able to secure a stable supply of raw materials and services.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our aggregate purchases from our top five suppliers amounted to approximately 12.1%, 10.3%, 13.0% and 9.4% of our total cost of sales from all of our suppliers, respectively. We have not entered into long-term supply contracts with our suppliers.

If any of our suppliers fails to deliver raw materials to us in accordance with our production schedule and if we fail to identify alternative sources of quality raw materials when needed at acceptable prices or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and may materially and adversely affect our business, financial position and results of operations.

Failure of external subcontractors to provide services to us or to meet our requirements may disrupt our business operation which may materially and adversely affect our reputation, financial condition and results of operations.

During the Track Record Period, we engaged external subcontractors to produce some of our products to meet demands of some of our customers where we do not have the required production technologies or machineries at the relevant time or relevant location, or conduct certain production processes which are more labour intensive, such as folding of bags and packaging boxes and putting strings through hang tags, and as well as for better time management and efficiency, in terms of reduced production and delivery time. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, the cost of these subcontractors accounted for approximately 11.5%, 9.3%, 10.7% and 9.0%, respectively, of our cost of sales.

If any of our subcontractors fails to provide subcontracting services to us, and if we fail to identify alternative subcontractors in a timely manner, at acceptable prices or with the required production or processing quality, our business, financial position and results of operations may be materially and adversely affected.

In addition, we are not able to monitor or manage our subcontractors directly. If for any reasons they shall cease to operate or fail to meet the terms of our purchase orders such as delivery schedule, quantity and specifications, our business, financial condition and results of operations may be materially and adversely affected.

Our key managerial and technical personnel are critical to the success of our business and losing their services could adversely affect our business.

We depend, to a significant extent, on the efforts and abilities of our Directors and senior management, particularly Mr. Barry Chan and Ms. Candy Law, as set out in the section headed “Directors and senior management — Directors” in this prospectus, for our future growth and success as they have contributed their in-depth industry experience and technical knowledge to us.

RISK FACTORS

Specifically, Mr. Barry Chan, our Chairman and executive Director, has more than 38 years of experience in the apparel and printing related manufacturing industry and has been instrumental in the formulation and execution of our business and expansion strategies and his forward-looking growth strategies and management concepts are essential to our rapid growth in recent years. Ms. Candy Law, our Chief Executive Officer and executive Director, has more than 35 years of experience in the apparel labels and trim products manufacturing industry.

We believe that our executive Directors and members of our senior management team are also critical in developing and maintaining relationships with many of our key customers. In addition, we are dependent on other qualified managerial marketing personnel and technicians for our manufacturing, marketing, sales, and product engineering and development operations. Competition for qualified personnel is intense in our industry. If we lose the services of our key managerial and technical personnel or fail to attract and retain additional qualified managerial, technical and marketing personnel, our business, financial condition and results of operations may be materially and adversely affected.

We have marketing services consultants located in the U.S., Belgium, the United Kingdom, the Netherlands and Cambodia, and have entered into an agreement with each of them. Our business, financial condition and results of operations may be materially and adversely affected by the performance of, or disruption in the provision of services from, our marketing services consultants.

We have five marketing services consultants located in the U.S., Belgium, the United Kingdom, the Netherlands and Cambodia which, among other things, promote and market our apparel labels and trim products, seek orders for our products, cultivate and maintain good relations with our existing customers, the apparel brands and potential customers, and handle any complaint or after-sales enquiry in these jurisdictions. The provision of services under the marketing services agreements may not be exclusive. As such, there are no prohibitions for the marketing services consultants to provide similar services to other third parties including our competitors. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, the attributable revenue from apparel brands which were managed by our marketing services consultants and contributed with the collective efforts of our sales and marketing teams were approximately HK\$102.6 million, HK\$136.4 million, HK\$194.8 million and HK\$122.4 million, respectively. Details of their services are set out in the section headed “Business — Sales, marketing and customers — Our marketing services consultants” of this prospectus.

As at the Latest Practicable Date, our Directors were not aware of any of the marketing services consultants that is representing our competitors. However, if, in the future, any of the marketing services consultants of our Group also represents our Group’s competitors and provides them with similar marketing services or if any of the them develops its own trading business of, or manufacturing bases for producing, apparel labels or trim products, interest of our Group may be adversely affected when the relevant marketing services consultants prioritise the provision of their marketing services.

RISK FACTORS

If our marketing services consultants do not perform satisfactorily, decide to substantially reduce the provision of their services to us, require the amount of marketing services fees or commission payable to them to be increased, terminate their business relationships with us, represent any of our competitors or develop their own trading business of, or manufacturing bases for producing, apparel labels or trim products, our business, financial condition and results of operations may be materially and adversely affected.

Any major disruption at any of our production facilities, such as a breakdown of production lines or a power or utilities shortage or failure at any of our production facilities, could materially and adversely affect our business, financial condition and results of operations.

Our business depends on the continual and uninterrupted operations of our production facilities, equipment and machinery, which are subject to risks including fire, flood, breakdown of equipment and machinery at our production facilities or power failure. For instance, a stable source of electricity supply is crucial to our manufacturing processes. Power outages are common in developing countries such as Bangladesh. We cannot assure that we will not experience blackouts or a shortage of electricity in the future. There is no assurance that we will be able to have adequate electricity to sustain our production, and if we are unable to manage or reduce periods of interruption of power supply, our production at our production facilities may be limited, delayed or halted, which could have a material and adverse effect on our business, financial condition and results of operations.

If we fail to effectively implement our production plan or our inventories become obsolete, our future performance and operating results will be adversely affected.

We plan our production primarily based on orders received from our customers or our projection of the demand of our products, such as hang tags and labels. However, we cannot guarantee that our internal projections of the demand are accurate. If our projections for orders are inaccurate, we may build up raw materials of our products in excess of actual demand.

Our inventory balance was approximately HK\$35.5 million, HK\$37.6 million, HK\$41.5 million and HK\$42.0 million as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively, accounted for approximately 20.6%, 16.0%, 15.3% and 15.9% of our total assets as at the same dates. Our inventories consist of (i) raw materials which were mainly papers, chemical products, strings and seals, and yarns; (ii) work in progress which was mainly mixed ink and basesheets; and (iii) finished goods which were products ready for sale.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our inventory turnover days were approximately 93.1 days, 76.5 days, 68.9 days and 86.5 days, respectively. Please refer to the section headed “Business — Inventory management” in this prospectus for further details. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we have no write-down of inventories.

Our inventories may become obsolete as a result of adverse changes in industry standards and emergence of new or substitute products in our industry. If we fail to effectively manage our production and inventory levels or otherwise have significant levels of obsolete or excessive inventories, our business, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

The continuing spread and prolonged occurrence of COVID-19 in the PRC, Hong Kong and other countries may adversely affect our production, particularly, in the PRC Factories and may result in significant delay in the delivery of our products and may have adverse impact on our business, operation, financial condition and prospects

Subsequent to the Track Record Period and since around December 2019, there has been an outbreak of COVID-19 in the PRC, Hong Kong and other countries including Japan, Singapore, Thailand, Germany, Australia and the United States which is highly contagious and caused respiratory infection and other symptoms such as fever and shortness of breath. As a result of this outbreak, factories in the Guangdong Province of the PRC, including the PRC Factories, were required by the relevant PRC authority to postpone their resumption of operations following the Chinese New Year holidays until 10 February 2020, which led to a one-week delay in the resumption of operation of the PRC Factories. Accordingly, our Directors expect that there may be slight delays of around seven to 10 days in meeting the delivery schedule in February 2020 for some of the purchase orders, which are expected to be in the aggregate amount of approximately HK\$2.6 million with a sales volume of approximately 6.6 million, from our customers.

Following the outbreak of COVID-19, countries have implemented travel restrictions and/or mandatory quarantine measures on, among others, travellers coming from the PRC and Hong Kong. Also, up to the Latest Practicable Date, certain cities in the PRC have been subject to lockdown by the relevant PRC authority to contain COVID-19. If the implementation of travel restrictions prolonged or extended to restrictions on goods as a result of the spread and prolonged occurrence of COVID-19, or if any of our major customers is located in the cities that are subject to lockdown, there may be a decrease in or cancellation of purchase orders or delay in payments from our customers, particularly overseas customers. If the outbreak prolonged or any of our employees is contracted with COVID-19, the operation of the PRC Factories may be required to be suspended or our employees may be subject to quarantine, which could disrupt the normal operation of our business and lead to our failure to deliver our products in a timely manner, or at all, which may trigger penalty clause, if any, provided in the purchase orders of our customers or termination of orders from our customers. The prolonged occurrence of COVID-19 could, in extreme circumstances, lead to the forced suspension or closure of factories as well as the lockdown of cities in the PRC, where the PRC Factories are or if any of our major suppliers is located, as an attempt to contain COVID-19, which could in turn materially affect the supply and lead to a shortage of raw materials from our suppliers or production from the PRC Factories and hence our ability to deliver products to our customers in a timely manner, or at all. Our existing inventories may not be sufficient to produce the products under the accepted purchase orders and if we are unable to find suitable replacement of raw materials suppliers in the PRC or from Hong Kong with reasonable price or at all, our production cost or ability to produce could be severely affected and we may not be able to undertake further purchase orders. The operation of the PRC Factories may also be forced to be suspended and we may only continue our production in our other overseas production facilities which may not have the required capacity to meet the sales orders of our customers. The continuing spread and prolonged occurrence of COVID-19 could have an adverse effect on the manufacturing industry in the PRC as well as the overall economy in the PRC and worldwide. All these factors may have adverse impact on our business, operation, financial condition and prospects.

RISK FACTORS

Our business, financial condition, results of operations and prospects could be materially and adversely affected in the event of fire, flood, earthquakes, political unrest, acts of war, outbreak of contagious or epidemic diseases and other natural disasters, and we currently only have limited insurance coverage over such interruptions, damages or losses.

Our major production facilities are located in Bangladesh, Vietnam and the PRC. In addition, we have a supporting production line located in the U.S.. Our business operations are subject to risks beyond our control including, among others, fire, flood, earthquakes, political unrest, acts of war, outbreak of contagious or epidemic diseases and other natural disasters. Any or a combination of these could cause material damage to, or the loss of, our operational facilities.

For example, in 2003, certain Asian countries and regions, including the PRC and Hong Kong, encountered an outbreak of Severe Acute Respiratory Syndrome, or SARS, a highly contagious form of atypical pneumonia. More recently, (i) the outbreak of COVID-19; (ii) Zika virus, commonly transmitted through mosquito bites, has caused the birth of infants with microcephaly; (iii) diphtheria outbreaks in Bangladesh which caused airway obstruction and damage to heart and nervous system; and (iv) dengue outbreak in Vietnam.

A recurrence of SARS, influenza A (H1N1) or avian flu (H5N1) in the PRC or any other parts of the world as well as the continuing spread of COVID-19, Zika virus, diphtheria and dengue virus as well as the acceleration of hostility at the border between India and Pakistan may cause disruption to regional or national economic activity, which can affect production activities in the affected areas and, therefore, adversely affect the production for our products. Such events may also result in limitations on our ability to travel, delays in transportation and delivery of our products, disruption of raw material supplies, as well as temporary closure of our production facilities for quarantine or for preventive purposes. The time required to rectify such problems may be lengthy, and may result in significant increases in costs or reduction in sales. Frequent or prolonged occurrences of any of these events could have an adverse effect on our business, financial condition and results of operations.

We have purchased insurance covering against the risk of loss or damage to our facilities, equipment and our inventories (including raw materials and finished goods) caused by certain accidents and natural disasters such as fire. We also maintain marine cargo insurance to cover shipment of raw materials, semi-finished and finished products. We have also obtained medical insurance and work-related injury insurance for our employees. However, no assurance can be given that our existing insurance coverage will be able to cover all types of, or be sufficient to cover the full extent of, any loss, theft of or damage to property or injury to person for which we may be held liable.

Our business, financial condition and prospects could be materially and adversely affected if we are unable to anticipate technology innovation and keep up with and adapt to technological changes in a timely manner.

Our capability to introduce new technologies and apply such new technologies for our production depends on a number of factors, including our ability to anticipate technology innovation, market and industry trend and timely and successfully launch products that are demanded by the market. We cannot assure you that our efforts in research and development and in keeping up with the latest technological changes will result in the introduction of new technologies

RISK FACTORS

or new products incorporating innovative technologies demanded by the market or that they will generate expected benefits. Further, the application of new technologies, such as RFID or NFC technology, for our production could be time-consuming and costly. If new technology is introduced to the production of apparel labels and trim products and such products become popular and widely used and we fail to keep up with such new technology and adapt to the technological changes in a timely manner, we may be unable to compete effectively and may suffer loss of sales orders from our customers. We have our RFID production line in the PRC Factories and a supporting production line for encoding RFID products in the U.S., and the RFID production lines in our production facilities in Bangladesh and Vietnam are yet to commence operation. If the application of RFID technology in apparel labels and trim products becomes a prevalent trend and the demands for RFID products exceed our production capacity, we may not have the ability to increase our production capacity for producing RFID products and capture the demands in a timely manner. If any of these events occurs, our business, financial condition and prospects could be materially and adversely affected.

We are subject to the risk of system failure caused by unexpected network interruptions, security breaches, attack by hackers or computer virus.

Our business operation may be affected by any failure of our information technology system, such as our online system which computerises and integrates our key operation functions and our computer system through which we can monitor various processes in our business operations including customers' orders, production planning, manufacturing or service delivery, sales and marketing, inventory management, shipping and payment. However, in spite of our efforts, there is no assurance that we will successfully maintain the satisfactory performance, reliability, security and operation of our information technology system. Such failure may be caused by unexpected network interruptions, security breaches, attacks by hackers or computer viruses.

Further, our information technology system may be suspended due to the occurrence of unforeseeable events such as fires, floods, hardware and software failures, power failures, telecommunication failures, terrorist attacks or other natural or man-made disasters.

If any of these events occurs, our business operation may be disrupted thereby damaging our business and reputation, and materially and adversely affecting our business, financial condition and results of operations.

We may experience labour shortage or unrest or may incur high labour costs.

Some of our production processes are labour intensive. During recent years, labour shortages have frequently occurred in the PRC, Bangladesh and Vietnam where our major production facilities are located. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our direct labour cost, which comprised salaries, insurance, staff messing and welfare of our manufacturing operations, represented approximately 21.7%, 21.0%, 22.8% and 24.2% of our total cost of sales, respectively. While we have not experienced any significant labour shortages in the past, we cannot assure you that we will not face such problems in the future. In addition, as a result of changes in the labour market conditions or industry practises or otherwise, we may be required to increase the wages for our workers.

RISK FACTORS

We expect the salary levels of our employees and contract workers will continue to be determined according to the prevailing market wage rates in relevant locations as well as the performances of such employees and contract workers in the foreseeable future in order for us to remain competitive. However, we cannot assure you that we will not face labour unrest or we will not raise wages for our employees and contract workers whether due to labour unrest in our Group or as a result of the wage rise of other manufacturing companies in the PRC, Bangladesh and Vietnam. Labour unrest will disrupt our production and the higher wages will result in increased labour costs for us. If we cannot increase our product prices to offset the additional labour costs in a timely manner or in a sufficient amount or if we experience labour shortage or labour unrest, our business, financial condition and results of operations may be materially and adversely affected.

We may not have insurance coverage that is adequate to cover potential liabilities or losses.

We are subject to risks of our employees being exposed to industrial-related accidents at our production facilities.

As at the Latest Practicable Date, we maintained insurance policies to protect us against bodily injury and property damage claims, property all risks insurance for our inventories, property, plant and equipment, employees' compensation insurance and medical insurance for our employees. We or our Directors or senior management may be exposed to claims for which no insurance policies have been maintained by us. In addition, there may be circumstances for which we would not be covered adequately, or at all, by the insurance policies. If we incur substantial losses or liabilities which our insurance coverage is unable or inadequate to cover, our business, financial condition and results of operations may be materially and adversely affected.

We may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to us, could cause us to pay significant damage awards.

Our success depends largely on our ability to use and develop our technology and know-how without infringing the intellectual property rights of third parties. The validity and scope of claims relating to the design and other technologies for our products involve complex scientific, legal and factual questions and analysis. As such, the validity and scope of our technology, know-how and other intellectual property may be highly uncertain.

Our competitors may bring intellectual property infringement claims against us for the purposes of gaining competitive advantages over us. The defence and prosecution of intellectual property suits, patent opposition proceedings and related legal and administrative proceedings can be both costly and time-consuming and may significantly divert the effort and resources of our technical and management personnel. If any claim is adversely determined against us in any of such potential litigation or proceedings, we could be subject to significant liabilities to third parties. As a result, we may be required to seek licences from third parties, pay ongoing royalties and also redesign our products. We may further be subject to injunctions prohibiting the manufacture and sale of our products or the use of our technologies. Protracted litigation could also result in our existing or potential customers deferring or limiting their purchase or use of our products until resolution of such litigation.

RISK FACTORS

We may not be able to prevent others from unauthorised use of our intellectual property, which could harm our business and reputation.

We rely on a combination of intellectual property laws as well as non-disclosure agreements and other methods to protect our intellectual property rights. It could be difficult and expensive to police unauthorised use of intellectual property. The steps we have taken may be inadequate in preventing misappropriation of our technologies, trademarks, trade names or other intellectual property. Our inability to prevent others from unauthorised use of our intellectual property could harm our business, reputation and competitive positions. Further, we may have to enforce our intellectual property rights through litigation. Such potential litigation may result in substantial costs and diversion of resources and management attention.

Failure to comply with applicable environmental regulations and safety standards could harm our business.

We are required to comply with various environmental laws and regulations in the PRC, Bangladesh and Vietnam where our production facilities are located. Our production operations are also subject to periodic monitoring by the relevant local government environmental protection authorities in these countries. For details about our compliance with the environmental laws and regulations in the PRC, Bangladesh and Vietnam during the Track Record Period, please refer to the section headed “Business — Environmental protection” in this prospectus. There is no assurance that there will not be any non-compliance in this area in the future. Further, if more stringent environmental protection laws, regulations and standards are introduced, we may need to utilise significant financial resources to ensure compliance, which will result in an increase in our operating costs and have a material and adverse effect on our business, financial condition and results of operations.

Failure to comply with relevant regulations relating to social insurance and the housing provident fund may subject us to penalties and adversely affect our business, financial condition, results of operations and prospects.

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

During the Track Record Period, Charming China did not fully make social insurance and housing provident fund contributions and Charming Shenzhen did not fully make social insurance contributions in accordance with relevant PRC laws and regulations. We estimate that the amount of social insurance payments and housing provident fund contributions that we did not make or failed to fully make, but we may be liable for, as at 31 December 2016, 2017 and 2018, and 31 August 2019, are approximately RMB0.8 million, RMB1.5 million, RMB2.6 million and RMB3.2 million, respectively, in respect of social insurance payments, and approximately RMB1.5 million, RMB2.2 million, RMB2.5 million and RMB1.7 million, respectively, in respect of the unpaid amount of housing provident fund contributions, respectively. Please refer to the section headed “Business — Legal compliance” for further details in relation to our social insurance payments and housing provident fund contributions.

RISK FACTORS

While we had not received any order or notice from the local authorities nor any claims or complaints from our current and former employees as at the Latest Practicable Date regarding the shortfall in payments and contributions, we cannot assure you that we will not be subject to any order in the future to rectify such non-compliance or that there will not be any employee complaints or claims regarding social insurance payments or housing provident fund contributions made against us. If any of the government agencies takes enforcement action against us for these non-compliance incidents, we may be ordered to pay fines and/or other penalties, incur legal costs arising from any successful legal action against us or our Directors or the management members of our Group and may result in business disruption and/or negative media coverage, which may materially and adversely affect our business, reputation, financial condition and results of operations.

Failure to renew our current leases or to locate desirable alternatives for our production facilities may materially and adversely affect our business.

Our production facilities, offices and warehouses are presently located on leased premises. At the end of each lease term, we may not be able to negotiate an extension of the lease and may therefore be forced to move to a different location and hence, incur relocation costs. In addition, the rent we pay may increase significantly. This could disrupt our operations and adversely affect our profitability. In addition, we may not be able to obtain new leases at desirable locations on acceptable terms to accommodate our future growth, which could materially and adversely affect our business, financial condition and results of operations.

We may require additional capital in the future, which may not be available or may only be available on unfavourable terms.

We use various machinery and equipment, including offset printing machines, cut-fold machines, digital printing machines, die-cutter machines, weaving machines, hot foil stamping machines and RFID inlay application machines, in our production facilities. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our capital expenditure amounted to approximately HK\$0.6 million, HK\$16.6 million, HK\$43.9 million and HK\$10.3 million, respectively, which were primarily used to increase our production capacity and purchase machineries and equipment.

There is no assurance that we will have adequate internal and external resources to fund our future capital requirements. We may from time to time need to raise additional funds to meet such capital requirements. However, any equity or debt financing, if available at all, may be on terms that are not favourable to us. A large amount of bank borrowings and other debts may result in a significant increase in interest expenses while at the same time exposing us to increased interest rate risks. Equity financings could result in dilution to the shareholding of our shareholders, and the securities issued in future financings may have rights, preferences and privileges that are senior to those of our Shares. If we fail to obtain necessary funding on acceptable terms or at all, we may be forced to delay capital investment projects, project engineering and development activities, potential acquisitions and investments or otherwise curtail or cease operations.

RISK FACTORS

We may fail to achieve or manage future growth and expansions.

We have experienced significant business growth and expansion in the past few years. We plan to further strengthen our sales and marketing operations and our human resources management capabilities and to upgrade or expand our existing production facilities. However, there are significant risks and uncertainties involved in such expansion plans, including, among others, lack of financial resources, inability to implement and execute the expansion plans in a timely and cost-effective manner, cost overruns and failure to achieve the anticipated benefits. We may also make other acquisitions or equity investments in the future if suitable opportunities arise. Acquisitions or significant equity investments involve a variety of risks and uncertainties, including, among others:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objective or benefits;
- costs and difficulties of managing the expanded operations; and
- diversion of resources and management attention.

If we fail to address the foregoing risks and uncertainties associated with our future acquisitions, equity investments and other expansion plans, our business, financial condition and results of operations may be materially and adversely affected.

Our financial performance during the Track Record Period is not indicative of our future financial performance and our operating results may fluctuate significantly.

We experienced growth in profit during the Track Record Period (save for the eight months ended 31 August 2019), the improved financial results are not indicative of our future financial performance. Our growth depends on a number of factors, including but not limited to the market trend and demand of our products, our business relationship with our customers, the implementation of our business strategies, the competitive landscape of the industry where we operate as well as the general economic conditions in the PRC, Hong Kong, the U.S. and Europe and elsewhere in the world. Historical figures or past results should not be relied on as indicators of our performance. We cannot assure you that our growth will continue in the near future or at all.

RISK FACTORS

RISK RELATING TO THE INDUSTRY

We face intense competition in the apparel labels and trim products manufacturing industry in Hong Kong and other countries in Asia.

Market players in the apparel labels and trim products manufacturing industry face global competition. Competition may affect our Group's sales and the price of products, which will, in turn, affect the profitability of the business. As such, our Group anticipates competition from existing and new players in the apparel labels and trim products manufacturing industry in Hong Kong and other countries in the world which may have stronger financial resources and larger in size in the industry and/or can offer flexible packaging and folding cartons. According to F&S, the apparel manufacturing industry in the PRC has seen a trend of relocation to Southeast Asian countries, such as Bangladesh and Vietnam, due to rising labour cost in the PRC. Given the relatively low labour cost and incentives to encourage foreign investment offered by local government, Southeast Asian countries become an alternative for apparel manufacturers. Accordingly, apparel manufacturers may choose to place order for apparel label from local suppliers which may pose a threat to apparel labels and trim products manufacturers in the PRC. As a majority part of our Group's revenue was attributable to the PRC market, the competition from Southeast Asia countries may have material and adverse impact on our Group's business, financial condition and results of operations.

Competition from existing and new players may exert pressure on the price of our Group's products. The success of our Group depends on its ability to compete effectively against these competitors in terms of product quality, customer service, pricing, our ability to implement production schedules flexibly that meet customer needs, and technical development expertise. There is no assurance that our Group will continue to compete successfully in the future, and if our Group fails to do so, its business, financial condition and results of operations would be materially and adversely affected.

If we fail to keep up with the pace of technological developments in the apparel labels and trim products manufacturing industry, we may lose our competitiveness.

Constant refinements to offset printing presses and related machinery and the introduction of new technologies are continually improving the quality, productivity, safety, speed, reliability and energy efficiency within the apparel labels and trim products manufacturing industry. The ability to print faster and more cost effectively offers apparel labels and trim product manufacturers a competitive edge. Technological improvements and increases in the level of automation, not only in the printing production process but also in the pre- and post-printing production stages, offer users cost savings on raw materials, time and labour, and reduce human error while enhancing product quality. If our Group is not able to upgrade our technologies to meet customers' demands, our business, competitiveness, financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

We may be materially and adversely affected by the demand of environmental groups on excessive printing and packaging materials.

Recently, environmental groups have demanded corporations to reduce the use of printing and packaging materials. If regulators and corporations respond proactively to such a request and reduce the use of printing and packaging materials, our business, financial condition, results of operations and prospects may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN CHINA

Changes in the economic, political and social conditions of China could adversely affect our business.

Our business, financial condition and results of operations are subject to the political, economic and social policies and conditions of the PRC as most of our production operations are in the PRC and our major assets are located in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including its structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources.

Our ability to conduct and expand our business operations in the PRC depends on a number of factors that are beyond our control, including macro-economic and other market conditions and credit availability from lending institutions. In order to control inflation and promote economic growth, the PRC government has introduced certain macro-economic policies, such as imposing commercial bank lending guidelines which have the effect of restricting lending to certain industries. Some of these macro-economic policies and lending policies may limit our ability to obtain financing, thus reducing our ability to implement our business strategies. There is no assurance that the PRC government will not introduce more restrictive or onerous policies in the future. Any change in the political, economic and social policies and conditions of the PRC may bring uncertainty to our business operations and may materially and adversely affect our business, financial condition and results of operations.

Although the PRC government has implemented measures emphasising the utilisation of market forces in the development of the Chinese economy, the Chinese government still exercises significant control over the Chinese economic growth through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. The Chinese government also continues to play a significant role in regulating industries by imposing industrial policies. There is no assurance that the economic, political or legal systems of China will not develop in a way that is detrimental to our business, financial condition, results of operations and prospects. Our business, financial condition and results of operations may be adversely affected by political instability or changes in social conditions in China, changes in laws, regulations or policies or the interpretation of laws, regulations or policies, measures which may be introduced to control inflation or deflation, changes in the rate or method of taxation, and imposition of additional restrictions on currency conversion and remittances abroad.

RISK FACTORS

While the PRC government has undergone various economic reforms in the last few decades, many of such reforms are of an experimental nature and are expected to be refined, adjusted and modified from time to time based on economic and social conditions. In addition, the scope, application and interpretation of the laws and regulations relating to such reforms may not be entirely clear. Such refinement, adjustment or modification may impact our business operations in ways that we cannot predict and any uncertainty in the scope, application and interpretation of the relevant laws and regulations may materially and adversely affect our business, financial condition and results of operations.

Government control of currency conversion could affect our business and limit our ability to utilise our capital effectively.

The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders.

Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from or registration with SAFE or its local branch or its designated banks is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. The restrictions on foreign exchange transactions under capital accounts could also affect our subsidiaries' ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contribution from us.

Fluctuations in exchange rates and the value of Renminbi could have material adverse effect on our financial condition and results of operations.

A part of our revenue and a substantial portion of our expenditures are denominated in Renminbi, while the net proceeds from the Global Offering and any dividends we pay on our Shares will be in Hong Kong dollars. The value of Renminbi against the U.S. dollars, Hong Kong dollars and other currencies fluctuates, and is subject to changes resulting from the PRC government's policies, domestic and international economic and political developments as well as supply and demand in the monetary market. Since July 2005, the PRC government has adopted a managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band based on market supply and demand and with reference to a basket of currencies. In April 2012, the PBOC enlarged the floating band for the trading price of Renminbi against US dollars on the interbank spot exchange market to 1.0% around the central parity rate. In March 2014, the PBOC further enlarged the floating band for the trading price of Renminbi against US dollars on the interbank spot exchange market to 2.0% around the central parity rate. There remains significant international pressure on the PRC government to adopt more flexible currency policies. In the event of significant change in the exchange rates of Hong Kong dollars and US dollars against Renminbi, our ability to pay dividends in foreign currencies may be materially and adversely affected.

RISK FACTORS

Fluctuations in the exchange rate of Renminbi against the U.S. dollars and Hong Kong dollars will affect the relative purchasing power in Renminbi with the proceeds from the Global Offering. Fluctuations in the exchange rate may also cause us to incur foreign exchange losses and affect the relative value of any dividend issued by our PRC subsidiaries. In addition, appreciation or depreciation in the value of the Renminbi relative to the Hong Kong dollars or U.S. dollars would affect our financial results in Hong Kong dollars without giving effect to any underlying change in our business, financial condition and results of operations.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries.

As an offshore holding company of our PRC subsidiaries, we may make additional capital contributions or loans to our PRC subsidiaries. Any capital contribution or loans to our PRC subsidiaries are subject to PRC regulations and foreign exchange loan registrations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment of the relevant PRC entity and its registered capital under relevant PRC laws and regulations, and such loans must be registered with the local branch of SAFE. In addition, the information of our capital contributions to our PRC subsidiaries must be submitted to the Ministry of Commerce or its local counterpart.

There is no assurance that we will be able to complete or obtain the necessary submissions, government registrations or approvals in a timely manner, or at all, with respect to making future loans or capital contributions to our PRC subsidiaries with the net proceeds from the Global Offering. If we fail to complete such submissions, registrations or obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be materially and adversely affected, which may materially and adversely affect their ability to fund their working capital and expansion projects as well as meet their obligations and commitments.

Companies having business in China may be classified as a “resident enterprise” for EIT purposes, and such classification could result in unfavourable tax consequences to us and our non-PRC Shareholders.

The EIT Law provides that enterprises established outside of China whose “de facto management bodies” are located in China are considered PRC “tax resident enterprises” and will generally be subject to the uniform 25% EIT rate on their global income. Under the implementation rules to the EIT Law, a “de facto management body” is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and other assets of an enterprise.

RISK FACTORS

If we are considered as a PRC tax resident enterprise for PRC tax purposes, we will be subject to a uniform 25% EIT rate as to our global income as well as tax reporting obligations. In addition, dividends payable by us to our investors that are non-resident enterprises and gain on the sale of our Shares may become subject to the PRC withholding tax, if such dividends and gains are regarded by the PRC tax authorities to be sourced from China.

The heightened scrutiny over acquisitions from the PRC tax authorities may have an adverse impact on our business, acquisition or restructuring strategies or the value of your investment in us.

In February 2015, the State Taxation Administration of the PRC issued the Public Announcement on Several Issues Concerning Enterprise Income Tax for Indirect Transfer of Assets by Non-Resident Enterprises (國家稅務總局關於非居民企業間接轉讓財產企業所得稅若干問題的公告) (the “**Circular 7**”), which provides comprehensive guidelines relating to, and also heightened the PRC tax authorities’ scrutiny over, indirect transfers by a non-resident enterprise of assets (including equity interests) of a PRC resident enterprise (the “**PRC Taxable Assets**”).

Circular 7 specifies that the PRC tax authorities are entitled to reclassify the nature of an indirect transfer of PRC Taxable Assets, when a non-resident enterprise transfers PRC Taxable Assets indirectly by disposing of equity interests in an overseas holding company directly or indirectly holding such PRC Taxable Assets, by disregarding the existence of such overseas holding company and considering the transaction to be a direct transfer of PRC Taxable Assets, if such transfer is deemed to have been conducted for the purposes of avoiding PRC enterprise income taxes and without any other reasonable commercial purpose. Although Circular 7 contains certain exemptions (including, (i) where a non-resident enterprise derives income from the indirect transfer of PRC Taxable Assets by acquiring and selling shares of a listed overseas holding company which holds such PRC Taxable Assets on a public market; and (ii) where there is an indirect transfer of PRC Taxable Assets, but if the non-resident enterprise had directly held and disposed of such PRC Taxable Assets, the income from the transfer would have been exempted from enterprise income tax in the PRC under an applicable tax treaty or arrangement), it remains unclear whether any exemptions under Circular 7 will be applicable to the transfer of our Shares or to any future acquisition by us outside of the PRC involving PRC Taxable Assets, or whether the PRC tax authorities will reclassify such transaction by applying Circular 7. Therefore, the PRC tax authorities may deem any transfer of our Shares by our Shareholders that are non-resident enterprises, or any future acquisition by us outside of the PRC involving PRC Taxable Assets, to be subject to the foregoing regulations, which may subject our Shareholders or us to additional PRC tax reporting obligations or tax liabilities.

RISK FACTORS

The legal system in the PRC has inherent uncertainties that could limit the legal protections available to our Shareholders.

Our business operations in the PRC are governed by the PRC law, rules and regulations. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court of the PRC and may not be as comprehensive or developed as that of other jurisdictions. Prior court decisions may be cited for reference but have limited precedential value. Accordingly, the outcome of dispute resolutions may not be consistent or predictable.

Although efforts have been made by the PRC government to enhance protection of foreign investment in the PRC, the PRC has not yet developed a fully integrated legal system. Newly-enacted laws and regulations may not sufficiently cover all aspects of economic activities in the PRC and there is much uncertainty in their application, interpretation and enforcement. Furthermore, the PRC legal system is partly based on government policies and administrative rules that may take effect retrospectively. As a result, we may not be aware of our violations of certain policies or rules in a timely manner. The legal protection available to us under the PRC laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted, which may result in the diversion of our resources and management attention. In addition, the outcome of dispute resolutions may not be consistent or predictable and it may be difficult to enforce judgments and arbitration awards in the PRC.

These uncertainties relating to the interpretation, implementation and enforcement of the PRC laws and regulations and a system of jurisprudence that gives only limited precedential value to prior court decisions can affect the legal remedies and protections available to you, and may adversely affect the value of your investment.

Present or future environmental and safety laws and regulations in the PRC may have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to certain PRC laws and regulations relating to environmental and safety matters. Under these laws and regulations, we are required to maintain safe production conditions and to protect the occupational health of our employees. While we have conducted periodic inspections of our operating facilities and carry out equipment maintenance on a regular basis to ensure that our operations are in compliance with applicable laws and regulations, we cannot assure you that we will not experience any material accidents or work injuries in the course of our manufacturing process in the future. In addition, our manufacturing process produces pollutants such as wastewater, noise, smoke and dust. The discharge of pollutants from our manufacturing operations into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. We cannot assure you that all situations that will give rise to material environmental liabilities will be discovered or any environmental laws adopted in the future will not materially increase our operating costs and other expenses. Should the PRC impose stricter environmental protection standards and regulations in the future, we cannot assure you that we will be able to comply with such new regulations at reasonable costs, or at all. Any increase in production costs resulting from the implementation of additional environmental protection measures and/or failure to comply with new environmental laws or regulations may have a material adverse effect on our business, financial condition or results of operations.

RISK FACTORS

We benefit from government subsidies, which are non-recurring in nature, and the loss of or a reduction of which could affect our profitability

For the years ended 31 December 2016 and 2018, we received approximately RMB50,000 and RMB1.1 million subsidies from the relevant PRC government departments, respectively. Please refer to the section headed “Business — Product development and engineering” in this prospectus for further details.

The amounts of subsidies were determined and paid at the sole discretion of the respective PRC government authorities. We cannot assure you that the amounts of subsidies awarded to us in the past represent an accurate indicator of any amounts to be paid in further periods. Further, they are not derived from our Group’s ordinary and usual course of business and are not recurring in nature. We cannot assure you that we will continue to have the same or similar income from government subsidies as the relevant government policies may change over time. Any loss of or reduction in government subsidies could have an adverse effect on our profitability and financial position.

RISKS RELATING TO CONDUCTING BUSINESS IN BANGLADESH

Political instability in Bangladesh may have an adverse effect on our operations.

Operating in developing countries, such as Bangladesh, exposes us to risks associated with regional, political and economic instabilities that could have a disproportionately negative effect on our business, financial condition, results of operations and prospects. Since 2013, a number of secularist and atheist writers, bloggers and publishers in Bangladesh have been killed or seriously injured in small-scale terrorist attacks that are believed to be perpetrated by Islamist extremists. These attacks have polarised the political sentiment of the country. As a result of these terrorist incidents, expatriate workers might not be interested in working in Bangladesh due to the heightened state of alarm caused by the terrorist activities. We cannot assure you that there will not be other terrorist attacks in Bangladesh. In the event of any terrorist attack, Bangladesh’s infrastructure may be negatively affected. Transportation of our raw materials, equipment and finished goods may be disrupted. Employee morale may be adversely affected. Our production may be interrupted and our facilities, equipment and inventories may suffer loss and damages. In such circumstances, our business, financial condition, results of operations and prospects could be adversely affected.

Further, our operations in Bangladesh and our ability to maintain such operations may be adversely affected by changes in the political stability of the Bangladesh government. In addition, political instability has in the past, and may in the future, result from events in the region in which Bangladesh is located. Bangladesh is principally bordered by India, Myanmar and the Bay of Bengal. The potential movement of terrorists through Bangladesh poses threats to Bangladesh’s neighbours, including India, Nepal, Myanmar and Bhutan, as well as to Bangladesh itself. The political instability, aggravated by tension between certain minority communities and religious fundamentalists, as well as the social and religious unrest in Asia, could create a perception that investment in Bangladeshi companies involves a higher degree of risk than investment in other companies.

RISK FACTORS

In the event of political instability, our operations in Bangladesh may be subject to prolonged disruption, and our property, plant and equipment may be confiscated. We cannot guarantee that Bangladesh will not be accompanied by social unrest or that the country's political climate will not be negatively affected, which may have a material adverse effect on our business, financial condition, results of operations and prospects. There can be no assurance that the operation of our business will not be materially and adversely affected by events of this nature, which could have an adverse effect on our business, financial condition and results of operations.

Less developed legal system and uncertainty and complexity in regulatory environment may expose us to claims.

In emerging-market countries, such as Bangladesh, the legislative drafting has not always kept pace with the demands of the marketplace. As such, there remains inherent uncertainties and inconsistencies in its interpretation, implementation and enforcement of laws and government policies. In view of this, it is difficult to ensure that we are in compliance with changing legal requirements. Further, the government has broad discretion in the grant of its licences and permits, including revocation for public interests. In addition, regulations are often introduced that require us to implement changes that are costly and technologically challenging.

We may incur significant costs in implementing such compliance or may face difficulties in implementing such requirements. We cannot be certain that we will not be found to be in violation of applicable regulations in Bangladesh in the future. If we are found to be involved in practices that do not comply with applicable laws or regulations, we may be exposed to, among other things, significant fines, the risk of prosecution or the suspension or loss of our licences, frequency allocations, authorisations or various permissions. In addition, we may be subject to claims or defences to actions that parties would not encounter in jurisdictions with more established legal regimes. The outcomes of litigations might not always turn out as anticipated. As a result, it may be difficult for us to pursue a claim against our counterparties or defend a claim brought by our counterparties in Bangladesh. Further, we may be deprived of the tax benefit we are currently enjoying in Bangladesh. Any of the above may materially and adversely affect our business, financial condition and results of operations.

Our business, financial condition, results of operations and prospects could be materially and adversely affected by the poor condition of infrastructure in Bangladesh.

Infrastructure in Bangladesh is relatively undeveloped. Many roads are of poor quality, narrow, and dangerous. Most parts of Bangladesh are regularly flooded during the monsoon season. The waterways are an important mode of transportation, especially to some remote areas of the country, as no other mode of transportation is available during monsoon season. Our raw materials are transported by trucks along roads. The conditions of the roads affect our delivery and logistics and may result in delays, which could have a material and adverse effect on our business, financial condition and results of operations. We cannot assure you that we will not experience any transportation and logistics issues in the future.

RISK FACTORS

Natural disasters such as flooding and cyclones are common in Bangladesh, and may result in significant damage to infrastructure, including power and communications systems, and adversely affect our operations.

Bangladesh is a low-lying, riparian country with a large, marshy jungle coastline. It has a subtropical monsoon climate and is subject to heavy seasonal rainfall, floods, tropical cyclones, tornadoes and tidal bores almost every year. Natural disasters occur frequently in Bangladesh and can be particularly damaging with respect to loss of life and property. Natural disasters can also significantly impact infrastructure, including power and communication systems. Accordingly, future natural disasters, which could become more frequent as a result of climate change, could adversely affect our business, financial condition and results of operations.

Changes in the economic environment of Bangladesh may adversely affect our business, financial condition, results of operations and prospects.

We began our operations in Bangladesh in 2013 and intend to expand our manufacturing capabilities in Bangladesh. Our business operations are subject to the economic and legal environment in Bangladesh which differ from the economies of other countries in many respects, including, but not limited to, government involvement, level of development, growth rate, allocation of resources and inflation rate. As a result of these differences, our business might not develop in the same way or at the same rate as expected if Bangladesh's economy were similar to those of developed countries. Bangladesh government has implemented economic reform measures for the development of Bangladesh's economy which may be subject to revision, change or abolition. Further, we cannot assure you that the Bangladesh government will continue to pursue policies of economic reform or that any reforms will be successful or the impetus to reform will continue. If any of economic reforms adversely affect us or our business, or if we are unable to capitalise on the economic reform measures of the Bangladesh government, our business, financial condition and results of operations could be materially and adversely affected.

The change of the foreign exchange regulations of Bangladesh can materially affect our financial condition and results of operations.

BDT, the lawful currency in Bangladesh, is not freely convertible to other currencies, except under certain circumstances. Under the foreign currency exchange regulations of Bangladesh, foreign-invested enterprises are permitted to repatriate profits from business operations in Bangladesh through various means. The Bangladeshi government has relaxed the regulations in respect of foreign exchange to allow foreign-invested enterprises to convert BDT into foreign currencies through authorised foreign exchange bodies. There can be no assurance, however, that the Bangladeshi government will continue to relax its foreign exchange regulations, that it will maintain the same foreign exchange policy or that there will be sufficient foreign currency, particularly U.S. dollars, available in the market for currency conversions. If, in the future, government regulations restrict our Group's ability to convert BDT or there is insufficient foreign currency available in the market, our Group may be unable to meet its foreign currency payment obligations, including those incurred in the course of the operation of our factory in Bangladesh.

RISK FACTORS

The value of BDT has fluctuated in the past and is subject to changes in the Bangladeshi government's political and economic policies. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we had net operating cash outflow, excluding other income and expenses, denominated in BDT of approximately BDT47.2 million, BDT60.9 million, BDT88.9 million and BDT74.7 million (equivalent to approximately HK\$4.3 million, HK\$5.6 million, HK\$8.1 million and HK\$6.8 million), respectively, and net liabilities of BDT115.4 million, BDT137.5 million, BDT121.5 million and BDT113.4 million (equivalent to approximately HK\$10.6 million, HK\$12.6 million, HK\$11.1 million and HK\$10.4 million) as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, that were subject to foreign exchange exposure in BDT. The Bangladeshi government has taken a liberal approach to foreign exchange management in that the Bangladesh Bank influences the exchange rate primarily through the financial markets and monetary policies subject to parameters set by the Bangladesh Bank. However, there can be no assurance that the government will continue to pursue a liberal management policy in respect of foreign exchange. If it does not do so, our financing costs may increase and our financial condition and results of operations may be adversely affected by changes in the value of the BDT.

Enforcement of the Bangladesh labour law and other labour related rules may materially and adversely affect our business, financial condition and results of operations.

The Bangladesh Labour Act, 2006, as amended by the Bangladesh Labour (Amendment) Act, 2013 and the Bangladesh Labour (Amendment) Act, 2018 (the “**Bangladesh Labour Act**”) and the Bangladesh Labour Rules, 2015 (collectively, the “**Bangladesh Labour Laws**”), regulate labour issues, industrial relations and employment of workers in all industries and establishments operating outside of the EPZs. The Bangladesh Labour Rules, 2015 provide for strict requirements regarding the formality of appointment letters, contributions to provident funds, holidays, wages, health and fire safety and the process of obtaining approval of a factory plan and any extension thereof. The Bangladesh EPZ Labour Act, 2019 (the “**EPZ Labour Act**”) regulates employment in industries operating inside an EPZ. The EPZ Labour Act offers a number of benefits to the workers, including termination benefits, a provident fund, a group insurance scheme, maternity benefits, death benefits, festival bonuses, earned leave encashment options and other facilities. Please refer to the section headed “Regulatory overview — Bangladesh laws and regulations” in this prospectus for further details.

As the labour laws and rules in Bangladesh are continuously being revised and updated to be in line with the international labour standards, we cannot assure you that we will be fully aware of any further development on such laws and rules or that we will be able to adjust our employment practice in compliance with such development in laws and rules in a timely manner. If we are held to have violated relevant labour laws and rules, we will be required to provide compensation to our employees and our business, financial condition and results of operations may be materially and adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN VIETNAM

Adverse changes in economic, political and legal environment of Vietnam could have a material and adverse effect on our business, financial condition and results of operation.

The economy of Vietnam varies from the economies of many countries in terms of governmental involvement, level of development, growth rate, allocation of resources and inflation rate. In the 1990s, Vietnam's economy was largely a planned economy.

RISK FACTORS

In recent years, the economy of Vietnam had moved from a planned economy to a more market-oriented one. To this end, the Vietnamese government has implemented a series of economic reforms, including lowering trade barriers and import quotas to encourage and promote foreign investment. In addition, the Vietnamese government has put in place other laws and regulations with a view to attracting foreign investment and business development in Vietnam, which may intensify the competition in our industry. This, in turn, may have a negative impact on our business, financial condition and results of operations.

While the Vietnamese government has made progress in economic reform and the development of laws and regulations, there remain inherent uncertainties and inconsistencies in the interpretation, implementation and enforcement of laws and government policies, including tax regulations. Many of the reforms are unprecedented or experimental and may be subject to revision, change or abolition, depending upon the outcome of these experiments. Further, there can be no assurance that the Vietnamese government will continue to pursue policies of economic reform or that any reforms will be successful or the impetus to reform will continue. If any of the changes adversely affect us or our business, or we are unable to capitalise on the economic reform measures of the Vietnamese government, our business, financial condition and results of operations may be materially and adversely affected.

Uncertainties with respect to the Vietnamese legal system could have a material and adverse effect on us.

We have business and operations conducted in Vietnam which are governed by Vietnamese laws, rules and regulations. As Vietnam is a developing nation in the process of integrating into regional and international economies, Vietnamese laws and tax and other regulations are subject to frequent amendments and supplements to facilitate Vietnam's fast-growing economy.

The legal system of Vietnam differs from most common law jurisdictions in that it is a system which lacks jurisprudence, or in which decided legal cases have little precedential value. The laws and regulations are subject to broad and varying interpretations by governmental authorities and courts. The Vietnamese courts have the power to read implied terms into contracts, adding a further layer of uncertainty. As a result, governmental authorities and courts often express different views on the legality, validity and effect of a particular legal document. In addition, the views of a governmental authority received on a particular issue have no binding effect or finality, so there is no guarantee that similar issues will be dealt with in a similar way by other governmental authorities. While parties to documents/agreements prepared in foreign language may deem them to prevail over the Vietnamese language version, Vietnamese courts in practice only recognise and consider documents/agreements written or translated into the Vietnamese language. Further, recognition and enforcement of legal rights through Vietnam courts, arbitration centres and administrative agencies in the event of a dispute are uncertain. Similarly, the tax system in Vietnam is mainly rule-based instead of principle-based which, coupled with the frequent amendments to tax regulations, often result in inconsistent interpretation and application of tax regulations amongst the Vietnamese tax authorities in different locations in practice, as well as between Vietnamese tax authorities and taxpayers (including our Group).

RISK FACTORS

The change of the foreign exchange regulations of Vietnam can materially affect our financial condition and results of operations.

VND, the lawful currency in Vietnam, is not freely convertible to other currencies, except under certain circumstances. Under the foreign currency exchange regulations of Vietnam, foreign-invested enterprises are permitted to repatriate profits from business operations in Vietnam through various means. The Vietnamese government has relaxed the regulations in respect of foreign exchange to allow foreign-invested enterprises to convert VND into foreign currencies through authorised foreign exchange bodies. There can be no assurance, however, that the Vietnamese government will continue to relax its foreign exchange regulations, that it will maintain the same foreign exchange policy or that there will be sufficient foreign currency, particularly U.S. dollars, available in the market for currency conversions. If, in the future, government regulations restrict our Group's ability to convert VND or there is insufficient foreign currency available in the market, our Group may be unable to meet its foreign currency payment obligations, including those incurred in the course of the operation of our factory in Vietnam.

The value of VND has fluctuated in the past and is subject to changes in the Vietnamese government's political and economic policies. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we had net operating cash outflow, excluding other income and expenses, denominated in VND of approximately VND3.8 billion, VND6.1 billion, VND7.9 billion and VND13.1 billion (equivalent to approximately HK\$1.3 million, HK\$2.0 million, HK\$2.6 million and HK\$4.4 million), respectively, and net assets of VND2.1 billion, VND27.2 billion, VND37.9 billion and VND35.8 billion (equivalent to approximately HK\$0.7 million, HK\$9.1 million, HK\$12.7 million and HK\$12.0 million) as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, that were subject to foreign exchange exposure in VND. The Vietnamese government has taken a liberal approach to foreign exchange management in that the State Bank of Vietnam influences the exchange rate primarily through the financial markets and monetary policies subject to parameters set by the State Bank of Vietnam. However, there can be no assurance that the government will continue to pursue a liberal management policy in respect of foreign exchange. If it does not do so, our financing costs may increase and our financial condition and results of operations may be adversely affected by changes in the value of the VND.

RISK FACTORS

We require various approvals, licences and permits to operate our business and any failure to obtain or renew any of these approvals, licences and permits could materially and adversely affect our business and results of operations.

Pursuant to the laws and regulations of Vietnam, we are required to maintain various approvals, licences and permits in order to operate our production facilities in Vietnam. We are required to obtain certificates of incorporation (enterprise registration certificate and investment registration certificate) and land and building titles and licences in relation to business operations and environmental issues. Most of these licences are subject to examinations or verifications by relevant authorities and are valid only for a fixed period of time subject to renewal and accreditation.

Compliance with the relevant laws and regulations may require substantial expense, and any non-compliance may expose us to liabilities. In case of any non-compliance, we may have to incur significant expenses and divert substantial management time to remedy any deficiencies. We may also experience adverse publicity arising from such non-compliance with any laws and regulations that negatively impact our reputation.

We may experience difficulties or failures in obtaining the necessary approvals, licences and permits for our new production facilities in the future. In addition, there can be no assurance that (a) any such approvals, licences and permits we obtain will automatically constitute a guarantee or proof that they are legal, valid, binding, enforceable and admissible as evidence under all circumstances under Vietnamese law, and (b) we will be able to obtain or renew all of the approvals, licences and permits required for our existing business operations upon expiration in a timely manner or at all. If we cannot obtain or maintain all licences required by us to operate our business, our production activities at our factory in Vietnam and our ongoing business in Vietnam could be interrupted. We may also be subject to fines and penalties.

Foreign investors may find it difficult to enforce foreign judgments obtained against our properties or members of our senior management in Vietnam.

Pursuant to the Civil Proceedings Code, Vietnamese courts may consider the recognition of civil judgments issued by the courts of a country, subject to certain restrictions, with which it has signed a relevant bilateral treaty with or on the basis of reciprocity. Countries with which such bilateral treaties have been entered into include Algeria, Belarus, Bulgaria, China, Cuba, France, Hungary, Laos, Mongolia, North Korea, Poland, Russia, Taiwan and Ukraine. Should the foreign judgement be with a country that has not entered into such agreements or reciprocity, enforcement will only be possible through a Vietnamese judgement. In addition, under Vietnamese law, a Vietnamese court will have the exclusive jurisdiction on civil lawsuits involving rights to properties being immovable in the Vietnamese territory.

RISK FACTORS

RISKS RELATING TO OUR GLOBAL OFFERING

There has been no prior public market for our Shares, and their liquidity and market price may be volatile.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of, and permission to deal in, our Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active and liquid trading market for our Shares will develop, or, if it does develop, will be sustained following the Global Offering, or that the market price of our Shares will not decline following the Global Offering. Further, there are various factors which may affect the price and trading volume of our Shares at which our Shares will trade or become volatile.

In addition, shares of other companies on the Stock Exchange in the apparel labels and trim products manufacturing industry or with significant operations and assets in China, Bangladesh or Vietnam have experienced price volatility in the past. Moreover, the securities markets generally have from time to time experienced significant price and volume fluctuations that are not related to the performance of particular industries or companies. These types of price volatility and fluctuations may also materially and adversely affect the market price of our Shares.

Purchasers of Shares will experience dilution if we issue additional Shares in the future.

We may issue additional Shares or equity-related securities in the future to raise additional funds, finance expansions or for other purposes. If we issue additional Shares or equity-related securities in the future, the percentage ownership of our existing Shareholders may be diluted. In addition, such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or senior to the Shares.

The price of our Shares may fall before trading begins due to the time lag between pricing and trading of the Offer Shares.

The Offer Price will be determined on the Price Determination Date, which we expect to be not later than Monday, 9 March 2020. However, the Offer Shares will not commence trading on the Stock Exchange until the Listing Date, which we expect to be on Thursday, 12 March 2020. Investors may not be able to sell or otherwise deal in our Shares during this period. Accordingly, holders of our Shares are subject to the risk that the prices of our Shares could fall before trading begins and could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the Price Determination Date and the Listing Date.

RISK FACTORS

A potential sale of Shares by our existing Shareholders could have a material adverse effect on our Share price.

Future sales by our existing Shareholders of a substantial number of our Shares in the public markets after the Listing could materially and adversely affect market prices of our Shares prevailing from time to time. Only a limited number of the Shares currently outstanding will be available for sale immediately after the Listing due to contractual and regulatory restrictions on re-sale. Please refer to the section headed “Underwriting” in this prospectus for further details. Nevertheless, after these restrictions lapse or if they are waived or breached, future sales of a substantial number of our Shares, or a perception of such impeding sales, could materially and adversely affect the market prices of our Shares and our ability to raise equity capital in the future.

There can be no assurance on the accuracy or completeness of certain facts, forecasts and other statistics obtained from various government publications, market data providers and other sources from Independent Third Parties, including the industry consultant report, contained in this prospectus.

Certain facts, forecasts and other statistics relating to the economy and the apparel labels and trim products manufacturing industry contained in this prospectus have been derived from various government publications, market data providers and other sources from Independent Third Party, including the F&S Report, and generally are believed to be reliable. However, we cannot guarantee the accuracy and completeness of such information. These facts, forecasts and other statistics have not been independently verified by us, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, any of the Underwriters, their or our respective directors and advisers or any other parties involved in the Global Offering (except for Frost & Sullivan in respect of the F&S Report in the section headed “Industry Overview” in this prospectus) and none of them makes any representation as to the accuracy or completeness of such information. Further, such facts, forecasts and other statistics may not be prepared on a comparable basis or may not be consistent with other information compiled within or outside Hong Kong or available from other sources. For these reasons, you should not place undue reliance on such information as a basis for making your investment in our Shares.

Forward-looking information may prove inaccurate.

This prospectus contains certain statements that are “forward-looking” and uses forward-looking terminology such as “aim”, “estimate”, “anticipate”, “believe”, “continue”, “could”, “expect”, “intend”, “may”, “might”, “plan”, “consider”, “potential”, “propose”, “seek”, “ought to”, “should”, “will” and “would” or similar expressions, or their negatives. Those statements include, among other things, the discussion of our growth strategy and the expectations of our future operation, liquidity and capital resources.

RISK FACTORS

Purchasers of our Offer Shares are cautioned that reliance on any forward-looking statement involves risks and uncertainties and that any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions may prove inaccurate. The uncertainties in this regard include those identified in the risk factors discussed above. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations or warranties by us that our plans and objectives will be achieved and these forward-looking statements should be considered in light of various important factors, including those set out in this section. We do not intend to update these forward-looking statements in addition to our continuing disclosure obligations pursuant to the Listing Rules or other requirements of the Stock Exchange. Investors should not place undue reliance on such forward-looking information. Please refer to the section headed “Forward-looking statements” in this prospectus for details.

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

We strongly caution our investors not to unduly rely on any information contained in press articles or other media regarding us and the Global Offering. Before the publication of this prospectus, there may be press and media coverage which contains certain information regarding the Global Offering and us that is not set out in this prospectus. We have not authorised the disclosure of such information in any press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no presentation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should not rely on any such information.

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

In preparation for the Global Offering, our Company has sought the following waiver from strict compliance with the relevant provisions of the Listing Rules and exemption from strict compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

WAIVER AND EXEMPTION IN RESPECT OF FINANCIAL INFORMATION REQUIRED TO BE INCLUDED IN THIS PROSPECTUS

Pursuant to Rule 4.04(1) of the Listing Rules, the Accountants' Report contained in Appendix I to this prospectus must include, among others, the results of our Company in respect of each of the three financial years immediately preceding the issue of this prospectus or such shorter period as may be acceptable to the Stock Exchange.

Further, section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance provides that this prospectus shall state the matters specified in Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and set out the reports specified in Part II of that said Schedule which includes, among others, an accountants' report.

Pursuant to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus (i) a statement as to the gross trading income or sales turnover (as the case may be) of our Company during each of the three financial years immediately preceding the issue of this prospectus as well as an explanation of the method used for the computation of such income or turnover and a reasonable breakdown of the more important trading activities; and (ii) a report by our Group's auditor with respect to the profits and losses in respect of each of the three financial years immediately preceding the issue of this prospectus and assets and liabilities of our Group at the last date to which the financial statements of our Group were prepared.

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interests of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

The Accountants' Report for each of the three years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019 has been prepared and is set out in Appendix I to this prospectus. Pursuant to the relevant requirements set forth above, our Company is required to produce three full years of audited accounts for the years ended 31 December 2017, 2018 and 2019. However, an application was made to the Stock Exchange for a waiver from strict compliance with Rule 4.04(1) of the Listing Rules, and such waiver has been granted by the Stock Exchange on the conditions that:

- (a) this prospectus will be issued on or before 29 February 2020 and our Company be listed on the Stock Exchange on or before 31 March 2020;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (b) this prospectus contains the profit estimate for the year ended 31 December 2019 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) and the statement from our Directors that after performing all reasonable due diligence work which they consider appropriate, there is no material adverse change to the financial and trading positions or prospects of our Company, with specific reference to the trading results from 1 September 2019 to 31 December 2019; and
- (c) our Company obtains a certificate of exemption from the SFC on strict compliance with section 342(1)(b), paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance.

An application has also been made to the SFC for a certificate of exemption from strict compliance with the requirements under section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance and a certificate of exemption has been granted by the SFC under section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance on the conditions that (i) the particulars of the exemption be set forth in this prospectus; and (ii) this prospectus be issued on or before 29 February 2020 and our Company's shares will be listed on or before 31 March 2020 (i.e. three months after the latest financial year end).

Our Directors have confirmed that the exemption and the waiver as mentioned above would not prejudice the interests of the investing public on the grounds, among others, that strict compliance with the above requirements would be unduly burdensome as:

- (a) there would not be sufficient time for our Company and the reporting accountants of our Company (the "**Reporting Accountants**") to finalise the audited financial statements for the year ended 31 December 2019 for inclusion in this prospectus. If the financial information for the year ended 31 December 2019 is required to be audited, our Company and the Reporting Accountants would have to carry out substantial volume of work to prepare, update and finalise the Accountants' Report and this prospectus, and the relevant sections of this prospectus will need to be updated to cover such additional period. This would involve additional time and costs since substantial work is required to be carried out for audit purposes. It would be unduly burdensome for the audited results for the year ended 31 December 2019 to be finalised in a short period of time;
- (b) our Directors confirm that all information necessary for the public to make an informed assessment of our Group's activities, assets and liabilities, financial position, management and prospects has been included in this prospectus and that, as such, the waiver granted by the Stock Exchange and the exemption granted by the SFC from strict compliance with Rule 4.04(1) of the Listing Rules and the requirements under section 342(1) in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance, respectively, will not prejudice the interests of the investing public;

**WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES AND
EXEMPTION FROM STRICT COMPLIANCE WITH THE COMPANIES
(WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE**

- (c) our Directors and the Sole Sponsor confirm that after performing all reasonable due diligence work which they consider appropriate, (aa) there has been no material adverse change to the financial and trading positions or prospects of our Group since 1 September 2019 (immediately following the date of the latest audited statement of financial position in the Accountants' Report set out in Appendix I to this prospectus) up to the date of this prospectus; and (bb) there has been no event which would materially affect the information shown in the Accountants' Report as set out in Appendix I to this prospectus, the "Financial Information" in this prospectus and other parts of this prospectus and any such event, if occurs subsequently, will be disclosed in this prospectus; and
- (d) our Company is of the view that the Accountants' Report covering the three years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, together with the profit estimate for the year ended 31 December 2019 (in compliance with Rules 11.17 to 11.19 of the Listing Rules) included in this prospectus have already provided the potential investors with adequate and reasonably up-to-date information in the circumstances to form a view on the track record and earnings trend of our Company. Our Directors confirm that all information which is necessary for the investing public to make an informed assessment of the business, assets and liabilities, financial position, trading position, management and prospects has been included in this prospectus. Therefore, the waiver and exemption would not prejudice the interests of the investing public.

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 of Hong Kong (Chapter 571V of the laws of Hong Kong) (as amended) and the Listing Rules for the purposes of giving with regard to our Company. 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, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain all the terms and conditions of the Hong Kong Public 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 authorised to give any information in connection with the Global Offering or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners and the Underwriters, any of their respective directors, 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 and conditions of the Global Offering” in this prospectus, and the procedures for applying for Hong Kong Offer Shares are set out in the section headed “How to apply for our Hong Kong Offer Shares” in this prospectus and in the relevant Application Forms.

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

UNDERWRITING

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

Details of the terms of the Global Offering are described in the section headed “Structure and conditions of the Global Offering” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares in any 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 authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

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

The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exception therefrom.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

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

Save as disclosed in this prospectus, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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

REGISTER OF MEMBERS

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

STAMP DUTY

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

Dealings in our Shares registered in the Hong Kong register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty. The current rate of stamp duty in Hong Kong is 0.2% of the consideration or, if higher, the market value of our Shares being sold or transferred.

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

PROFESSIONAL TAX ADVICE RECOMMENDED

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

PROCEDURES FOR APPLICATION FOR SHARES

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

STRUCTURE OF THE GLOBAL OFFERING

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

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, the Joint Global Coordinators or any person acting for it may over-allot or effect transactions with a view to supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Joint Global Coordinators or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period. An announcement will be made to the public within seven days after the end of the stabilising period as required under the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the laws of Hong Kong).

In connection with the Global Offering and our Company intends to grant to the Joint Global Coordinators (for themselves and on behalf of the Underwriters) the Over-allotment Option, which will be exercisable in full or in part by the Joint Global Coordinators (for themselves and on behalf of the Underwriters) no later than 30 days after Wednesday, 4 March 2020, being the last day for the lodging of applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company may be required to allot and issue at the Offer Price up to an aggregate of 75,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the sections headed “Structure and conditions of the Global Offering — Stabilisation action” and “Structure and Conditions of the Global Offering — Over-allotment Option and Stock Borrowing Agreement” in this prospectus.

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 date of commencement of dealings in our Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 12 March 2020, we expect that dealings in our Shares on the Main Board of the Stock Exchange will commence at 9:00 a.m. on Thursday, 12 March 2020. Shares will be traded in board lots of 10,000.

The stock code for our Shares is 1433.

Our Company will not issue any temporary documents of title.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

LANGUAGE

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

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, the translation of Renminbi, US\$, EUR, INR, BDT, VND and PKR into Hong Kong dollars has been made at the rate of RMB0.90, US\$0.13, EUR0.12, INR9.19, BDT10.93, VND2,987 and PKR19.87 to HK\$1.00. No representation is made that the above amounts could have been, or could be, converted into Hong Kong dollars at such rates or at any other rate on such date or on any other date.

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
Executive Directors		
Mr. Chan Sing Ming Barry (陳醒明)	Flat 5B, Block 8 The Palazzo Fo Tan New Territories Hong Kong	Chinese
Ms. Law Miu Lan (羅妙蘭)	Flat 5B, Block 8 The Palazzo Fo Tan New Territories Hong Kong	Chinese
Mr. Chan Tsz Fung (陳梓峰)	Flat 5B, Block 8 The Palazzo Fo Tan New Territories Hong Kong	Chinese
Independent non-executive Directors		
Mr. Lam Chor Ki Dick (林楚祺)	Flat C, 24/F, Block 1 Park Belvedere 188 Ma On Shan Road New Territories Hong Kong	Chinese
Mr. Lee Tak Cheong (李德昌)	35E, Block 1 Hibiscus Park 91 Hing Shing Road Kwai Chung Hong Kong	Chinese
Dr. Wong Chi Wing (王志榮)	Flat D, 20/F, Block 2 Island Harbourview 11 Hoi Fai Road Kowloon West Hong Kong	British

For further information regarding our Directors, please refer to the section headed “Directors and senior management” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Party	Name and Address
Sole Sponsor	Elstone Capital Limited Suite 1612, 16/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong <i>(A corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO)</i>
Joint Global Coordinators	Elstone Securities Limited Suite 1601-04, 16/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong I Win Securities Limited Room 1916, Hong Kong Plaza 188 Connaught Road West Hong Kong
Joint Bookrunners	Elstone Securities Limited Suite 1601-04, 16/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong I Win Securities Limited Room 1916, Hong Kong Plaza 188 Connaught Road West Hong Kong BOCOM International Securities Limited 9/F, Man Yee Building 68 Des Voeux Road Central Hong Kong CMBC Securities Company Limited 45/F, One Exchange Square 8 Connaught Place, Central Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square
Central, Hong Kong

Great Roc Capital Securities Limited

44/F, Convention Plaza Office Tower
1 Harbour Road, Wan Chai
Hong Kong

Haitong International Securities Company Limited

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

Joint Lead Managers

Elstone Securities Limited

Suite 1601-04, 16/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

I Win Securities Limited

Room 1916, Hong Kong Plaza
188 Connaught Road West
Hong Kong

BOCOM International Securities Limited

9/F, Man Yee Building
68 Des Voeux Road Central
Hong Kong

CMBC Securities Company Limited

45/F, One Exchange Square
8 Connaught Place, Central
Hong Kong

Essence International Securities (Hong Kong) Limited

39/F, One Exchange Square
Central, Hong Kong

Great Roc Capital Securities Limited

44/F, Convention Plaza Office Tower
1 Harbour Road, Wan Chai
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Haitong International Securities Company Limited

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

ChaoShang Securities Limited

Rooms 2206-2210, 22/F
China Resources Building
26 Harbour Road, Wanchai
Hong Kong

Conrad Investment Services Limited

23/F, Tung Hip Commercial Building
244-248 Des Voeux Road Central
Sheung Wan, Hong Kong

Head & Shoulders Securities Limited

Room 2511, 25/F, Cosco Tower
183 Queen's Road Central
Hong Kong

Maxa Capital Limited

Flat 08, 19/F, Harbour Centre
25 Harbour Road, Wanchai
Hong Kong

Co-Lead Managers

All EverGreen Securities Limited

Unit 7, 11th Floor
Emperor Group Centre
288 Hennessy Road
Wanchai, Hong Kong

Alpha Financial Group Limited

Room A, 17/F, Fortune House
61 Connaught Road Central
Central, Hong Kong

Orient Securities Limited

Room 3101, 31/F
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Sinomax Securities Limited

Room 2705-6, 27/F
Tower One, Lippo Centre
89 Queensway
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal advisers to our Company

As to Hong Kong law:

Kwok Yih & Chan

Suites 2103-05, 21/F
9 Queen's Road Central
Hong Kong

As to PRC law:

JunHe LLP

Suite 1301, 13/F
E Building, G.T. Land Plaza
No. 13 Zhujiang East Road
Zhujiang New Town
Tianhe District
Guangzhou 510623
The PRC

As to Cayman Islands law:

Appleby

2206-19, Jardine House
1 Connaught Place
Central
Hong Kong

As to Bangladesh law:

Dr. Kamal Hossain & Associates

Chamber Building
122-124 Motijheel C.A.
Dhaka-1000
Bangladesh

As to Vietnam law:

DFDL Legal & Tax

Unit 2, 19th Floor
Green Power Building
35 Ton Duc Thang Street
District 1
Ho Chi Minh City
Vietnam

As to Belgian law:

Stibbe Lawyers

Central Plaza
Loksumstraat 25 Rue de Loxum
1000 Brussels
Belgium

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to Pakistan law:

Vellani & Vellani

148, 18th East Street
Phase 1, Defence Officer's Housing Authority
Karachi-75500
Pakistan

As to India law:

Khaitan & Co

Ashoka Estate, 12th Floor
24, Barakhamba Road
New Delhi-110 001
India

As to U.S. law:

DLA Piper Hong Kong

25th Floor
Three Exchange Square
8 Connaught Place
Central
Hong Kong

**Legal advisers to
the Sole Sponsor,
and the Underwriters**

As to Hong Kong law:

Jingtian & Gongcheng LLP

Suites 3203-3207, 32/F
Edinburgh Tower, The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:

Tian Yuan Law Firm

10/F, CPIC Plaza
No. 28 Fengsheng Lane
Xicheng District
Beijing 100032
The PRC

As to Bangladesh law:

Ahammad, Jonaed & Partners

Suite B1, Plot 11/A-1
Road 41, Gulshan 2
Dhaka 1212
Bangladesh

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

**Auditor and
reporting accountants**

Ernst & Young
Certified Public Accountants
22/F., CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Receiving bank

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

CORPORATE INFORMATION

Headquarters and principal place of business in Hong Kong	1/F, Wing Ming Industrial Centre 15 Cheung Yue Street Lai Chi Kok Kowloon Hong Kong
Registered Office	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Company's Website	www.cirtek.com
Place of Business in Hong Kong Registered under Part 16 of the Companies Ordinance	1/F, Wing Ming Industrial Centre 15 Cheung Yue Street Lai Chi Kok Kowloon Hong Kong
Company Secretary	Mr. Chan Wai Shing Kevin (陳偉成) <i>(a member of The Institute of Chartered Secretaries and Administrators)</i> Flat 1803, 18/F, Block 1B Jinye Huafu Boluo County Huizhou Guangdong Province The PRC
Authorised Representatives	Mr. Chan Sing Ming Barry (陳醒明) Flat 5B, Block 8 The Palazzo Fo Tan New Territories Hong Kong Mr. Chan Wai Shing Kevin (陳偉成) <i>(a member of The Institute of Chartered Secretaries and Administrators)</i> Flat 1803, 18/F, Block 1B Jinye Huafu Boluo County Huizhou Guangdong Province The PRC

CORPORATE INFORMATION

Audit Committee	Dr. Wong Chi Wing (王志榮) (<i>Chairman</i>) Mr. Lee Tak Cheong (李德昌) Mr. Lam Chor Ki Dick (林楚祺)
Remuneration Committee	Mr. Lee Tak Cheong (李德昌) (<i>Chairman</i>) Ms. Law Miu Lan (羅妙蘭) Dr. Wong Chi Wing (王志榮)
Nomination Committee	Mr. Chan Sing Ming Barry (陳醒明) (<i>Chairman</i>) Mr. Chan Tsz Fung (陳梓峰) Dr. Wong Chi Wing (王志榮) Mr. Lee Tak Cheong (李德昌) Mr. Lam Chor Ki Dick (林楚祺)
Hong Kong Branch Share Registrar and Transfer Office	Tricor Investor Services Limited Level 54, Hopewell Centre 183 Queen's Road East Hong Kong
Cayman Islands Principal Share Registrar and Transfer Office	Estera Trust (Cayman) Limited P.O. Box 1350 Clifton House 75 Fort Street Grand Cayman KY1-1108 Cayman Islands
Compliance Adviser	Elstone Capital Limited Suite 1612, 16/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
Principal Banks	The Hongkong and Shanghai Banking Corporation Limited Level 10 HSBC Main Building 1 Queen's Road Central Hong Kong Dah Sing Bank Limited Shop B, G/F Everbright Centre 108 Gloucester Road Hong Kong

INDUSTRY OVERVIEW

This section contains information and statistics relating to the economy of the PRC and the industry in which we operate. We have derived such information and data partly from publicly available government and official sources, none of which were commissioned by us. We believe that the sources of the information and statistics are appropriate sources for such information and we have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. Such information has not been independently verified by us, the Joint Global Coordinators, the Sole Sponsor, the Joint Bookrunners, Joint Lead Managers or the Underwriters, nor any of their or our directors, affiliates, advisers or any other parties involved in the Global Offering (except for Frost & Sullivan) and no representation is given as to its correctness or accuracy. We have, however, taken reasonable care in extracting and reproducing such information and statistics.

SOURCE OF INFORMATION

We have commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on, the apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the F&S Report. We agreed to pay Frost & Sullivan a fee of HK\$488,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy.

We have included certain information from the F&S Report in this prospectus as we believe this information facilitates an understanding of the apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam for the prospective investors. The F&S Report includes information of the apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam as well as other economic data which have been quoted in this prospectus. Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. Except as otherwise noted, all of the data and forecasts contained in this section are derived from the F&S Report, various official government publications and other publications.

In compiling and preparing the research, Frost & Sullivan assumed that the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the steady development of the apparel labels and trim products manufacturing market in the PRC, Bangladesh and Vietnam.

INDUSTRY OVERVIEW

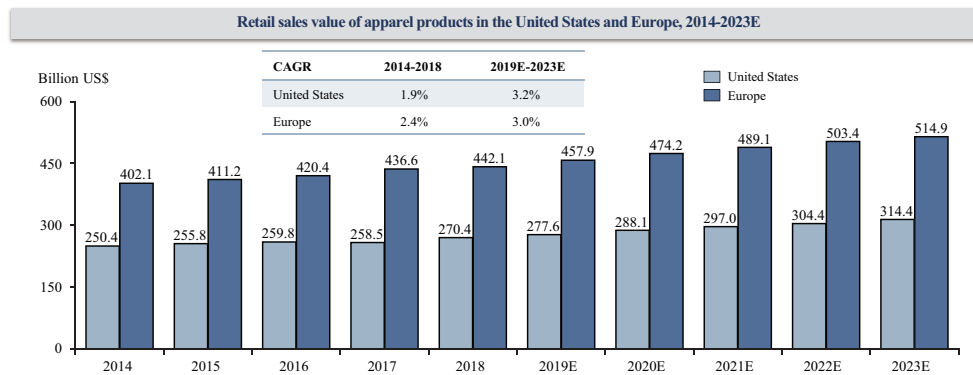
OVERVIEW OF GLOBAL APPAREL MARKET

Global retail sales value of apparel

Global retail sales value has seen an overall growth from approximately US\$1,272.6 billion in 2014 to US\$1,513.1 billion in 2018, representing a CAGR of 4.4%. The global apparel retail sales value through online channels is expected to increase from approximately US\$561.3 billion in 2019 to US\$783.3 billion in 2023, representing a CAGR of 8.7%. Although the offline retail sales of apparel products in some developed markets may experience a downward trend in the next few years, the overall global apparel retail sales will be supported by emerging economies which demonstrate rising consumption power. As a result, the global apparel retail sales value is expected to increase at a CAGR of 5.0% during 2019 to 2023, driving the growth of apparel labels and trim products manufacturing market.

Retail sales value of apparel in the United States and Europe

The retail sales value of apparel products in the United States recorded a moderate growth from US\$250.4 billion in 2014 to US\$270.4 billion in 2018, representing a CAGR of 1.9%. Similarly, the retail sales value of apparel products in Europe increased from US\$402.1 billion in 2014 to US\$442.1 billion in 2018, representing a CAGR of 2.4%. With the growing penetration of online retail sales platforms and trending fast fashion business models that drive the purchasing decision of consumers, the retail sales value of apparel products in the United States and Europe is expected to increase continuously at a CAGR of 3.2% and 3.0%, respectively, during 2019 to 2023.



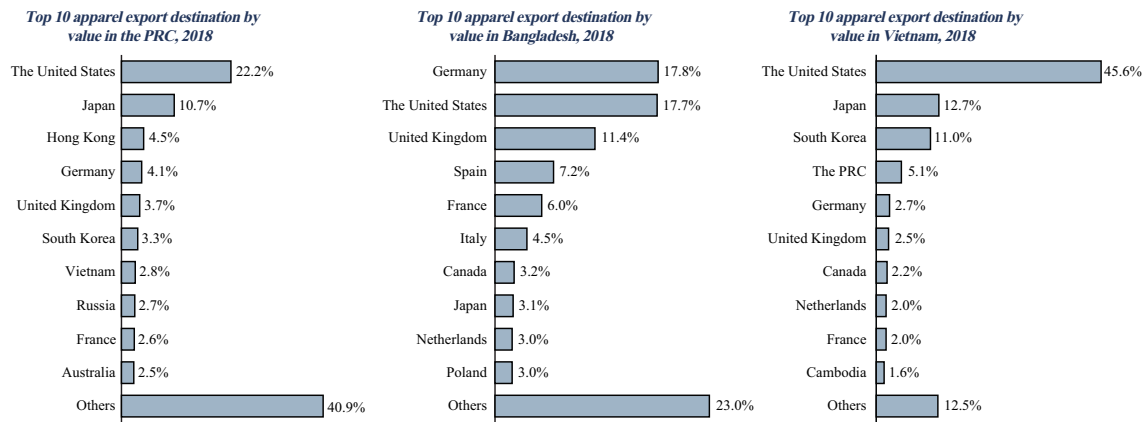
Source: Frost & Sullivan

INDUSTRY OVERVIEW

Global apparel trade analysis

The PRC, Bangladesh and Vietnam were the top three exporters of apparel products in the world in 2018 with an export value of approximately US\$145.0 billion, US\$36.9 billion and US\$30.3 billion, respectively, representing approximately 30.1%, 7.7% and 6.3%, respectively, of the global apparel export value in the same year. The United States was the largest importer of apparel product in the world with an import value of approximately US\$86.8 billion in 2018, followed by Germany and Japan with an import value of approximately US\$39.8 billion and US\$28.4 billion respectively.

The charts below set out the breakdown of export value of apparel products in the PRC, Bangladesh and Vietnam by destination in 2018.



Source: Frost & Sullivan

Global production value of apparel and textile products

Global production value of apparel and textile products achieved an overall growth from approximately US\$783.8 billion in 2014 to US\$923.3 billion in 2018, representing a CAGR of approximately 4.2%. With the sustained demand for apparel from consumers driven by growing population, the global production value of apparel and textile products is expected to grow at a CAGR of 4.6% during 2019 to 2023.

The PRC, Vietnam and Bangladesh are the major apparel manufacturing countries around the globe as well as in Asia. In view of the rising labour cost in the PRC and trend for manufacturers to relocate their facilities to Southeast Asian countries, the share of the PRC in terms of production value of apparel and textile products in global market recorded a decline from 39.2% in 2014 to 27.7% in 2018. Under the competitive labour cost, government support towards foreign direct investment and favourable trading environment, Vietnam and Bangladesh are taking up the share in terms of production value of apparel gradually from the PRC.

OVERVIEW OF APPAREL LABELS AND TRIM PRODUCTS MANUFACTURING MARKET IN THE PRC

Definition and classification of apparel labels and trim products

Apparel labels can be broadly classified as (i) printed products, (ii) woven labels, (iii) printed labels and (iv) other accessories which serve different functions, such as brand identification, highlight of apparel information, in-store security and product tracking. Printed products include both offset and digital printing products printed on card stocks, papers or other printed paper-based materials, which can be further classified as hangtags, printed paper labels, RFID and NFC tags, as well as adhesive labels such as sticker. RFID and NFC tags can be attached to all classes of apparel labels. Woven labels include woven labels and badges made from, among others, yarns, fabrics and thread. Printed labels refer to screen printing label made from silk or ribbon. Other accessories for apparel labels include tapes, string locks, buttons and metal products. Apparel labels and trim products generally incorporate product information, label and highlighting the product design with various colour and printing effects, such as, spot ultraviolet and lamination on materials such as paper and plastics.

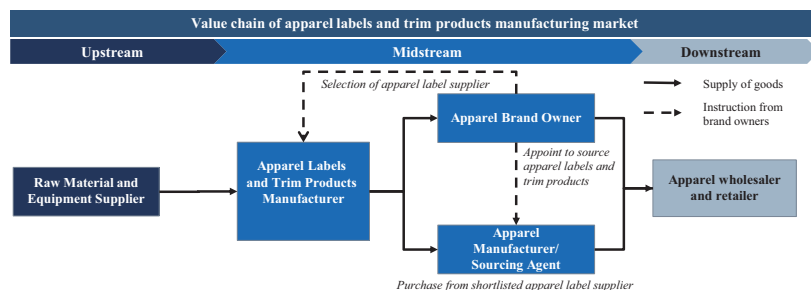
RFID and NFC are considered advanced technologies in apparel labels and trim products manufacturing industry. RFID and NFC products are using radio waves technology to transfer data between tags and devices. Both RFID and NFC products can be attached to all kinds of apparel labels. Heat transfer label is applied directly on the apparels and without tags using heat transfer printing method.

Value chain and business model analysis

Apparel labels and trim products manufacturers generally maintain a close business relationship and cooperate with apparel brands in apparel label development from research, design, proofing to other services. To ensure consistency in the quality of apparel labels and trim products, established apparel brands generally own a list of approved apparel labels and trim products suppliers and apparel manufacturers, such as original equipment manufacturers and original design manufacturers of apparels, and are required to purchase from the approved apparel labels and trim products suppliers based on specifications of brand owners. It is an industry norm that the apparel labels and trim products manufacturers do not sign long-term agreement with apparel manufacturers and it is common for apparel brand owners to place orders with apparel label manufacturers through apparel manufacturers and sourcing agents. In addition, it is an industry norm that no agreements or contracts would be entered between apparel label manufacturers as approved suppliers and apparel brands. The apparel brands or the sourcing agents would give apparel label manufacturers authorisations to use the trademarks of the apparel brands on apparel labels and trim products.

INDUSTRY OVERVIEW

Apparel brands or sourcing agents generally specify the designs and price quotation with the apparel labels and trim products manufacturers while apparel manufacturers, under the instruction of apparel brands, provide detailed terms of the order, such as quantity, delivery schedules and payments to the apparel labels and trim products manufacturers.



Source: Frost & Sullivan

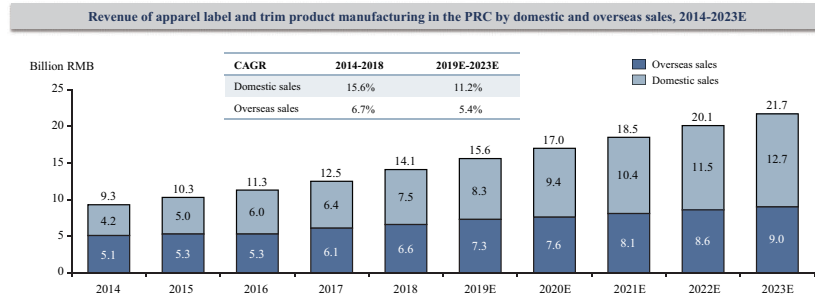
Market size of the apparel labels and trim products manufacturing in the PRC

The continuous expansion of the global and domestic apparel market has stimulated the development of the apparel labels and trim products manufacturing industry in the PRC as apparel labels and trim products are considered essential for apparel products and the PRC is a leading exporter of apparel labels and trim products in the world. The revenue of apparel labels and trim products manufacturing market in the PRC has increased from RMB9.3 billion in 2014 to RMB14.1 billion in 2018, representing a CAGR of 11.0%. Along with the growth of the global economy and online retail of apparel products, the expenditure on apparel labels and trim products will increase and boost the demand for apparel labels and trim products. The market size of apparel labels and trim products manufacturing by revenue in the PRC is expected to rise from RMB15.6 billion in 2019 to RMB21.7 billion in 2023, with a CAGR of 8.6%.

The revenue of apparel labels and trim product generated from domestic sales has seen a strong growth from RMB4.2 billion in 2014 to RMB7.5 billion in 2018, representing a CAGR of 15.6%, and the value is expected to maintain the growth at a CAGR of 11.2% during 2019 to 2023. The growth of domestic sales for apparel label and trim products in the PRC is primarily driven by the increasing consumption of apparel products in the retail market and growing adoption of advanced apparel labels and trim products, such as RFID and NFC labels.

The revenue of apparel labels and trim products generated from overseas sales increased from RMB5.1 billion in 2014 to RMB6.6 billion in 2018, representing a CAGR of 6.7%. The increase in the overseas sales was mainly due to the demand from global market, including demands from the end market such as United States as well as the apparel manufacturers in Southeast Asia such as Vietnam and Bangladesh which recorded a strong growth for output of apparel products and contributes to higher demand for apparel labels and trim products. Given an increased demand from foreign apparel manufacturers, and buyers, as well as the steady growth of apparel retail market in the United States and Europe, the value is expected to increase from RMB7.3 billion in 2019 to RMB9.0 billion in 2023 at a CAGR of 5.4%.

INDUSTRY OVERVIEW



Source: Frost & Sullivan

Market drivers and opportunities

Growth of apparel market

The demand for apparel labels and trim products is highly dependent on the development of the downstream apparel market as apparel labels are essential for supply chain and inventory management of apparel products. With the expected growth of apparel production and retail sales in global market, demand for apparel labels and trim products is estimated to increase further in the next few years.

Apparel brands become more cost sensitive in the midst of the global economic downturn as a result of uncertainty of associated trade dispute, including the trade war between China and the U.S. and political events including Brexit. As apparel is generally considered a consumable and is essential for consumers, the global economic downturn may result in the shift of consumers' preference towards fast-fashion apparel which is typically featured with lower retail price and available in various styles. Accordingly, the market demand for apparel in fast fashion market is likely to sustain during economic downturn.

In light of the escalating labour cost, apparel brands have adopted cost reduction measures in order to maintain the profitability. Apparel brands such as Apparel Brand C, Apparel Brand F and Apparel Brand I, as well as other fast-fashion apparel brands, generally prefer apparel labels and trim products with simpler design, colour tone, paper with minimum special effects, such as spot UV and lamination, and thickness for cost-saving purpose. Further, the market demand for apparel labels and trim products is likely to be driven by growth of apparel production and retail markets as supported by (i) trending fast-fashion apparel; (ii) robust growth of online retail market for apparel; and (iii) growing consumption power of emerging markets, including Southeast Asian countries and India, where the apparel retail sales values recorded a growth at a CAGR of approximately 6% and 9%, respectively, during 2014 to 2018 amid the global economic downturn.

INDUSTRY OVERVIEW

Shorter lifecycle of apparel style

The product launch cycle of apparel has shrunk under the influence of fast fashion. Apparel brands adopting the fast fashion strategies are required to respond quickly to the changing fashion trend based on consumer preference and offer affordable apparel products regularly with a shorter product launch cycle of approximately four to six weeks in order to drive the purchasing decision of consumers. The emergence of fast fashion contributes to development of new apparel styles and the demand for customised and new design of apparel labels, such as hang tags, for the particular fashion collections. Further, customised apparel labels and labels with special cutting and finishing generally have a higher profit margin.

Demand for apparel labels and trim products with advanced technologies

The application of RFID and NFC technology becomes more popular in apparel labels and trim products. RFID labels enable apparel retailers to track their products and manage their inventory in a more effective way while NFC labels enable consumers to receive product information and serve for promotional purposes. Such advanced technologies have added value to apparel labels and trim products by offering additional functions, such as data management, brand identity and supply chain management, which contribute to higher profit level of apparel label combined with advanced technologies.

Market trend and outlook

Growing emphasis on environmental sustainability

With the increasing awareness of environmental sustainability, apparel brands and consumers demonstrate a growing preference towards products made from recycled materials. Apparel labels and trim products manufacturers which are capable of providing environmentally-friendly products, such as apparel labels and packages made from recycled paper and certified papers, such as FSC certified papers, are highly preferred. In addition, some industry standards, such as bluesign and Higg Index from Sustainable Apparel Coalition have been published to promote the use of green materials in the apparel labels and trim products manufacturing for environmental sustainability.

Optimisation of manufacturing technology

Along with the development of new apparel styles and high demand for inventory management, the apparel labels and trim products serve more functions once incorporated with advanced technologies. Furthermore, new printing techniques have also been developed and improved to enable the integration of RFID or NFC with printed labels and other packaging materials. In addition, the growing adoption of fast fashion model may result in shorter production cycle for apparel labels and certain techniques such as digital printing, digital proofing and online ordering system have been adopted and developed to expedite the manufacturing process. Further, manufacturers have to supply new products according to client's rapid changing needs and their own capacity for product design.

INDUSTRY OVERVIEW

Integration of apparel labels and trim products with internet

Apparel labels and trim products are on the trend of transformation into digital products with capability of data collection and integration with other platform, and become a component of Internet of Things (IoT). According to International Telecommunication Union (ITU), IoT is a global infrastructure for the information society, enabling advanced services by interconnecting physical and virtual objects based on existing and evolving interoperable information and communication technologies. Embedding RFID, NFC and QR codes on the apparel labels and trim products enable apparel retailers to track inventories and prevent inventory loss, as well as integration with in-store point-of-sales, security systems and backend sales management system for further analysis and planning.

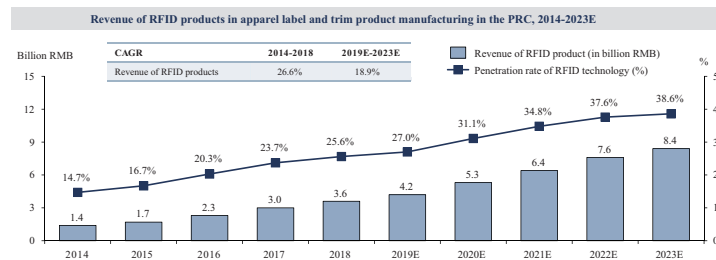
Market development and outlook of RFID technology in apparel labels and trim products manufacturing market

RFID technology has seen a growing adoption in apparel labels and trim products in recent years, attributable to its key features of enabling real-time tracking and monitoring that benefits different market participants along the supply chain of apparel industry. The growing trend of adoption of RFID technology is primarily led by several large global apparel brands and retailers, which applied RFID technology to strengthen their inventory management with better inventory accuracy as compared to traditional way by manual scanning of barcode, and results in higher inventory turnover rate and better sales performance. The establishment of online sales platforms and emergence of omnichannel services offered by apparel retailers, such as online purchase and in-store pick-up services, also drives the demand for better variable data and inventory management, and thus the adoption of RFID technology in future. Meanwhile, some of the market demand for traditional barcode label will likely be replaced by RFID products in view of the advantages of RFID technology such as (i) multilateral and longer range of scanning; (ii) re-writability of stored information; and (iii) faster reading speed, despite the higher cost.

On the supply side, RFID technology is considered as a value-adding technology to enrich product category of apparel labels and trim products manufacturers. For example, some RFID tags can be embedded with the traditional apparel labels and trim products such as hangtags and labels, and is therefore considered synergistic to existing product offerings of apparel labels and trim products manufacturers. In general, customers prefer apparel labels and trim products manufacturers with capability of supplying both traditional apparel labels and trim products and RFID products to reduce the logistics cost and time for sourcing from multiple suppliers. Hence, some sizeable apparel labels and trim products manufacturers are investing in building up their capacity in providing RFID products to cater the growing market demand.

INDUSTRY OVERVIEW

The chart below sets forth the market size of RFID products and penetration rate of RFID technology in apparel label and trim product manufacturing market in the PRC for the period indicated. According to F&S, the penetration rate of RFID technology in apparel labels and trim products manufacturing market in the PRC achieved a rapid growth from approximately 14.7% in 2014 to approximately 25.6% in 2018, which is estimated to grow further at approximately 38.6% by 2023.



Source: Frost & Sullivan

Market constraints and challenges

Rising labour cost

Due to the ageing work force and labour shortage in the PRC, the labour cost of manufacturing industry has increased. According to National Bureau of Statistics of China, the average wage of employed persons in urban areas in manufacturing industry in the PRC has shown a strong growth from 2013 to 2017 due to the high demand for workers and minimum salary standard in the PRC has increased. The increasing labour cost is expected to pose financial constraints for apparel labels and trim products manufacturers in the PRC.

Competition from Southeast Asian countries

Attributable to the rising labour cost in the PRC, the apparel manufacturing industry in the PRC has seen a trend of relocation to Southeast Asian countries, such as Bangladesh and Vietnam. With the relatively low labour cost and incentives to encourage foreign investment offered by local government, Southeast Asian countries become an alternative for apparel manufacturers. Accordingly, apparel manufacturers may choose to place order for apparel labels and trim products from local suppliers, which may pose a threat to apparel labels and trim products manufacturer in the PRC.

Impact on economic downturn and trade dispute between the U.S. and the PRC

The market demand for apparel product, especially for those sold under the high-end apparel brands, is likely to be affected by the global economic downturn and the trade war between U.S. and the PRC. Accordingly, the demand for the apparel label and trim product is adversely impacted due to the lower demand for apparel products. The business performance for some of the leading apparel label and trim products manufacturers based in the PRC, as well as other apparel manufacturers which relied on sales of products manufactured in the PRC, had been affected in 2019. However, the impact of economic downturn is expected to be lessened as a result of the notice issued by the U.S. Trade Representative (USTR) announcing the suspension of the 15% additional duty on products of the PRC found on List 4B, and the reduction from 15% to 7.5%

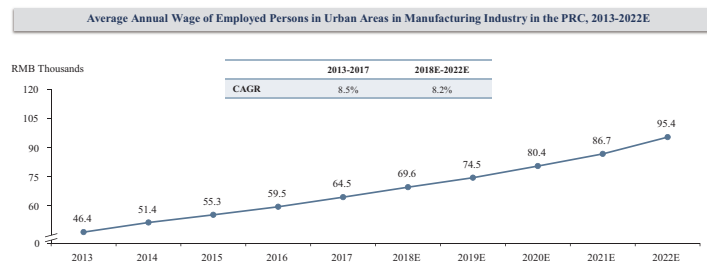
INDUSTRY OVERVIEW

additional duty on products of the PRC found on List 4A. Meanwhile, apparel manufacturers, as well as apparel labels and trim products manufacturers in the PRC, had expedited their expansion or relocation plan to Southeast Asian countries for cost saving purpose and to mitigate the risk resulted from the trade war between U.S. and the PRC.

COST STRUCTURE ANALYSIS

Labour cost in the PRC

The average wage of employed persons in urban area in manufacturing industry in China increased from RMB46,431 in 2013 to RMB64,452 in 2017, representing a CAGR of 8.5%. The wage is expected to increase at a CAGR of 8.2% from 2018 to 2022.



Note: Latest available figure was recorded in 2017.

Source: National Bureau of Statistics of China, Frost & Sullivan

Raw material cost

Papers, ribbons, nylons and polyesters are major raw materials for apparel labels and trim products. The price of paper has experienced a growing trend from RMB3,290.3 per tonne in 2014 to RMB4,938.9 per tonne in 2018, representing a CAGR of 10.7%. In contrast, nylon, polyester and ribbon have experienced a moderate growth or slight decline trend at a CAGR of 0.3%, 0.6% and -1.1% respectively during 2014 to 2018. The paper price reached the spike in 2018 mainly due to the decrease of the supply of wood pulp resulting from the stricter enforcement on environmental regulations in the manufacturing sector to shut down the unqualified suppliers, as well as on restriction on waste paper import for recycling. Going forward, the price of the above major raw materials for apparel labels and trim products is expected to increase along with the increasing demand and limited supply for certain materials such as papers. The price of papers, polyester and ribbons is expected to record a moderate decline in 2019 due to a temporary impact of China-U.S. trade war leading to a lower domestic market demand for these materials.

INDUSTRY OVERVIEW

Price of major raw materials for apparel labels and trim products (the PRC), 2014-2023E

Material	Unit	2014	2015	2016	2017	2018	2019E	2023E	CAGR	CAGR
									(2014-2018)	(2019E-2023E)
Paper	RMB/tonne	3,290.3	3,175.4	3,326.3	4,784.4	4,938.9	4,914.2	5,852.8	10.7%	4.5%
Nylon	RMB/tonne	22,269.0	17,943.7	15,927.0	21,678.0	22,547.4	23,020.9	25,392.1	0.3%	2.5%
Polyester	RMB/tonne	9,950.7	7,762.3	7,720.6	9,166.6	10,173.1	9,979.80	10,319.1	0.6%	0.8%
Ribbon	RMB/tonne	9.0	8.7	8.4	8.5	8.6	8.5	9.1	-1.1%	1.7%

Source: Frost & Sullivan

COMPETITIVE LANDSCAPE OF APPAREL LABELS AND TRIM PRODUCTS MANUFACTURING MARKET IN THE PRC

Overview of market competition

The apparel labels and trim products manufacturing market in the PRC is rather fragmented and featured with over 2,000 participants and a majority of them are small-scale enterprises. In general, sizeable market participants have established their production facilities in the PRC with sales office in Hong Kong. In 2018, the aggregate market share of top 10 apparel labels and trim products manufacturing market participants was approximately 18.4% in terms of revenue, which is equivalent to the market revenue of approximately RMB2.6 billion. In 2018, our Group ranked fifth in the apparel labels and trim products manufacturing market in the PRC in terms of revenue.

Leading apparel labels and trim products manufacturers by revenue (the PRC), 2018

Rank	Market participant	Ownership	Description	Revenue	Market share
				in 2018	in 2018
				<i>(RMB billion)</i>	<i>(%)</i>
1	Supplier H	Listed	Supplier H are subsidiaries of a U.S. based company listed on the New York Stock Exchange, which is one of the global leading manufacturers of pressure-sensitive adhesive materials, apparel labels and trim products, RFID inlays and specialty medical products.	0.49	3.5%
2	Company B	Private	Company B is a global labelling and packaging solutions provider with more than 3,000 employees in 17 countries.	0.46	3.3%
3	Company C	Private	Company C is one of the 16 subsidiaries of a multinational apparel labels and trim products manufacturer established in Hong Kong.	0.35	2.5%
4	Company D	Private	Company D is based in New York of the U.S. with regional offices in Hong Kong and Singapore, as well as sales offices in the U.S.	0.31	2.2%
5	Our Group	Private	N/A	0.28	2.0%

INDUSTRY OVERVIEW

Rank	Market participant	Ownership	Description	Revenue in 2018 <i>(RMB billion)</i>	Market share in 2018 <i>(%)</i>
6	Customer C	Private	Customer C is a textile and apparel labels and trim products manufacturer headquartered in Hong Kong with facilities in the PRC. Customer C offers a wide range of accessories and packaging products, including RFID and NFC tags, for garment products.	0.27	1.9%
7	Company F	Private	Company F is an apparel labels and trim products manufacturer with RFID and electronic article surveillance labels as major products.	0.18	1.3%
8	Company G	Listed	Company G and its subsidiaries is an apparel labels and trim products manufacturer based in the PRC. Company G is listed on GEM of the Stock Exchange.	0.11	0.8%
9	Company H	Private	Company H is a multinational apparel labels and trim products manufacturer established in the U.S.. Company H has set up manufacturing facilities in 19 locations across the world.	0.10	0.7%
10	Company I	Private	Company I and its subsidiaries is a manufacturer of tag and label incorporated in Hong Kong. Company I has set up manufacturing facilities in Shanghai, Guangdong, Jiangsu and Zhejiang.	0.08	0.6%
	Top 10 subtotal			2.6	18.4%
	Others			11.5	81.6%
	Total			14.1	100.0%

Note: Exchange rate of RMB:HK\$ = 1:0.84 has been applied for the conversion of revenue of our Group. The revenue of our Group includes the sale of hang tags, woven labels, printed labels, heat transfer products, stickers, metal seals and strings, other products and excludes the revenue generated from the sale of products manufactured from Vietnam and Bangladesh.

Source: Frost & Sullivan

Nature and factors of market competition

Product quality, offerings and service delivery

The apparel labels and trim products manufacturing market in the PRC is a highly competitive market with a significant number of market players focusing on price competition. Established apparel labels and trim products manufacturers are reputable for high product quality in respect of consistent printing and finishing quality with strong capability in fulfilling order requirement. In general, apparel brands source apparel labels from a limited number of suppliers or even a single supplier in fashion collection to minimise variation in quality. Further, they often purchase locally with a view to saving manufacturing time and cost. Good service delivery is considered important as apparel labels and trim products are often packed, assembled and shipped with apparels and apparel labels and trim products manufacturers are required to meet the delivery schedule of customers.

INDUSTRY OVERVIEW

Business relationship with customers and suppliers

In view of the rapid changing fashion trend, apparel labels and trim products manufacturers are required to collaborate closely with apparel brands in product development. Apparel labels and trim products manufacturers with proven track record and strong industry reputation are more likely to be shortlisted as approved suppliers of apparel brands. Established market participants also maintain good relationships with suppliers to source high quality raw materials which contribute to product quality and thus customer satisfaction.

Wide spectrum of products and services

Apparel brands generally prefer apparel labels and trim products manufacturers offering various kinds of apparel labels and labels with advanced technologies, such as RFID labels, heat transfer labels, labels with NFC components, which enable apparel brands and sourcing agents to choose and purchase apparel labels from one source. Further, the provision of value-added services, such as electronic proofing and online ordering platform, are also preferred by apparel brands.

Entry barriers

Capital requirement

The apparel labels and trim products manufacturing industry is considered capital-intensive with high operational cost. Substantial investments are required for establishment of production facilities, recruitment of technical staff and workers, as well as procurement. In particular, established apparel labels and trim products manufacturers with different product lines further require higher working capital for operation. Thus, capital requirement may pose the barrier for new market entrants.

Industry knowledge and technology

Apparel labels and trim products manufacturers generally possess technical know-how in production from source of raw materials, proofing, printing, finishing and inventory management. Manufacturers of advanced labels such as RFID labels and heat transfer labels require more in-depth knowledge in product design and mass production. Furthermore, with the evolving fashion trend, apparel label manufacturers are required to demonstrate proven industry knowledge in fulfilling requirement and product specifications of apparel brands. In contrast, new entrants without industry knowledge are difficult to be shortlisted as approved suppliers of established apparel brands.

Customer relationship and approval

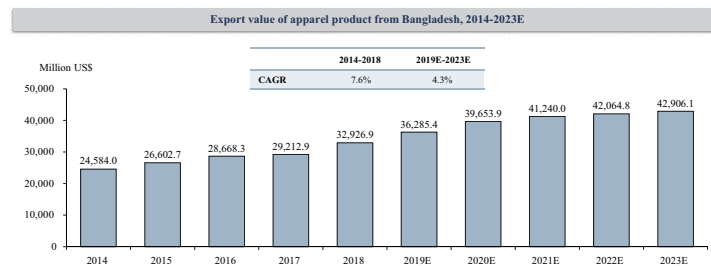
Apparel brands prefer apparel label suppliers with proven track record and generally source from their shortlisted suppliers. Existing leading participants are generally recognised by apparel brands with established business relationship. In contrast, new entrants without industry connection have difficulties securing orders from apparel brands.

INDUSTRY OVERVIEW

OVERVIEW OF APPAREL LABELS AND TRIM PRODUCTS MANUFACTURING MARKET IN BANGLADESH

Export value of apparel product in Bangladesh

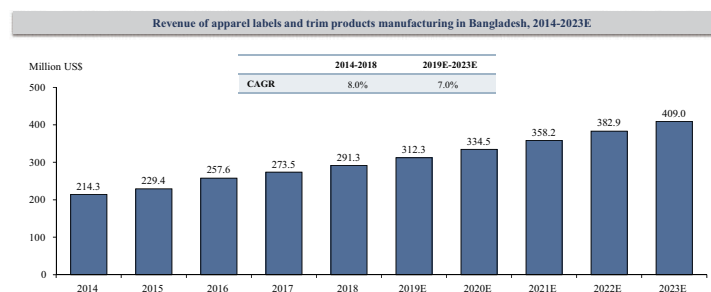
The export value of apparel product in Bangladesh increased significantly from US\$24,584.0 million in 2014 to US\$32,926.9 million in 2018 at a CAGR of 7.6%. Owing to the favourable government incentives attracting foreign companies to continue investments in setting up apparel manufacturing hubs, the apparel export value is predicted to rise further, reaching US\$42,906.1 million in 2023, representing a CAGR of 4.3% during 2019 to 2023. In particular, in view of an increasing production cost due to higher expenditure for improvement works to comply with enforcement of safety regulations and standards and higher wage level of workers, Bangladesh has seen a challenge from other Southeast Asian countries, such as Vietnam, in terms of price competitiveness and as a result, the export value of apparel products in Bangladesh demonstrated a moderate growth in 2017. However, with the upgraded standards strengthening apparel buyer's confidence, the export value of apparel products in Bangladesh has recorded a significant growth in 2018.



Source: Bangladesh Garment Manufacturers and Exporter Association (BGMEA), Frost & Sullivan

Market size of apparel labels and trim products manufacturing market in Bangladesh

With the growing global demand of apparel products and development of local apparel industry, the market size of apparel labels and trim products by revenue in Bangladesh has experienced a growth from US\$214.3 million in 2014 to US\$291.3 million in 2018, representing a CAGR of 8.0%. It is projected that the market size of apparel labels and trim products in Bangladesh would still maintain the steady growth rate at a CAGR of 7.0% over the period from 2019 to 2023. The growth is likely to be stimulated with the further development of the apparel export market.



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Outlook of apparel labels and trim products manufacturing market in Bangladesh

With the competitive advantage of the low labour cost as well as favourable economic and government policies in attracting foreign investment, apparel industry and businesses along the supply chain, such as apparel labels and trim products production, has experienced a significant expansion in the past few years. Bangladesh has the lowest labour costs among the PRC, Vietnam, Indonesia and Myanmar, with an approximately minimum wage of US\$94 per month in 2019. The minimum wage of workers in Bangladesh is only approximately 49% of minimum wage in Huizhou, the PRC, notwithstanding the additional cost of unemployment insurance, medical insurance fund, pension fund, maternity insurance fund and work-related injury insurance paid by employers for their workers in the PRC.

Bangladesh is relatively open to foreign direct investment in South Asia with a majority of industries open for private investment without requirements of prior approval or limits on equity participation. Except for certain regulated entities, foreign persons and entities are allowed to own up to 100% of the equity in Bangladeshi companies. Further, there are no restrictions on ownership of land by 100% foreign owned companies. EPZs are one of the key initiatives to drive foreign investment by offering necessary facilities and incentives for foreign investors to set up factories in EPZs. Such incentives include tax holidays, duty free import of certain raw materials, construction materials and machinery, and exemption from dividend tax. The EPZs are also responsible to supervise enterprises and ensure compliance with social and environmental requirements, workplace safety and security in order to achieve a harmonious labour management and industrial relations within the EPZ. In addition, the development of EPZs in Bangladesh addresses the issues of trade gap, high unemployment, dearth of capital investment, shortage of foreign currency and lack of technical know-how.

As of November 2019, there were a total of eight EPZs established and managed by the BEPZA in Bangladesh. Specifically, established in 1993, the Dhaka EPZ is currently the second largest EPZ industrial area in Bangladesh with over 450 industrial plots. There were over 100 enterprises in the Dhaka EPZ, including over 70 enterprises engaged in garment and textile-related industries. Particularly, there were over 20 garment accessories manufacturers in the Dhaka EPZ and a majority of which are foreign-invested enterprises headquartered in the PRC and Europe. The Dhaka EPZ is considered one of the most successful EPZs in terms of export value. The Adamjee EPZ is a relatively new EPZ established in 2006. There were around 50 enterprises and majority of them are garment, textile-related enterprises. The manufacturers are mainly foreign-invested companies headquartered in Hong Kong and Japan.

INDUSTRY OVERVIEW

The tables below set out the cumulative investment, employment and export value of the Dhaka EPZ and Adamjee EPZ for the period indicated:

Cumulative investment, employment and export value of Adamjee EPZ, 2014-2018

Indicator	Unit	2014	2015	2016	2017	2018	CAGR (2014-2018)
Investment	million US\$	268.0	316.5	371.2	421.5	471.7	15.2%
Employment	Persons	36,007	40,091	46,459	53,122	58,212	12.8%
Export value	million US\$	1,220.9	1,688.3	2,251.2	2,895.2	3,660.2	31.6%

Source: Bangladesh Export Processing Zones Authority, Frost & Sullivan

Cumulative investment, employment and export value of Dhaka EPZ, 2014-2018

Indicator	Unit	2014	2015	2016	2017	2018	CAGR (2014-2018)
Investment	million US\$	1,057.3	1,141.4	1,222.0	1,292.1	1,360.8	6.5%
Employment	Persons	88,521	86,638	89,968	92,340	92,979	1.2%
Export value	million US\$	16,302.7	18,300.2	20,484.0	22,575.3	24,778.6	11.0%

Source: Bangladesh Export Processing Zones Authority, Frost & Sullivan

There is a trend for apparel manufacturers from the PRC to set up production facilities in Bangladesh in the recent years under the influence of rising operation cost in the PRC and Bangladesh government has offered incentives to encourage foreign investment. Meanwhile, Bangladesh becomes a key sourcing destination for international apparel brand owners due to competitive pricing. On the other hand, subsequent to the Rana Plaza disaster in 2013, apparel brand owners put high emphasis on social responsibility, worker's rights and safety standards of apparel factories in Bangladesh, and are more selective in apparel manufacturers fulfilling the quality and safety standards through regular internal audit and inspection of the factories of apparel manufacturers. Accordingly, the apparel labels and trim products manufacturing market in Bangladesh has witnessed a rapid growth to cater for the sourcing requirements from local apparel manufacturers and leading participants such as Supplier H, which had set foot in the Bangladesh market for more than a decade, are committed to maintain and expand the operation despite the Rana Plaza disaster in 2013. Technologies on apparel labelling on materials and adhesives, as well as manufacturing techniques for improving productivity and product reliability, are developed locally or transferred from the PRC to meet the more sophisticated market demand. Digitalisation is a key trend in the industry through better colour management and quality control, leading to reduced cost of operation. However, the cost of employing such technology is higher due to high standard on servicing, equipment maintenance and cost for consumables.

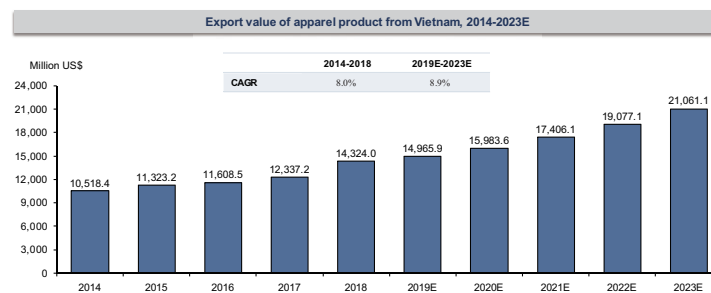
Apparel labels and trim products manufacturers in Bangladesh are expected to provide products in better quality, for example, printed product with reduced colour variation through advancement of printing technologies and machinery. Production efficiency is also set to increase to cope with the shortened production cycle of apparel and thus growing demand from customers.

INDUSTRY OVERVIEW

OVERVIEW OF APPAREL LABELS AND TRIM PRODUCTS MANUFACTURING MARKET IN VIETNAM

Export value of apparel product in Vietnam

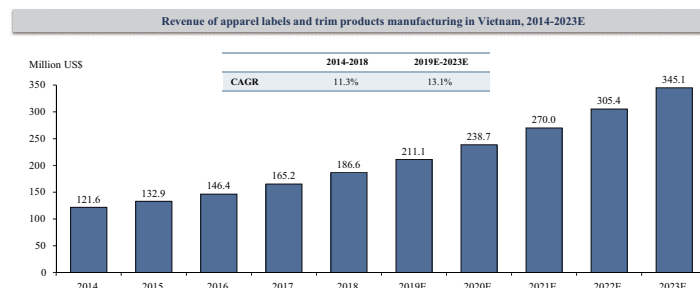
As one of the largest world apparel exporters, the export value of apparel product from Vietnam has witnessed a significant growth from US\$10,518.4 million in 2014 to US\$14,324.0 million in 2018, representing a CAGR of 8.0%. The major export markets for apparel products include the United States, Europe and South Korea. To increase international competitiveness, the government of Vietnam has invested heavily in supporting industries, overcoming the increasing cost of raw material. It is predicted that the export value of apparel product from Vietnam will increase at a CAGR of 8.9%, reaching US\$21,061.1 million during 2019 to 2023.



Source: Trade Map, Frost & Sullivan

Market size of apparel labels and trim products manufacturing market in Vietnam

Attributable to the free trade agreements and a lower cost of production, Vietnam has attracted foreign investment from apparel companies to set up production facilities, leading to the increase in demand for apparel labels and trim products. As such, the revenue of apparel labels and trim products production in Vietnam grew immensely at a CAGR of 11.3% during 2014 to 2018, from US\$121.6 million in 2014 to US\$186.6 million in 2018. With the support from favourable government policies to foreign investors and international apparel manufacturers, the revenue of apparel labels and trim products will increase at a CAGR of 13.1% during 2019 to 2023.



Source: Frost & Sullivan

INDUSTRY OVERVIEW

Outlook of apparel labels and trim products manufacturing market in Vietnam

The apparel industry is a pillar to economic development and trade balance in Vietnam, accounting for 19% of the country's total exports in 2018. There were more than 6,000 textile and apparel manufacturing companies and factories in Vietnam as in 2018.

Owing to the provision of appealing tax incentives to foreign brand owners and international apparel manufacturers, a number of major fashion brands preferred sourcing of apparel and also apparel trims in Vietnam due to lower procurement cost. Further, with the fast-changing consumer preference in apparel styles, apparel brands are eager to source high quality finished goods from manufacturers that can fulfil the order and delivery requirement. Moreover, to overcome the high cost of raw material, the government has invested heavily in supporting manufacturing sector. Accordingly, apparel labels and trim products manufacturers are also required to deliver consistently high-quality products with a short lead time.

Apparel labels and trim products manufacturers may face the escalating labour cost following the implementation and adjustment of minimum wage since 2011. Going forward, the level of minimum wages will be regularly reviewed by the Vietnam's National Wage Council. For example, Vietnam's National Wage Council has announced a 5.7% average increase in monthly minimum wages in the country effective from 1 January 2020 onwards.

COMPETITIVE LANDSCAPE OF APPAREL LABELS AND TRIM PRODUCTS MANUFACTURING MARKET IN BANGLADESH AND VIETNAM

Overview of market competition

The apparel labels and trim products manufacturing market in Bangladesh and Vietnam are considered highly fragmented and competitive with thousands of market participants and a majority of them are small enterprises engaged in the business of printing and the supply of apparel accessories. In view of the rapid development of downstream apparel product industry in the aforesaid markets and growing participation of key apparel manufacturers and brands, there is a trend for established apparel labels and trim products manufacturers in the PRC to set up their sales offices and even production facilities to support the demand from local customers, provide after-sales services and technical supports, in particular when the foreign supply or import of apparel labels and trim products could not fulfil the local demand in a timely manner or under the local order request by customers. Key industry players and multinational corporations, such as parent companies of Supplier H, Company C and Company D, have set up their production facilities in Bangladesh and Vietnam. Key competitive factors in the industry lie in operational efficiency to meet the lead time of customers, printing and finishing quality of products and after-sales service. Due to high requirements on product design and specifications and in order to control and minimise the variation of the quality of the apparel labels, apparel manufacturers generally source apparel labels from a single manufacturer of apparel labels for each specific product of apparel labels within the approved supplier list nominated by the apparel brands for such product (in the case of multiple nomination). As these apparel labels and trim products to be sourced are usually in large quantities and apparel manufacturers will only purchase from a single

INDUSTRY OVERVIEW

apparel label manufacturer, apparel manufacturers will only consider those apparel labels and trim products manufacturers which have the production capacity sufficient to satisfy their entire order within their lead time and have high product quality in respect of consistent printing and finishing quality. It is not common in the apparel manufacturing industry for reputable apparel brands to source the same apparel labels and trim products from multiple apparel label manufacturers.

Our Group had a market share of approximately 1.6% and 1.3% in terms of revenue generated from sales of apparel labels and trim products in 2018 in Bangladesh and Vietnam, respectively.

COMPETITIVE STRENGTHS OF OUR GROUP

Please refer to the section headed “Business — Competitive strengths” in this prospectus for a detailed discussion of competitive strengths of our Group.

EXCHANGE RATES OF SELECTED CURRENCIES

The table below sets out the historical exchange rates of selected currencies for the period indicated:

<u>Exchange rate</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>CAGR (2014-2018)</u>
RMB/US\$	6.2	6.3	6.6	6.8	6.6	1.6%
BDT/US\$	77.6	78.0	78.5	80.4	82.4	1.5%
VND/US\$	21,206.7	21,967.3	22,379.7	22,717.3	22,585.5	1.6%

Source: Frost & Sullivan

DIRECTORS' CONFIRMATION

Our Directors, after due and reasonable consideration, are of the view that there has been no adverse change in the market information since the date of the F&S Report which may qualify, contradict or have an impact on the information therein.

REGULATORY OVERVIEW

This section sets out a summary of the most significant aspects of laws and regulations in Hong Kong, the PRC, Bangladesh and Vietnam that are material to our business operations.

HONG KONG LAWS AND REGULATIONS

Business registration

For our Group to carry on business in Hong Kong, we have to apply for a business registration certificate to be issued by the Commissioner of Inland Revenue pursuant to the Business Registration Ordinance (Chapter 310 of the Laws of Hong Kong).

Import and export of goods

The Import and Export Ordinance (Chapter 60 of the Laws of Hong Kong) (the “**IEO**”) provides for the regulation and control of the import of articles into Hong Kong, the export of articles from Hong Kong, the handling and carriage of articles within Hong Kong which have been imported into Hong Kong or which may be exported from Hong Kong, and any matter incidental to or connected with the foregoing. Under the IEO, every person who imports or exports any article (other than exempted articles under regulation 3 of the Import and Export (Registration) Regulations (Chapter 60E of the Laws of Hong Kong)) shall lodge with the Commissioner of Customs and Excise an accurate and complete import or export declaration within 14 days after the date of import or export. Certain documents need to be presented for customs clearance, including the bill of lading or similar documents, invoice and packing list. Further, under the IEO, customs officers are granted various powers in relation to the investigation, examination, and seizure of goods.

Supply of goods

Products Liability

The Sale of Goods Ordinance (Chapter 26 of the Laws of Hong Kong) codifies the laws relating to the sale of goods in Hong Kong, for examples:

- (a) under section 15, there is an implied condition that the goods shall correspond with the description in the contract for sale; and
- (b) under section 16, there is an implied condition that the goods supplied under the contract are of merchantable quality; and
- (c) under section 17, where there is a contract for sale by sample, there is an implied condition that, among others, the bulk shall correspond with the sample in quality.

REGULATORY OVERVIEW

Control of exemption clauses

We may exempt some of our legal liabilities to the customers arising out of, among others, our products subject to restrictions under the Control of Exemption Clauses Ordinance (Chapter 71 of the Laws of Hong Kong). In essence, we cannot exclude or restrict our liability for death or personal injury resulting from negligence, and in the case of other loss or damage, we cannot exclude or restrict our liability for negligence except in so far as the court or arbitrator determines that the term was a fair and reasonable one to be included having regard to the circumstances which were, or ought reasonably to have been, known to or in the contemplation of the parties when the contract was made.

Employment

Employees' entitlements

The Employment Ordinance (Chapter 57 of the Laws of Hong Kong) provides for the protection of the wages of employees and regulates general employment conditions. All employees covered by the Employment Ordinance, irrespective of their hours of work, are entitled to basic protection under the Employment Ordinance, including, among others, payment of wages and granting of statutory holidays. Employees who are employed under a continuous contract are further entitled to benefits such as rest days, paid annual leave, sickness allowance, severance payment and long service payment.

Employees' compensation

In addition, under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), an employer is liable to pay compensation in respect of specified occupational diseases suffered by the employees; or in respect of injuries sustained by his employees as a result of an accident arising out of and in the course of employment.

Mandatory Provident Fund

The Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) provides a retirement protection system, under which the employer is (and, where the employee's monthly relevant income is HK\$7,100 or more, the employer and employee both are) required to contribute 5% of the employee's monthly relevant income as mandatory contributions for and in respect of the employee, subject to a statutory maximum cap of HK\$1,500 per month.

Minimum Wage

The Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) applies to all employees being engaged under a contract of employment under the Employment Ordinance with certain exceptions. It provides that the wages payable to an employee in respect of any wage period, when averaged over the total number of hours worked in the wage period, should be no less than the statutory minimum wage rate. The statutory minimum hourly wage rate with effect from 1 May 2019 is HK\$37.5 per hour.

Intellectual Property

Copyright Ordinance

The Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) protects recognised categories of literary, dramatic, musical and artistic works, as well as films, broadcasts and cable programmes, and typographical arrangement of published editions. Certain acts such as copying and/or issuing or making available copies to the public of a copyright work without the authorisation from the copyright owner would constitute “primary infringement” of copyright which does not require knowledge of infringement.

In addition, a person may incur civil liability for “secondary infringement” under the Copyright Ordinance if that person possesses, sells, distributes or deals with a copy of a work which is, and which he knows or has reason to believe to be, an infringing copy of the work for the purposes of or in the course of any trade or business without the consent of the copyright owner. However, the person will only be liable if, at the time he committed the act, he knew or had reason to believe that he was dealing with infringing copies.

Under section 118 of the Copyright Ordinance, a person commits a criminal offence if he, without the consent of the copyright owner of a copyright work, makes for sale or hire an infringing copy of the work or possesses an infringing copy of the work with a view to its being, among others, sold or let for hire by any person for the purpose of or in the course of that trade or business.

Under section 119A of the Copyright Ordinance, there is a provision against copying service business which imposes criminal liability when a person, for the purpose of or in the course of a copying service business, possesses a reprographic copy of a copyright work as published in a book, magazine or periodical, being a copy that is an infringing copy of the copyright work. It is a defence for the person charged to prove that he did not know and had no reason to believe that the copy of a copyright work in question was an infringing copy of the copyright work.

Trade Marks Ordinance

The Trade Marks Ordinance (Chapter 559 of the Laws of Hong Kong) provides for the registration, use and protection of trade marks. Under section 18 of the Trade Marks Ordinance, it is provided that a person infringes a registered trade mark if the person uses in the course of trade or business a sign which is:

- (a) identical to the trade mark in relation to goods or services which are identical to those for which it is registered;
- (b) identical to the trade mark in relation to goods or services which are similar to those for which it is registered; and the use of the sign in relation to those goods or services is likely to cause confusion on the part of the public;
- (c) similar to the trade mark in relation to goods or services which are identical or similar to those for which it is registered; and the use of the sign in relation to those goods or services is likely to cause confusion on the part of the public; or

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- (d) identical or similar mark in relation to goods or services which are not identical or similar to those for which the trade mark is registered; the trade mark is entitled to protection under the Paris Convention as a well-known trademark; and the use of the sign, being without due cause, takes unfair advantage of, or is detrimental to, the distinctive character or repute of a trade mark.

A person shall be treated as a party to any use of the material which infringes the registered trade mark if he:

- (a) applies or causes to be applied a registered trade mark or a sign similar to a registered trade mark to material which is intended to be used for labelling or packaging goods; as a business paper; or for advertising goods or services; and
- (b) at the time the trade mark or sign was applied to the material, he knew or had reason to believe that its application to the material was not authorised by the owner of the registered trade mark or by a licensee.

Trade marks registered in other countries or regions are not automatically entitled to protection in Hong Kong unless they are also registered under the Trade Marks Ordinance. Nevertheless, trade marks which are not registered under the Trade Marks Ordinance may still obtain protection by the common law action of passing off, which requires proof of the owner's reputation in the unregistered trade mark and that use of the trade mark by third parties will cause damages to the owner.

Transfer pricing

Section 20A of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the “**IRO**”) gives the Inland Revenue Department of Hong Kong (the “**IRD**”) wide powers to collect tax due from non-residents. The IRD may also make transfer pricing adjustments by disallowing expenses incurred by the Hong Kong resident under sections 16(1), 17(1)(b) and 17(1)(c) of the IRO, making additional assessments under section 60 of the IRO and challenging the entire arrangement under general anti-avoidance provisions such as sections 61 and 61A of the IRO.

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

In April 2009, the IRD released Departmental Interpretation and Practice Notes No. 45 (the “**DIPN 45**”). The DIPN 45 provides that where double taxation arises as a result of transfer pricing adjustments made by the tax authorities of another country, a Hong Kong taxpayer may potentially claim relief under the treaty between Hong Kong and that country (countries entered into tax arrangements with Hong Kong includes the PRC).

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The Hong Kong Government has gazetted the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (the “**Amendment Ordinance No. 6**”) on 13 July 2018. The Amendment Ordinance No. 6 introduces provisions for a statutory transfer pricing regime and for transfer pricing documentation in Hong Kong. The major issues covered under the Amendment Ordinance No. 6 are as follows:

- codify arm’s length principle for related party transactions;
- introduce transfer pricing documentation in Hong Kong, which includes country-by-country report, master file and local file;
- codify Advance Pricing Arrangement (the “**APA**”) regime and extend application to unilateral APAs. An APA is an ahead-of-time agreement between a taxpayer and a tax authority on the application of the arm’s length principle to the relevant related party transactions of the taxpayer over a fixed period of time;
- introduce legal framework for mutual agreement procedures, which includes arbitration.

The major provisions under the Amendment Ordinance No. 6 start to apply for years of assessment commencing from 1 April 2018.

PRC LAWS AND REGULATIONS

Laws and regulations relating to foreign investment

According to the Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition) 《外商投資准入特別管理措施(負面清單)(2019年版)》(the “**Negative List**”), which became effective on 30 July 2019, foreign investment projects in the PRC which fall into the Negative List shall satisfy the relevant requirements set out in the Negative List. The business of our PRC subsidiaries is not subject to the special administrative measures for access of foreign investment.

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

The establishment procedures, verification and approval procedures, accounting practices, taxation, and all other relevant matters of Charming China, were subject to the Wholly Foreign-owned Enterprise Law of the PRC 《中華人民共和國外資企業法》, which was replaced by the Foreign Investment Law of the PRC 《中華人民共和國外商投資法》 and its implementation rules effective from 1 January 2020. The Provisional Measures for Filing Administration of Establishment and Changes of Foreign-invested Enterprise 《外商投資企業設立及變更備案管理暫行辦法》, was replaced by the Measures for the Reporting of Foreign Investment Information 《外商投資信息報告辦法》 effective from 1 January 2020, and foreign investment information shall be submitted pursuant to these measures.

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Laws and regulations relating to the printing industry

According to the Regulations on the Administration of Printing Industry 《印刷業管理條例》, which was promulgated on 2 August 2001 and amended on 6 February 2016 and 1 March 2017, enterprises applying to engage in the business of printing of packaging materials and other printed matter shall present their business licence to submit an application to the relevant department and be issued with a printing business permit upon examination and approval of the application.

Pursuant to the Interim Provisions on the Qualifications of Printing Operations 《印刷業經營者資格條件暫行規定》, which was promulgated on 9 November 2001 and amended on 28 August 2015 and 11 December 2017, enterprises undertaking decoration and packaging printing shall have the enterprise's title and articles of association, a specific business scope, and operation place(s) suitable for operation of printing business, etc..

The Interim Provisions on the Establishment of Foreign Investment Printing Enterprise 《設立外商投資印刷企業暫行規定》, which was promulgated on 29 January 2002 and amended on 28 August 2015, applies to the foreign-invested printing enterprises established in the PRC. Foreign investment in decoration and packaging printing can be established as a wholly foreign-owned enterprise. The term of operation of the enterprise shall, as a general principle, be no more than 30 years. A foreign-invested printing enterprise shall not establish any branch.

The Provisions on the Administration of Undertaking of Presswork Printing 《印刷品承印管理規定》 was promulgated on 18 July 2003. It stipulates that where a printing enterprise accepts an entrustment to print the marks of a registered trademark, it shall verify the certificate of trademark registration, or the duplication thereof signed by relevant department of administration of industry and commerce, and check the pattern of the registered trademark provided by the entrusting party; where the printing enterprise accepts an entrustment of a party licensed to use a registered trademark to print the mark of that registered trademark, it shall also verify the contract of licensed use of the registered trademark. Where a printing enterprise accepts an entrustment to print overseas decoration and packaging printing or other printing, it shall verify and keep the certification of entrustment, register with relevant department of press and publication administration in advance, and the printed decoration and packaging printing or other printing shall be transported out of the PRC.

Pursuant to the Measures for the Administration of Printing and Production of Trademarks 《商標印製管理辦法》, which was promulgated on 19 August 2004, the trademark printing and production entity shall verify the certification documents and sample trademark pattern provided by the entrusting party. The trademark printing and production entity shall establish a system and a record account for the ins and outs of trademark signs. All the discarded and inferior trademark signs shall be destroyed and shall not flow into the society.

Laws and regulations relating to product quality

According 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 and subsequently amended on 8 July 2000, 27 August 2009 and 29 December 2018, producers are liable for the quality of the products they produce. In the event that any person produces or sells products that do not comply with the relevant national and industrial standards for the protection of the health and safety of human and property, the relevant

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authority may order such person to suspend the production or sales, confiscate the products illegally produced or sold, impose a fine of an amount higher than the value of the products illegally produced or sold and less than three times of the value of such products, confiscate illegal gains (if any), and revoke the business licence in severe cases. Where the activities constitute a crime, the offender may be prosecuted.

Laws and regulations relating to safety production

According to the Regulations on Safety Production of Guangdong Province 《廣東省安全生產條例》, which was promulgated on 27 September 2013 and amended on 30 November 2017, manufacturers and business operators engaging in special business scope such as mining, storing and transportation of dangerous goods, etc. and those employing more than 100 workers of other business scope, shall set up a work safety management department or allocate full-time work safety management personnel. Manufacturers and business operators which failed to do so may be ordered to rectify within a prescribed time limit, otherwise they may be ordered to suspend production and operation as well as to pay a fine.

Laws and regulations relating to environmental protection

The Environmental Protection Law of the PRC 《中華人民共和國環境保護法》, which was promulgated on 26 December 1989 and amended on 24 April 2014, provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards and safeguard human health. It requires that enterprises that discharge pollutants shall take measures to prevent and control the environmental pollution and harm caused by waste gas, waste water, waste residues, medical waste, dust, malodorous gases, radioactive substances, noise and electromagnetic radiation, etc. generated during production, construction or other activities. In addition, the PRC adopts the pollutant discharge licence administration system in accordance with the law. Enterprises that are subject to the pollutant discharge licence administration shall discharge pollutants according to the requirements under the pollutant discharge licence and shall not discharge pollutants without obtaining the pollutant discharge licence. Violation of the said law may lead to various penalties being imposed on the non-compliant enterprise including warning, fine, order of rectification within a time limit, application to relevant people's government for compulsory cease of operation or shutout and even criminal liability.

Laws and regulations relating to fire prevention

The Fire Prevention Law of the PRC 《中華人民共和國消防法》, which was promulgated on 29 April 1998 and amended on 28 October 2008 and 23 April 2019, provides that an enterprise shall prepare fire prevention facilities and apparatuses according to the national standards and industrial standards, set up fire safety signs and conduct regular testing and maintenance so as to ensure that they are in good condition and effective, breach of which may lead to rectification order or fines.

REGULATORY OVERVIEW

Laws and regulations relating to importing and exporting goods

According to the Customs Law of the PRC 《中華人民共和國海關法》, which was promulgated on 22 January 1987 and amended on 8 July 2000, 29 June 2013, 28 December 2013, 7 November 2016 and 4 November 2017, all inbound and outbound transportations, goods and articles shall, unless otherwise approved, enter or leave the territory at a place where there is a customs office of the PRC. Unless provided otherwise, the declaration of import/export goods may be completed by consignees and consignors themselves, and such procedures may also be completed by their entrusted customs agencies that have registered with the customs. The declaration of inbound and outbound articles may be completed by the owners of such goods or their entrusted person. In addition, the consignors and consignees of the import/export goods and the customs agencies shall register themselves for declaration activities with the customs office. The consignee of import goods, the consignor of export goods and the owner of inbound and outbound articles shall be the payer of the customs duty. A fine may be imposed for violation of the regulations on customs control prescribed in the Customs Law of the PRC.

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

Laws and regulations relating to foreign exchange control

Due to the foreign exchange control policy of the PRC, cross border transactions of our PRC subsidiaries and dividend distribution to the foreign investors shall comply with various administration of foreign exchange in the PRC.

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

REGULATORY OVERVIEW

On 9 June 2016, SAFE promulgated the Circular on Reforming and Regulating Policies on the Management of the Settlement of Foreign Exchange of Capital Accounts 《國家外匯管理局關於改革和規範資本項目結匯管理政策的通知》. It unifies the discretionary foreign exchange settlement for all the domestic institutions. The discretionary foreign exchange settlement refers to the foreign exchange capital in the capital account which has been confirmed by the relevant policies subject to the discretionary foreign exchange settlement (including foreign exchange capital, foreign loans and funds remitted from the proceeds from the overseas listing) can be settled at the banks based on the actual operational needs of the domestic institutions. The proportion of discretionary foreign exchange settlement of the foreign exchange capital is temporarily determined as 100%. Furthermore, it stipulates that the use of foreign exchange incomes of capital accounts by domestic enterprises shall follow the principles of authenticity and self-use within the business scope of enterprises. The foreign exchange incomes of capital accounts and capital in Renminbi obtained by the domestic enterprise from foreign exchange settlement shall not be used for the following purposes: (i) directly or indirectly used for the payment beyond the business scope of the enterprises or the payment prohibited by relevant laws and regulations; (ii) directly or indirectly used for investment in securities or financial schemes other than bank guaranteed products, unless otherwise provided by relevant laws and regulations; (iii) used for granting loans to non-connected enterprises, unless otherwise explicitly permitted by its business scope; and (iv) used for the construction or purchase of real estate that is not for self-use (except for the real estate enterprises). On 23 October 2019, SAFE issued the Notice of the State Administration of Foreign Exchange on Further Facilitating Cross-border Trade and Investment (國家外匯管理局關於進一步促進跨境貿易投資便利化的通知, “**Circular 28**”), which, among other things, allows non-investment foreign-invested enterprises to use their capital funds to make equity investments in the PRC, provided that such investments do not violate the Negative List and the target investment projects are genuine and in compliance with laws. Since Circular 28 was issued only recently, its interpretation and implementation in practice is still subject to substantial uncertainties.

Laws and regulations relating to taxation

EIT

According to the EIT Law, which was promulgated on 16 March 2007, and its implementation rules, enterprises are classified into resident enterprises and non-resident enterprises. Enterprises, which are incorporated in the PRC or which are incorporated pursuant to the foreign laws with their “de facto management bodies” located in the PRC, are deemed as “resident enterprise” and subject to an enterprise income tax rate of 25% on their global income. Non-resident enterprises are subject to (i) an enterprise income tax rate of 25% on their income generated by their establishments or places of business in the PRC and its income derived outside the PRC which are effectively connected with their establishments or places of business in the PRC; and (ii) an enterprise income tax rate of 10% on their income derived from the PRC but not connected with its establishments or places of business located in the PRC. Non-resident enterprises without an establishment or place of business in the PRC are subject to an enterprise income tax of 10% on their income derived from the PRC.

REGULATORY OVERVIEW

Withholding Income Tax

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

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

Pursuant to the Measures for the Administration of Non-Resident Taxpayers' Enjoyment of Treaty Benefits 《非居民納稅人享受協定待遇管理辦法》 effective from 1 January 2020, any non-resident taxpayer meeting conditions for enjoying the treaty benefits may be entitled to the treaty benefits itself when filing a tax return or making a withholding declaration through a withholding agent, subject to the subsequent administration by the tax authorities. If a competent tax authority, in the course of subsequent administration, finds out that a non-resident taxpayer enjoys treaty benefits without meeting the conditions thereof and underpays or fails to pay them at all, it may instruct the non-resident taxpayer to pay the overdue taxes within a prescribed period.

VAT

The Provisional Regulations on Value-added Tax of the PRC 《中華人民共和國增值稅暫行條例》， which was promulgated on 13 December 1993 and amended on 10 November 2008, 6 February 2016 and 19 November 2017, together with its implementation rules, sets out that entities and individuals engaging in selling goods or labour services of processing, repair or maintenance, selling services, intangible assets or immovables in the PRC, or importing goods to the PRC are subject to the payment of value-added tax. Pursuant to the Notice of the Ministry of Finance of the PRC and State Taxation Administration of the PRC on Adjusting VAT Rates 《財政部、稅務總局關於調整增值稅稅率的通知》 effective on 1 May 2018, a taxpayer who is previously subject to 17% on VAT-taxable sales activities shall have the applicable tax rate adjusted to 16%. According to the Announcement on Relevant Policies for Deepening VAT Reform 《關於深化增值稅改革有關政策的公告》， which came into effect on 1 April 2019, for VAT taxable sales or imported goods of a VAT general taxpayer where the VAT rate of 16% applies currently, it shall be adjusted to 13%.

Transfer Pricing

Pursuant to the EIT Law and the Implementation Regulations for Special Tax Adjustments (Trial) 《特別納稅調整實施辦法(試行)》 (the “**STA Rules**”) issued by the State Taxation Administration of the PRC (中華人民共和國國家稅務總局) (“**SAT**”), transactions in respect of the purchase, sale and transfer of products between, amongst others, enterprises under direct or indirect control by the same third party are defined as related party transactions, which should comply with the arm's length principle (獨立交易原則). If the related party transactions fail to comply with arm's length principle results in the reduction of the income or taxable income of the enterprise or its related party, the tax authority has the power to make an adjustment (特別納稅調整) following certain procedures within ten years from the tax paying year that the non-compliant related party transaction had occurred.

REGULATORY OVERVIEW

Pursuant to the Administration of Tax Collection of the PRC 《中華人民共和國稅收徵收管理法》 promulgated on 4 September 1992, last amended on 24 April 2015 and the Rules for the Implementation of the Law of the PRC on the Administration of Tax Collection 《中華人民共和國稅收徵收管理法實施細則》 promulgated on 7 September 2002, as amended, taxpayers have an obligation to provide the local tax authorities with information on prices, expenditure standard and others concerning business transactions with the related party. The taxpayer may propose to the competent tax authorities a pricing principle and calculation method for business transactions with the related party. The competent tax authorities may, after examination and approval, agree upon the items of pricing with the taxpayer in advance and supervise over the implementation.

Pursuant to the Announcement of SAT on Relevant Matters relating to Improvement of the Filing of Related Party Transactions and the Management of Contemporaneous Documentation 《國家稅務總局關於完善關聯申報和同期資料管理有關事項的公告》 which became effective on 29 June 2016, any resident enterprise subject to audit collection and any non-resident enterprise which has establishments or offices in the PRC and honestly reports and pays enterprise income tax shall, in filing a tax return for the annual enterprise income tax with a tax authority, make related filings with regard to its business transactions with any related party and attach thereto the annual report on the related party transactions.

SAT has published an announcement on issuing the Administrative Measures for Special Tax Adjustment and Investigation and Mutual Consultation Procedures 《特別納稅調查調整及相互協商程序管理辦法》 which came into effect from 1 May 2017. According to this announcement, the tax authorities exercise special tax adjustment monitoring and management of enterprises through the review of the reporting of related party transactions, management of contemporaneous documentation, profit level monitoring and other means. If an enterprise receives a special tax adjustment risk warning from tax authorities or detects in itself any special tax adjustment risk, the enterprise may carry out voluntary adjustments regarding tax payment matters and the relevant tax authority may still proceed with special tax investigation adjustment procedures according to the relevant provisions. Further, pursuant to the tax treaties signed by the PRC, SAT may activate mutual consultation procedures either upon application by an enterprise or upon request by the competent tax authority of the contracting counter-party of a tax treaty to consult and negotiate with the latter, so as to avoid or eliminate international double taxation triggered by special tax adjustment.

Laws and regulations relating to intellectual property

Trademark

According to the Trademark Law of the PRC 《中華人民共和國商標法》, which was promulgated on 23 August 1982 and amended on 22 February 1993, 27 October 2001, 30 August 2013 and 23 April 2019, trademarks approved and registered by the trademark bureau are registered trademarks, including commodity trademarks, service marks and collective trademarks, certification marks and trademark registrants enjoy exclusive rights to use trademark and are protected by the law. A trademark registration applicant shall, according to the prescribed classification of goods, enter the class and designation of goods on which the trademark is to be used, and file an application for registration. Matters declared and materials provided for an application for trademark registration shall be true, accurate, and complete.

Laws and regulations relating to labour protection

Labour Law

The Labour Law of the PRC 《中華人民共和國勞動法》, which was promulgated on 5 July 1994 and amended on 27 August 2009 and 29 December 2018, provides that employees are entitled to gain equal opportunities in employment, choose occupations, receive labour remuneration, acquire protection of work safety and healthcare, social insurance and welfare, etc.. Employers shall establish and improve the system for work safety and healthcare, provide training on work safety and healthcare to employees, comply with national regulations on work safety conditions, and provide necessary labour protective supplies to employees.

Labour Contract Law

The Labour Contract Law of the PRC 《中華人民共和國勞動合同法》, which was promulgated on 29 June 2007 and amended on 28 December 2012, together with its implementation rules, provides that the labour contracts shall be concluded in order to establish the labour relationship between employers and employees. The employer and employee shall fully perform their respective obligations as set out in the labour contract. An employer shall inform the employees truthfully of the scope of work, working conditions, workplace, occupational hazards, work safety conditions, labour remuneration and other information requested by the employees. The employer failing to comply with these regulations may be subject to rectification order or compensation.

Social Insurance and Housing Provident Funds

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

According to the Administrative Regulations on Housing Provident Funds 《住房公積金管理條例》, which was promulgated on 3 April 1999 and amended on 24 March 2002 and 24 March 2019, employers are required to make contribution to housing provident funds for their employees. Where an employer fails to pay up housing provident funds, the housing provident fund administration centre may order it to make payment within a prescribed time limit. If the employer still fails to do so, the housing provident fund administration centre may apply to the court for compulsory enforcement of the unpaid amount.

BANGLADESH LAWS AND REGULATIONS

Industry in EPZs

In order to encourage rapid economic growth of Bangladesh, particularly through industrialisation, the Government of Bangladesh adopted an “Open Door Policy” to attract foreign investment in Bangladesh. The Bangladesh Export Processing Zones Authority (“**BEPZA**”) is a statutory body established under the Bangladesh Export Processing Zones Authority Act, 1980 (the “**BEPZA Act**”) to promote, attract and facilitate foreign investment in the EPZs. The key functions of the BEPZA include creation, development, operation, management and regulation of EPZs. The expression EPZ denotes a territorial or economic enclave in which goods may be imported and manufactured and reshipped with a reduction in duties and/or minimal intervention by custom officials.

The document titled “The Principles & Procedures Governing setting up of industries in EPZs” issued by the BEPZA (the “**Principles & Procedures**”) classifies industries in EPZs into the following three categories:

- (a) Type-A: 100% foreign owned including investment by Bangladeshi nationals ordinarily resided abroad;
- (b) Type-B: Joint-venture projects between foreign investors and Bangladeshi entrepreneurs resided in Bangladesh; and
- (c) Type-C: 100% owned by Bangladeshi entrepreneurs resided in Bangladesh.

The Principles & Procedures also sets out the conditions to be satisfied for establishing each type of industry in the EPZs.

Establishment

Only 100% export-oriented industries are entitled to set up factory in the EPZs. A proposal in a prescribed form for establishing an enterprise in an EPZ is submitted to the BEPZA along with the required documents mentioned in the prescribed form. When BEPZA approves the proposal, it also allots land and standard factory building to the applicant. The approval letter itself contains certain terms and conditions to be complied with by the applicant. A company based in an EPZ must obtain prior approval from BEPZA if its shareholding structure is to be changed.

In addition to the above BEPZA approval, an enterprise is required to have a number of other licences and approvals from various government authorities under various statutes. Such licences and approvals include trade licence from local government authority, tax-payer identification number and VAT registration certificate from the National Board of Revenue (the “**NBR**”), environmental clearance from the Department of Environment, fire licence from the Bangladesh Fire Service and Civil Defence.

REGULATORY OVERVIEW

Import and export of goods by enterprises in the EPZs

In exercise of the power conferred by Section 13 and Section 219(8) of the Customs Act, 1969, the NBR (Customs) has issued special subordinate legislation, namely, the Customs (Export Processing Zones) Rules, 1984 (the “**Customs EPZ Rules**”) to facilitate and monitor the import and export activities by the enterprises established in the EPZs. The Customs EPZ Rules regulate the import and export by the enterprises in EPZs. Customs Bond Commissionerates in Dhaka and Chittagong administer the major customs-related activities in the EPZs. Customs Bond Commissionerates have officials posted in the EPZs under their jurisdiction to monitor and discharge customs-related activities.

Office of Chief Controller of Imports and Exports established under the Import and Export (Control) Act, 1950 is the regulatory authority in Bangladesh with respect to export and import of goods. It issues export and import registration certificates to the businesses. The export and import are carried out in compliance with, respectively, the Export Policy and the Import Policy Order, which are issued every three years. However, industries in EPZs have been excluded from these requirements.

Both direct exporters and deemed exporters in EPZs are entitled to obtain Customs Bonded Warehousing Licence (the “**Bond Licence**”) issued by the concerned Customs Bond Commissioner under the Bonded Warehouse Licensing Rules, 2008. “Deemed exporters” are those industries that do not have any direct export operations, and instead carry out their activities through subcontracting and receive their proceeds in foreign exchange through local back-to-back letters of credit.

In addition to the Bonded Warehouse Licensing Rules, 2008, bonded warehouse activities are regulated by the Customs Act, 1969, the 100% Export Oriented Industries (Temporary Importation) Rules, 1993, and various Statutory Regulatory Orders, standing orders, office orders, rules and regulations issued from time to time by the NBR and the Customs Bond Commissionerates.

Taxation – fiscal and other facilities enjoyed by the enterprises in the EPZs

The enterprises in EPZs enjoy various fiscal, non-fiscal incentives and other facilities. Fiscal incentives include tax holiday, duty free import of construction materials, duty free import of machineries, office equipment and spare parts, duty free import and export of raw materials and finished goods, relief from double taxation, exemption from dividend tax, GSP facility, remittance of royalty, technical and consultancy fees, duty and quota free access to the European Union, Canada, Norway, Australia etc.

Non-fiscal incentives include permission for full repatriation of capital and dividend, foreign currency loan from abroad, opening and maintaining “Non-resident Foreign Currency Deposit (NFCD) Account” and operation of foreign currency account by ‘B’ and ‘C’ type industries.

REGULATORY OVERVIEW

Foreign exchange control

Inward remittance of foreign investment, encashment of foreign exchange, repatriation of dividend by non-residents, remittance of royalty, technical and consultancy fees etc., obtaining credit facilities or loans, opening and operation of foreign currency accounts by non-residents in a bank in Bangladesh, etc. are regulated by the Bangladesh Bank (central bank of Bangladesh) under the Foreign Exchange Regulation Act, 1947 (the “**FERA**”) and the Guidelines For Foreign Exchange Transactions (the “**GFET**”) and various circulars issued by the Bangladesh Bank from time to time.

Bangladesh has a strict foreign exchange control regime in force. Dealings in foreign currency are strictly regulated by the Bangladesh Bank and only authorised dealers, that are licensed bank branches, are allowed to remit foreign currency out of Bangladesh.

Further, no other person may deal in foreign exchange without the prior consent of the Bangladesh Bank. Remittance of money out of Bangladesh is allowed only under specific circumstances and is required to be supported by appropriate documentation.

Restrictions in dealing with foreign currency

The FERA and the GFET stipulate that, without a general or special permission from the Bangladesh Bank, a company incorporated in Bangladesh cannot make any payment to, or for the credit of, any person who is resident outside Bangladesh, or draw, issue or negotiate any bill of exchange or promissory note, or acknowledge any debt, which would mean that a right to receive a payment is created or transferred in favour of any person residing outside Bangladesh. The FERA also restricts the creation or transfer of a security interest to any place outside of Bangladesh without general or special permission from the Bangladesh Bank.

Employment

The Bangladesh EPZ Labour Act, 2019 (the “**ELA**”) has been passed to regulate the employment relationship between employers and workers in industrial establishments set up in EPZs and other special zones regulated by the BEPZA.

The ELA contains chapters regarding (i) appointment and terms of employment of workers; (ii) maternity benefits; (iii) occupational health, hygiene and safety; (iv) working hours and leave; (v) wages and payment of wages; (vi) EPZ wages board; (vii) compensation for workplace injury; (viii) workers welfare committee and industrial relations; (ix) dispute resolution; (x) EPZ Labour Court, EPZ Labour Appellate Tribunal, etc.; (xi) punishment and prosecution for violation of the provisions of the EPZ Labour Act; (xii) Provident Fund; (xiii) administration, inspection etc. and (xiv) Employer, Buyer and Worker Participation Fund.

REGULATORY OVERVIEW

There are a total of 207 Sections and five Schedules in the ELA. Prior to coming into effect of the ELA, the rules in relation to employment benefits of employees working in EPZs and the workers' entitlement to form association were regulated under separate legislation.

The ELA has replaced the earlier rules and regulations on employment in EPZs and has consolidated the rules on employment in EPZs. The ELA has been given precedence over all other laws insofar as the matters dealt with in the ELA are concerned. The Bangladesh Labour Act, 2006 would apply to employment outside of zones regulated by BEPZA and the ELA would apply to employment inside zones regulated by BEPZA.

BEPZA Wage Circular No. 03.06.2616.314.99.024.-18-951 dated 27 November 2018 provides for minimum wages and other benefits for workers of the enterprises in the EPZs under BEPZA. The minimum wage is revised periodically to reflect economic changes and cost of living.

Foreign investment protection

The Foreign Private Investment (Promotion and Protection) Act, 1980 (the “**FPIA**”), which deals with promotion and protection of investment in industrial undertaking in Bangladesh and ensures equal treatment for local and foreign investors. Foreign private investment is protected from certain political risks which may result in direct and/or indirect expropriation. The FPIA further ensures transfer of capital and returns from the foreign investment, and in the event of liquidation of industrial undertaking, transfer of proceeds from such liquidation.

Company law regulations

The Companies Act, 1994 (the “**Companies Act**”) governs all Bangladesh companies, from incorporation up to their winding-up and dissolution. Pursuant to the Companies Act, a company is required to have, at all times, a certain number of shareholders and directors depending on its nature. As such, private companies are required to have a minimum of two shareholders and two directors whereas public companies are required to have a minimum of seven shareholders and three directors. The Companies Act also requires the companies, among other things, to hold directors' meetings quarterly and one annual general meeting followed by the filing of an annual return along with audited accounts with the Registrar of Joint Stock Companies and Firms. The Companies Act also sets out the procedures for passing special and extraordinary resolutions, transfer of shares, maintenance of books, accounts and registers and issue of capital.

Authorised, issued and paid-up share capital

Companies are incorporated in Bangladesh with an authorised share capital as set out in their memorandum of association. The authorised share capital represents the total share capital that companies may issue to their shareholders. Out of the authorised share capital, the actual share capital which is issued to the shareholders is called the “issued” or “subscribed” share capital, and the total amount paid and received by the company on those issued shares is called “paid-up” capital of the company.

REGULATORY OVERVIEW

There is no minimum capitalisation requirement for the initial equity injection in a company under the Companies Act. As such, a company can be incorporated with minimum paid-up capital. There is no requirement on the minimum authorised capital that a company may have at the time of incorporation. Further, all equity must be sent through the bank accounts of a company.

VIETNAM LAWS AND REGULATIONS

Foreign investment

The establishment, operation and management of a foreign invested company (the “**FIE**”) in Vietnam, such as Charming Vietnam is governed by the Law on Investment and the Law on Enterprises, which were issued by the National Assembly of Vietnam on 26 November 2014.

According to the Law on Investment, before the establishment of an economic organisation, foreign investors must have an investment project and must apply for an investment registration certificate (the “**IRC**”) from the relevant Vietnamese licensing authority of the location where the investment project will be based (the “**Investment Licensing Authority**”). The Investment Licensing Authority is either the relevant provincial Department of Planning and Investment (the “**DPI**”), or the management authority of the relevant industrial or export processing zone, depending on the location of the project.

After obtaining an IRC, the foreign investor must submit a dossier to the DPI for an enterprise registration certificate in order to incorporate the FIE. The registration of the enterprise’s tax information is a part of the enterprise registration procedure.

Printing activity

By law, a company engaging in the printing activity must register the printing activity at the provincial People’s Committee. Within three working days from the receipt of a valid registration form, the provincial People’s Committee shall confirm the registration and update information in its database for management or provide explanation if the registration form is refused.

Import, export and distribution activities

The distribution activity of FIEs is regulated by the Decree No. 09/2018/ND-CP dated 15 January 2018 providing guidelines for the Law on Commerce and the Law on Foreign Trade Management regarding sale of goods and other activities directly related to sale of goods of foreign investors and foreign-invested business entities in Vietnam (the “**Decree 09**”). Accordingly, an FIE engaging in import activity of oil and lubricants, wholesale distribution activity for lubricants, rice, sugar, recorded items, books, newspapers and magazines and retail distribution activity must obtain a Business Licence (commonly referred to as a “*Giấy phép kinh doanh*” in Vietnamese). In addition, the establishment of a retail outlet (if any) is subject to obtaining a licence for retail establishment. The Business Licence and licence for retail establishment are issued by the provincial Department of Industrial and Trade.

Foreign Exchange Control

All FIEs are required to open a direct investment capital account (the “DICA”) with a bank licensed in Vietnam to implement transactions relating to foreign direct investment. FIEs may open a DICA in VND and a DICA in a foreign currency. In addition, for the purpose of obtaining offshore loans, an FIE may open DICAs in different currencies provided that they are maintained with the same bank. These accounts are for the purpose of implementing receipt and expenditure transactions relating to direct investment activities, foreign loans in accordance with Vietnamese law and overseas remittance of lawful profit and income in foreign currency obtained from the foreign investment activity of the foreign investor in Vietnam upon its fulfilment of all financial obligations to the Government of Vietnam.

The use of foreign currency in transactions, payments, listings, advertisements, quotation, pricing, price denomination in contracts, agreements and other similar forms of residents and non-residents within the territory of Vietnam is prohibited except for cases permitted such as the making of contributions via transfer by residents who are permitted to make capital contributions in a foreign currency to carry out a foreign investment project in Vietnam, the payment of salaries, allowances or bonuses by residents or non-residents who are organisations, to non-residents or residents who are foreign individuals working in Vietnam.

Environmental Protection

The Law on Environment Protection of Vietnam provides a regulatory framework to protect and develop the environment, prevent and reduce pollution and other public hazards. Accordingly, enterprises that discharge pollutants shall take measures to prevent and control the environmental impact. An environment impact assessment (the “EIA”) report approved by the Department of Natural Resources and Environment (the “DONRE”) of the province where the investment project is based is, in some cases, the basis for the competent authority to make a decision on an investment project. Manufacturing facilities of a certain scale and producing certain types of products are required to obtain an EIA prior to commencing operations. Manufacturing facilities generating hazardous waste may also be required to register with DONRE as a hazardous waste producer and to report on the storage of hazardous waste at the relevant facility on a biannual basis. Further, if the hazardous waste producer enters into contracts with other entities for the collection, transportation and treatment of hazardous waste, such entities must hold an appropriate licence to manage hazardous waste.

Fire Prevention

The Law on Fire Prevention and Fighting of Vietnam and its implementation guidance provide that facilities posing a risk of conflagration, such as storing flammable goods/materials in volumes of 1,000 m³ or more, would be required to comply with any relevant requirements, such as: (i) having a fire-fighting and fire prevention scheme approved by the local fire-fighting and fire prevention police; (ii) subscribing to compulsory fire and explosion insurance for the equipment and other assets stored; (iii) having fire safety regulations, signs, diagrams or escape plan suitable for the operation of the workshop; and (iv) having an internal firefighting team that is trained in fire safety and firefighting and ready to deal with, among others, conflagration on the spot. Any failure to comply with any of the above requirements may lead to rectification order or fines.

REGULATORY OVERVIEW

Labour Protection

The Labour Code 2012 sets out detailed regulations on labour-related issues such as recruitment, employment contracts, working hours and rest periods, labour discipline, and labour dispute resolution.

Normal working hours

The maximum number of working hours is eight hours per day and 48 hours per week. For employees working in heavy or hazardous conditions, the maximum normal work day is six hours.

Minimum Wages

For the regional minimum wage, an employee's wage must not be lower than the regional minimum wage provided by the government. The current regional minimum wage ranges from VND3,070,000 per month (approximately US\$132) to VND4,420,000 per month (approximately US\$191) depending on the location.

Compulsory insurance contributions

Contribution rates of the employer and Vietnamese employees in regard to the social insurance, health insurance and unemployment insurance respectively shall be as follows:

	<u>Employers</u>	<u>Vietnamese Employees</u>
Social Insurance	17.5%	8%
Health Insurance	3%	1.5%
Unemployment insurance	1%	1%

Contribution rate of the employer and the foreign employees in regard to the social insurance and health insurance respectively shall be as follows:

	<u>Employers</u>	<u>Foreign Employees</u>
Social Insurance	3.5%	0%
Health Insurance	3%	1.5%
Unemployment insurance	0%	0%

REGULATORY OVERVIEW

Employment contracts

All employment arrangements of longer than three months must be documented by a written employment contract between the parties. An employment contract can only be one of the following types: (i) an indefinite term employment contract, (ii) a definite term employment contract between full 12 months and 36 months, or (iii) a seasonal or specific job employment contract with a term of less than 12 months. The signed employment contract can be terminated under the circumstances specified under the laws. In the event of unilateral termination, the terminating party is required to follow the procedures and conditions specified under the relevant laws.

Use of foreign workers

A valid work permit and a temporary resident card or a visa are required for foreign nationals who wish to reside and work in Vietnam for more than 90 days per year. In order to obtain a work permit, the employer must file an application dossier with the provincial authority. A foreign national entering Vietnam to work without a valid work permit can be expelled from Vietnam. A work temporary resident card will be granted based on the validity of the work permit.

Internal labour regulations

Employer with ten or more employees must have written internal labour regulations. An employer must register its internal labour regulations with the provincial labour authorities where the company is located. Prior to proclaiming the internal labour regulations, the employer must consult with the organisation representing the labour collective at the enterprise.

Labour Safety and Hygiene

Employers and employees are subject to various requirements on labour safety and hygiene at the work place namely periodic test of machines and equipment with strict labour safety requirements, securing personal protective facilities for employees, training on occupational safety and hygiene, and periodic health checks.

Taxation

The following taxes are applicable to foreign invested companies like Charming Vietnam:

Corporate Income Tax

Corporate Income Tax (the “CIT”) is levied on income generated by companies incorporated under Vietnamese laws (Vietnam corporate tax residents) or incorporated under foreign laws and carry business in Vietnam or have income sourced from Vietnam, including FIEs, foreign contractors and parties to BCCs.

The general statutory CIT rate is 20% of the net profit of enterprises. Enterprises that meet certain conditions may be entitled to CIT incentives including preferential tax rate of 10%, 15% or 17% and/or tax exemption and/or tax reduction.

REGULATORY OVERVIEW

The taxable income of an enterprise is the total revenue, whether domestic or foreign sourced, less total deductible expenses, plus other income of the enterprise in the tax year. The accounting profits are taken as the calculation basis, with tax adjustments being made to arrive at taxable profit.

Tax losses may be carried forward to the following year and offset against the profits of subsequent years for a maximum period of five years. Carry back of tax losses is not allowed.

Value Added Tax

VAT is generally imposed on the production, trading and consumption of goods and the provision of services in Vietnam including goods and services purchased from abroad, unless such goods or services are specifically exempt from the VAT.

There are three VAT rates: 0%, 5% and 10%. The standard VAT rate of 10% is applicable to most goods and services. The rate of 0% mainly applies to export of goods and services. The rate of 5% applies generally to essential goods and services.

VAT refunds are available to businesses that file VAT under the deduction method in a few cases and subject to certain conditions. Otherwise, the tax payers have to carry forward the input VAT balance to offset against the output VAT in the next periods.

Foreign Contract Tax

Foreign contractor tax (the “**FCT**”) is a mechanism to collect tax on Vietnam-sourced income generated by entities without a legal presence in Vietnam or non-resident individuals from the sale of goods or supply of services to Vietnamese parties on a contractual basis. The FCT consists of a CIT or Personal Income Tax component and a VAT component. There are three methods of FCT filing including (i) the deduction method, (ii) the withholding method; and (iii) the hybrid method.

The FCT will not apply to the following transactions between a foreign supplier and a Vietnamese customer:

- pure trading of goods, with warranty terms or not, if certain conditions below are met;
- services performed and consumed outside of Vietnam; and
- services performed outside of Vietnam.

Personal Income Tax

Expatriate and Vietnamese individuals working in Vietnam or having Vietnam-sourced income are subject to Vietnamese personal income tax (the “**PIT**”). The taxation of individuals depends on their residency status (resident or non-resident). Residents are entitled to certain deductions from their assessable income before the calculation of the PIT.

REGULATORY OVERVIEW

Taxable income captures various kinds/sources of employment and non-employment incomes. Employment income comprises income in both monetary and non-monetary forms received by employees from employers.

For residents, the progressive tax rates applicable to (worldwide) employment income are from 5% to 35%. For non-residents, a flat tax rate of 20% is applicable to Vietnam-sourced employment income.

Export Duties

Vietnam encourages exports, so most exported goods and services are exempt from tax. Export duties are imposed on only a few items which consist mainly of natural resource products such as minerals, forestry products and scrap metal. Export duty rates range from 0% to 40%. An export processing enterprise is entitled to exemption from export duty.

Import Duties

Import duty is generally assessed on an ad valorem (on value) basis with various rates. Import duties fall into three categories: ordinary rates, preferential rates and special preferential rates.

Preferential rates are applicable to imported goods from countries that have the “Most Favoured Nation” status with Vietnam. The preferential rates, generally ranging from 0% to 135% (there are various types of imported goods entitled to 0% import duty). Special preferential tariffs apply to goods imported from countries that have a special preferential agreement with Vietnam.

HISTORY, REORGANISATION AND GROUP STRUCTURE

OVERVIEW

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 January 2019. Following the Reorganisation as more particularly described in the sub-section headed “The Reorganisation” in this section, our Company became the holding company of our Group for the purpose of the Listing.

HISTORY

We commenced our printing operation in Hong Kong in February 1992 and in the PRC in around September 2000 at a production facility measuring approximately 1,500 sq. m. in Huizhou, Guangdong Province, the PRC through an Independent Third Party with a production line involving the pre-press, printing and post-press processes. To cope with the increasing demands from our customers, the production facility was moved to a larger location with a gross floor area of approximately 3,360 sq. m. in October 2003. In June 2009, we set up our own production facilities at the PRC Factory 1 with a gross floor area of approximately 23,828 sq. m. for production, office and staff dormitory. In 2018, we subsequently leased an additional production plant and warehouse adjacent to the PRC Factory 2 with a gross floor area of approximately 14,074.5 sq. m..

Since 2011, we started to expand our footprints to other parts of the globe by setting up our sales and marketing teams in Belgium and the U.S. in July and August 2011, respectively, as well as establishing production facilities in Bangladesh and Vietnam, in July 2013 and April 2014, respectively. In 2016, we set up a supporting production line in the U.S. and our offices in India and Pakistan to expand our sales networks. We moved our production facilities in Vietnam to a larger location in 2017 with a subsequent addition of a production plant in 2018.

Major Milestones

The major milestones of our Group’s business since our establishment are set out below:

<u>Year</u>	<u>Milestone event</u>
1991	• Charming Printing was incorporated
1992	• We commenced our printing production business in Hong Kong
2000	• We commenced manufacturing activities through a processing and assembling arrangement in Huizhou, the PRC with an Independent Third Party
2009	• We set up our own production facilities in the current location in Boluo County, Huizhou, Guangdong Province, the PRC
2011	• We set up our sales and marketing teams in Belgium and the U.S.
2013	• We established our production facilities in Bangladesh
2014	• We established our production facilities in Vietnam
2016	• We set up our office in Pakistan and India

HISTORY, REORGANISATION AND GROUP STRUCTURE

OUR CORPORATE DEVELOPMENT

Overview

Our Group comprised our Company, Cirtek Investment, Charming Printing, Charming HK, Charming US and Lowatag Limited, as well as their respective subsidiaries, namely, Charming India, Charming Pakistan, Charming Bangladesh, Charming Trim Bangladesh, Charming China, Charming Shenzhen, Charming Vietnam, and Charming Belgium. A brief corporate history of our Company and its subsidiaries is set out below.

Our Company

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 January 2019 with an initial authorised share capital of HK\$38,000 divided into 3,800,000 Shares of par value HK\$0.01 each. On the date of its incorporation, one Share was allotted and issued to the initial subscriber credited as fully paid, which was then transferred to Charming International on the same day. Immediately following the Reorganisation as more particularly described in the sub-section headed “The Reorganisation” in this section, our Company became owned as to 93.6%, 4.0%, 0.8%, 0.8% and 0.8% by Charming International, Mr. Leung, Mr. James Chan, Mr. Ringeisen and Mr. Van Duyse, respectively.

Our Company is an investment holding company and not currently engaged in any business activity.

Cirtek Investment

Cirtek Investment was incorporated under the laws of the BVI with limited liability on 5 March 2019 and is authorised to issue a maximum of 50,000 shares with a par value of US\$1.00 each. On the date of incorporation, one share of a par value of US\$1.00, credited as fully paid, was issued to our Company. Since its incorporation, Cirtek Investment was directly and wholly owned by our Company.

Cirtek Investment is an investment holding company and not currently engaged in any business activity.

Charming Printing

Charming Printing was incorporated in Hong Kong on 29 October 1991 as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, two shares of Charming Printing were allotted and issued to two Independent Third Parties, with each of them holding 50% of the interest in Charming Printing, respectively.

Since its incorporation, the share capital of Charming Printing underwent several changes and as at the commencement of the Track Record Period, Mr. Barry Chan, Ms. Candy Law and Mr. Leung were the shareholders of Charming Printing, holding 7,000 shares, 2,500 shares and 500 shares of Charming Printing, respectively. Charming Printing was held as to 70%, 25% and 5% by Mr. Barry Chan, Ms. Candy Law and Mr. Leung, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Mr. Leung, who worked as a technician before his retirement, is a long-time friend of Mr. Barry Chan and invested as a passive investor in Charming Printing on 27 January 1992 with a view to supporting Mr. Barry Chan. As such, he has not been involved in the day-to-day management of our Group.

As part of the Reorganisation, on 28 May 2019, Mr. Leung transferred his interest in Charming Printing to Cirtek Investment and held 4.0% equity interest in our Company upon completion of the above transfer.

As a result of the Reorganisation, Charming Printing became a direct wholly-owned subsidiary of Cirtek Investment. Please refer to the sub-section headed “The Reorganisation — 9. Acquisition of shares in Charming Printing by our Company through Cirtek Investment” in this section for further details.

Charming Printing principally trades apparel labels and trim products.

Charming HK

Charming HK was incorporated in Hong Kong on 20 November 2012 as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, one share was allotted and issued to Mr. Barry Chan. On 18 December 2012, one share was allotted and issued to Ms. Candy Law. Charming HK was then owned by each of Mr. Barry Chan and Ms. Candy Law as to 50%, respectively.

As a result of the Reorganisation, Charming HK became a direct wholly-owned subsidiary of Cirtek Investment. Please refer to the sub-section headed “The Reorganisation — 8. Acquisition of shares in Charming HK by our Company through Cirtek Investment” in this section for further details.

Charming HK principally trades apparel labels and trim products.

Charming China

Charming China was incorporated in the PRC on 11 August 2009 as a foreign-invested enterprise with limited liability with an initial registered capital of US\$1.5 million. The registered capital of Charming China was subsequently increased to US\$3.0 million in March 2011, US\$3.2 million in November 2013, US\$4.2 million in March 2017, US\$5.5 million in December 2017, and US\$7.0 million in December 2017, respectively. Approximately US\$6.2 million of the registered capital was confirmed to have been paid up. According to its articles of association, the unpaid registered capital of Charming China shall be paid up by 12 December 2025. Charming China was directly wholly-owned by Charming Printing since its incorporation.

Charming China principally manufactures and trades apparel labels and trim products.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Charming Vietnam

Charming Vietnam was incorporated in Vietnam on 15 January 2014 as an one member limited liability company with a charter capital of VND77,237 million (equivalent to approximately US\$3.5 million). Approximately US\$2.7 million of the charter capital has been paid up as at the Latest Practicable Date and the remaining unpaid charter capital is expected to be paid up by February 2020. Charming Vietnam was directly wholly-owned by Charming Printing since its incorporation.

Charming Vietnam principally manufactures and trades apparel labels and trim products.

Charming India

Charming India was incorporated in India on 23 September 2016 as a limited liability company with an initial authorised and paid up share capital of INR100,000 divided into 10,000 shares of INR10 each. On the date of its incorporation, 9,999 shares and one share were allotted and issued to Charming HK and Mr. James Chan, respectively. Mr. James Chan has, since the incorporation of Charming India, held such share in Charming India as nominee for Charming HK without holding any beneficial interest in such holding. For details of the nominee arrangement, please refer to the sub-section headed “The Reorganisation — 4. Formalisation of trust arrangements in respect of shares in Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh (other than shares held by Charming HK) — Charming India” in this section.

Charming India principally trades apparel labels and trim products.

Charming Pakistan

Charming Pakistan was incorporated in Pakistan on 24 June 2016 as a limited liability company with an initial authorised and paid up share capital of PKR100,000 divided into 1,000 ordinary shares of PKR100 each. On the date of its incorporation, 998 shares, one share and one share were allotted and issued to Charming HK, Mr. Barry Chan and Mr. James Chan, respectively. Each of Mr. Barry Chan and Mr. James Chan has, since the incorporation of Charming Pakistan, held such share in Charming Pakistan on trust for Charming HK. For details of the trust arrangement, please refer to the sub-section headed “The Reorganisation — 4. Formalisation of trust arrangements in respect of shares in Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh (other than shares held by Charming HK) — Charming Pakistan” in this section.

Charming Pakistan is principally trades apparel labels and trim products.

Charming Bangladesh

Charming Bangladesh was incorporated in Bangladesh on 14 March 2013 as a private company limited by shares with an initial authorised share capital of BDT50,000,000 divided into 500,000 ordinary shares of BDT100 each and a paid up share capital of BDT3,000,000 divided into 30,000 shares of BDT100 each. On the date of its incorporation, 20,000 shares and 10,000 shares were issued to Charming HK and Ms. Candy Law, respectively. Ms. Candy Law has, since the

HISTORY, REORGANISATION AND GROUP STRUCTURE

incorporation of Charming Bangladesh, held such shares in Charming Bangladesh on trust for Charming HK. For details of the trust arrangement, please refer to the sub-section headed “The Reorganisation — 4. Formalisation of trust arrangements in respect of shares in Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh (other than shares held by Charming HK) — Charming Bangladesh” in this section.

As a result of the Reorganisation, Charming Bangladesh became directly owned as to 99.99% and 0.01% by Charming HK and Cirtek Investment, respectively.

Charming Bangladesh principally manufactures and trades apparel labels and trim products.

Charming Trim Bangladesh

Charming Trim Bangladesh was incorporated in Bangladesh on 22 March 2015 as a private company limited by shares with an initial authorised share capital of BDT5,000,000 divided into 50,000 shares of BDT100 each and a paid up share capital of BDT600,000 divided into 6,000 shares of BDT100 each. On the date of its incorporation, 5,000 shares and 1,000 shares were issued to Charming HK and Ms. Candy Law, respectively. Ms. Candy Law has, since the incorporation of Charming Trim Bangladesh, held such shares in Charming Trim Bangladesh on trust for Charming HK. For details of the trust arrangement, please refer to the sub-section headed “The Reorganisation — 4. Formalisation of trust arrangements in respect of shares in Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh (other than shares held by Charming HK) — Charming Trim Bangladesh” in this section.

As a result of the Reorganisation, Charming Trim Bangladesh became directly owned as to 99.99% and 0.01% by Charming HK and Cirtek Investment, respectively.

Charming Trim Bangladesh principally trades apparel labels and trim products.

Charming US

Charming US was incorporated in the state of California, the U.S. on 17 August 2011 as a corporation with an authorised 1,000,000 shares of common stock and 10,000 outstanding shares of common stock. On the date of its incorporation, 8,000 common shares and 2,000 common shares were allotted and issued to Charming Printing and Mr. Ringeisen, respectively. On 1 January 2012, Charming Printing transferred 8,000 common shares of Charming US to Ms. Candy Law at a consideration of HK\$61,960. Following the above transfer, Charming US was owned as to 80% and 20% by Ms. Candy Law and Mr. Ringeisen, respectively.

As a result of the Reorganisation, Charming US became a direct wholly-owned subsidiary of Cirtek Investment. Please refer to the sub-section headed “The Reorganisation — 10. Acquisition of shares in Charming US by our Company through Cirtek Investment” in this section for further details.

Charming US principally trades apparel labels and trim products.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Charming Shenzhen

Charming Shenzhen was incorporated in the PRC on 16 July 2014 as a limited liability company with an initial registered capital of RMB50,000 which was paid up in 2019. Mr. Liao has, since the date of the incorporation of Charming Shenzhen, held the entire equity interest in Charming Shenzhen on trust for Charming China. For details of the trust arrangement, please refer to the sub-section headed “The Reorganisation — 7. Transfer of the entire equity interest in Charming Shenzhen by Mr. Liao to Charming China with the effect of terminating the prior trust arrangement between them” in this section.

As a result of the Reorganisation, Charming Shenzhen became a direct wholly-owned subsidiary of Charming China.

Charming Shenzhen principally provides trading support related services to Charming China.

Lowatag Limited

Lowatag Limited was incorporated in Hong Kong on 25 May 2011 as a limited liability company with an initial authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the date of its incorporation, one share was allotted and issued to Mr. James Chan. On 4 April 2019, one additional share was allotted and issued to Mr. James Chan at a consideration of HK\$1.00.

As a result of the Reorganisation, Lowatag Limited became a direct wholly-owned subsidiary of Cirtek Investment. Please refer to the sub-section headed “The Reorganisation — 12. Acquisition of shares in Lowatag Limited by our Company through Cirtek Investment” in this section for further details.

Lowatag Limited is an investment holding company and not currently engaged in any business activity.

Charming Belgium

Charming Belgium was incorporated under Belgian law on 5 July 2011 as a private limited liability company with an initial authorised share capital of €50,000 divided into 500 shares of €100 each. On the date of its incorporation, 250 shares and 250 shares were allotted and issued to Lowatag Limited and Mr. James Chan, respectively.

On 10 February 2014, Mr. James Chan transferred 125 shares of Charming Belgium as incentive shares to Mr. Van Duyse at nil consideration to incentivise Mr. Van Duyse’s performance and in recognition of his contribution to Charming Belgium. Following the above transfer, Charming Belgium was owned as to 50%, 25% and 25% by Lowatag Limited, Mr. James Chan and Mr. Van Duyse, respectively.

As a result of the Reorganisation, Charming Belgium became a direct wholly-owned subsidiary of Lowatag Limited. Please refer to the sub-section headed “The Reorganisation — 11. Acquisition of certain shares in Charming Belgium by Lowatag Limited” in this section for further details.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Charming Belgium principally provides consultancy and sales supporting services.

Mr. James Chan set up Lowatag Limited and subsequently Charming Belgium with the assistance of his parents, namely Mr. Barry Chan and Ms. Candy Law, the then controlling shareholders of Charming Printing, who encouraged and provided support to him, including financial supports in terms of the initial capital for setting up Lowatag Limited and Charming Belgium as well as the operational costs of these companies.

Mr. James Chan manages Charming Belgium under the direction, instruction and authority of Mr. Barry Chan and Ms. Candy Law and with the assistance of Mr. Van Duyse, being the general manager of Charming Belgium, on the day-to-day operations of Charming Belgium. It has been the intention of Mr. Barry Chan and Ms. Candy Law to integrate the businesses of Charming Belgium with those of Charming Printing eventually from the outset of setting up Lowatag Limited and Charming Belgium. Afterall, it is a family business of Mr. Barry Chan and Ms. Candy Law. Accordingly, Mr. Barry Chan and Ms. Candy Law are, in substance, in control, through their son, Mr. James Chan, over Lowatag Limited and Charming Belgium, and such control has not changed since the dates of their incorporation.

MAJOR ACQUISITIONS AND DISPOSALS

Please refer to the sub-section headed “The Reorganisation” in this section for further details.

THE REORGANISATION

1. Incorporation of Charming International

Charming International was incorporated in the BVI as a limited liability company on 2 January 2019 and is authorised to issue up to a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. 51 shares and 49 shares of Charming International were initially allotted and issued as fully paid at par to Mr. Barry Chan and Ms. Candy Law respectively on the date of its incorporation.

2. Incorporation of our Company

Our Company was incorporated in the Cayman Islands on 25 January 2019 as an exempted limited liability company with an authorised share capital of HK\$38,000 divided into 3,800,000 Shares of par value of HK\$0.01 each. One Share was initially allotted and issued as fully paid to the initial subscriber at the subscription price of HK\$0.01 and was subsequently transferred to Charming International on the same day.

3. Incorporation of Cirtek Investment

Cirtek Investment was incorporated in the BVI as a limited liability company on 5 March 2019 and is authorised to issue up to a maximum of 50,000 shares of a single class with a par value of US\$1.00 each. One share of Cirtek Investment was allotted and issued to our Company as fully paid at par on the date of its incorporation.

4. Formalisation of trust arrangements in respect of shares in Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh (other than shares held by Charming HK)

Charming India

Charming India was required by the relevant legal requirements of India to have at least two shareholders. Prior to the Reorganisation, two shareholders of Charming India were Charming HK and Mr. James Chan, who owned as to 99.99% and 0.01% interest in Charming India, respectively, since its incorporation. Mr. James Chan has, since the incorporation of Charming India, held the 0.01% interest in Charming India as nominee for Charming HK without holding any beneficial interest in such holding.

On 23 May 2019, Mr. James Chan and Charming HK made the relevant declarations with Charming India, pursuant to which, on 28 May 2019, Charming India attended to the relevant filings with the jurisdictional Registrar of Companies, Ministry of Corporate Affairs of India to formalise the above nominee arrangement.

Charming Pakistan

Charming Pakistan was required by the relevant legal requirements of Pakistan to have at least two shareholders. Prior to the Reorganisation, shareholders of Charming Pakistan were Charming HK, Mr. Barry Chan and Mr. James Chan, holding as to 99.8%, 0.1% and 0.1% interest in Charming Pakistan, respectively, since its incorporation. Mr. Barry Chan and Mr. James Chan have, since the incorporation of Charming Pakistan, held their interest in Charming Pakistan on trust for Charming HK.

On 23 May 2019, two declarations of trust were entered into by Mr. Barry Chan and Mr. James Chan, respectively, to formalise the above trust arrangement.

Charming Bangladesh

Charming Bangladesh was required by the relevant legal requirements of Bangladesh to have at least two shareholders. Prior to the Reorganisation, the shareholders of Charming Bangladesh were Charming HK and Ms. Candy Law, holding as to 66.7% and 33.3% interest in Charming Bangladesh, respectively, since its incorporation. Ms. Candy Law has, since the incorporation of Charming Bangladesh, held her interest in Charming Bangladesh on trust for Charming HK.

On 20 May 2019, Charming HK and Ms. Candy Law entered into a deed of trust dated 20 May 2019 to record and formalise the above trust arrangement.

HISTORY, REORGANISATION AND GROUP STRUCTURE

Charming Trim Bangladesh

Charming Trim Bangladesh was required by the relevant legal requirements of Bangladesh to have at least two shareholders. Prior to the Reorganisation, the shareholders of Charming Trim Bangladesh were Charming HK and Ms. Candy Law, holding as to 83.3% and 16.7% interest in Charming Trim Bangladesh respectively, since its incorporation. Ms. Candy Law has, since the incorporation of Charming Trim Bangladesh, held her interest in Charming Trim Bangladesh on trust for Charming HK.

5. Acquisition of certain shares in Charming Bangladesh by Charming HK and Cirtek Investment

On 20 May 2019, an instrument of transfer of shares (Form-117) was entered into between Ms. Candy Law (as transferor) and Charming HK (as transferee), pursuant to which Ms. Candy Law transferred 9,997 shares in Charming Bangladesh to Charming HK at a consideration of BDT999,700 which was determined at a nominal value of BDT100 per share. On the same date, another instrument of transfer of shares (Form-117) was entered into between Ms. Candy Law (as transferor) and Cirtek Investment (as transferee), pursuant to which Ms. Candy Law transferred three shares in Charming Bangladesh to Cirtek Investment at a consideration of BDT300 which was determined at a nominal value of BDT100 per share.

Upon completion of the above transfers, Charming Bangladesh became directly owned as to 99.99% and 0.01% by Charming HK and Cirtek Investment, respectively.

6. Acquisition of certain shares in Charming Trim Bangladesh by Charming HK and Cirtek Investment

On 20 May 2019, an instrument of transfer of shares (Form-117) was entered into between Ms. Candy Law (as transferor) and Charming HK (as transferee), pursuant to which Ms. Candy Law transferred 999 of her shares in Charming Trim Bangladesh to Charming HK at a consideration of BDT99,900 which was determined at a nominal value of BDT100 per share. On the same date, another instrument of transfer of shares (Form-117) was entered into by Ms. Candy Law (as transferor) and Cirtek Investment (as transferee), pursuant to which Ms. Candy Law transferred one share in Charming Trim Bangladesh to Cirtek Investment at a consideration of BDT100 which was determined at a nominal value of BDT100 per share.

Upon completion of the above transfers, Charming Trim Bangladesh became directly owned as to 99.99% and 0.01% by Charming HK and Cirtek Investment, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

7. Transfer of the entire equity interest in Charming Shenzhen by Mr. Liao to Charming China with the effect of terminating the prior trust arrangement between them

Immediately prior to the implementation of this step, Charming Shenzhen was wholly-owned by Mr. Liao. Pursuant to a declaration of trust dated 16 April 2019 (the “**Declaration of Trust**”), Mr. Liao declared that he held the entire equity interest in Charming Shenzhen on trust for Charming China since the date when Charming Shenzhen was incorporated. The above trust arrangement was put in place for the commercial rationale that it would be more convenient in terms of the daily operations of Charming Shenzhen if it has a shareholder who is a PRC citizen.

On 20 December 2018, Mr. Liao and Charming China entered into an equity transfer agreement (as supplemented by a supplemental agreement dated 20 December 2018) pursuant to which Mr. Liao agreed to transfer his interests (held on trust for Charming China under the Declaration of Trust) in Charming Shenzhen back to Charming China at a nominal consideration of RMB1.00. Under the relevant laws of the PRC, the equity transfer agreement (as supplemented by the supplemental agreement) has the effect of terminating the trust arrangement referred to in the Declaration of Trust such that Charming China would become the sole legal and beneficial owner of Charming Shenzhen. Relevant PRC filings in respect of this transfer were completed on 4 January 2019.

Upon completion of the above transfer, Charming Shenzhen became a direct and wholly-owned subsidiary of Charming China.

8. Acquisition of shares in Charming HK by our Company through Cirtek Investment

Immediately prior to the implementation of this step, Charming HK was owned as to 50% by Mr. Barry Chan and 50% by Ms. Candy Law, respectively.

On 28 May 2019, a share sale agreement was entered into among Mr. Barry Chan and Ms. Candy Law (as vendors), our Company (as purchaser) and Cirtek Investment, pursuant to which Mr. Barry Chan and Ms. Candy Law agreed to sell, and our Company agreed to purchase, through Cirtek Investment, the entire issued share capital of Charming HK, being two shares in Charming HK, at a consideration of HK\$2.6 million which was determined with reference to the unaudited net profit of Charming HK for the year ended 31 December 2018. The consideration was settled by the allotment and issuance of eight Shares, credited as fully paid up, to Charming International (at the instruction of Mr. Barry Chan) and eight Shares, credited as fully paid up, to Charming International (at the instruction of Ms. Candy Law) by our Company.

Upon settlement and completion of the above acquisition on 28 May 2019, Charming HK became a direct and wholly-owned subsidiary of Cirtek Investment.

HISTORY, REORGANISATION AND GROUP STRUCTURE

9. Acquisition of shares in Charming Printing by our Company through Cirtek Investment

Immediately prior to the implementation of this step, Charming Printing was owned as to 70% by Mr. Barry Chan, 25% by Ms. Candy Law and 5% by Mr. Leung, respectively.

On 28 May 2019, a share sale agreement was entered into among Mr. Barry Chan, Ms. Candy Law and Mr. Leung (as vendors), our Company (as purchaser) and Cirtek Investment, pursuant to which Mr. Barry Chan, Ms. Candy Law and Mr. Leung agreed to sell, and our Company agreed to purchase, through Cirtek Investment, the entire issued share capital of Charming Printing, being 10,000 shares in Charming Printing, at a consideration of HK\$40 million which was determined with reference to the unaudited net profit of Charming Printing for the year ended 31 December 2018. The consideration was settled by the allotment and issuance of 157 Shares, credited as fully paid up, to Charming International (at the instruction of Mr. Barry Chan), 56 Shares to Charming International (at the instruction of Ms. Candy Law) and 10 Shares, credited as fully paid up, to Mr. Leung by our Company.

Upon settlement and completion of the above acquisition on 28 May 2019, Charming Printing became a direct and wholly-owned subsidiary of Cirtek Investment.

10. Acquisition of shares in Charming US by our Company through Cirtek Investment

Immediately prior to the implementation of this step, Charming US was owned as to 80% by Ms. Candy Law and 20% by Mr. Ringeisen, respectively.

On 28 May 2019, a share sale agreement was entered into among Ms. Candy Law and Mr. Ringeisen (as vendors), our Company (as purchaser) and Cirtek Investment, pursuant to which Ms. Candy Law and Mr. Ringeisen agreed to sell, and our Company agreed to purchase, through Cirtek Investment, the entire issued share capital of Charming US, being 10,000 shares in Charming US, at a consideration of US\$100,000 which was determined with reference to the unaudited net profit of Charming US for the year ended 31 December 2018. The consideration was settled by the allotment and issuance of four Shares, credited as fully paid up, to Charming International (at the instruction of Ms. Candy Law) and two Shares, credited as fully paid up, to Mr. Ringeisen by our Company.

Upon settlement and completion of the above acquisition on 28 May 2019, Charming US became a direct and wholly-owned subsidiary of Cirtek Investment.

HISTORY, REORGANISATION AND GROUP STRUCTURE

11. Acquisition of certain shares in Charming Belgium by Lowatag Limited

Immediately prior to the implementation of this step, Charming Belgium was owned as to 50% by Lowatag Limited, 25% by Mr. James Chan and 25% by Mr. Van Duyse, respectively.

On 28 May 2019, a share sale agreement was entered into among Mr. James Chan and Mr. Van Duyse (as vendors) and Lowatag Limited (as purchaser), pursuant to which each of Mr. James Chan and Mr. Van Duyse agreed to sell, and Lowatag Limited agreed to purchase, from each of Mr. James Chan and Mr. Van Duyse, 25% of the issued share capital of Charming Belgium, being a total of 250 shares in Charming Belgium, at a consideration of HK\$150,000 which was determined with reference to the unaudited net asset value of Charming Belgium as at 31 December 2018. The consideration was settled by the allotment and issuance of (i) one share in Lowatag Limited to Mr. James Chan; and (ii) one share in Lowatag Limited to Mr. Van Duyse.

Upon settlement and completion of the above acquisition on 28 May 2019, Charming Belgium became a direct and wholly-owned subsidiary of Lowatag Limited.

12. Acquisition of shares in Lowatag Limited by our Company through Cirtek Investment

Immediately prior to the implementation of this step, Lowatag Limited was owned as to 75% and 25% by Mr. James Chan and Mr. Van Duyse, respectively.

On 28 May 2019, a share sale agreement was entered into among Mr. James Chan and Mr. Van Duyse (as vendors), our Company (as purchaser) and Cirtek Investment, pursuant to which Mr. James Chan and Mr. Van Duyse agreed to sell, and our Company agreed to purchase, through Cirtek Investment, the entire issued share capital of Lowatag Limited, being four shares in Lowatag Limited, at a consideration of HK\$300,000 which was determined with reference to the unaudited net asset value of Lowatag Limited as at 31 December 2018. The consideration was settled by the allotment and issuance of (i) two Shares, credited as fully paid up, to Mr. James Chan; and (ii) two Shares, credited as fully paid up, to Mr. Van Duyse by our Company.

Upon settlement and completion of the above acquisition on 28 May 2019, Lowatag Limited became a direct and wholly-owned subsidiary of Cirtek Investment.

As at the Latest Practicable Date, the Reorganisation had been properly and legally completed in compliance with all relevant laws and regulations.

13. Increase in authorised share capital of our Company

On 21 February 2020, the authorised share capital of our Company was increased from HK\$38,000 divided into 3,800,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,996,200,000 new Shares of par value of HK\$0.01 each, ranking *pari passu* with the Shares then in issue in all respects.

HISTORY, REORGANISATION AND GROUP STRUCTURE

14. Capitalisation Issue

Conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited with the proceeds of the Global Offering, an appropriate sum will be capitalised and applied in paying up in full such number of shares of our Company to be allotted and issued to the shareholders whose names are on the register of members of our Company at the close of business on 21 February 2020 so that the aggregate number of Shares so allotted and issued will constitute not more than approximately 75% of the issued share capital of our Company. Mr. Barry Chan and Ms. Candy Law (through Charming International) and Mr. James Chan, Mr. Leung, Mr. Ringeisen and Mr. Van Duyse will, in aggregate, be holding approximately 75% interests in our Company upon completion of the Global Offering.

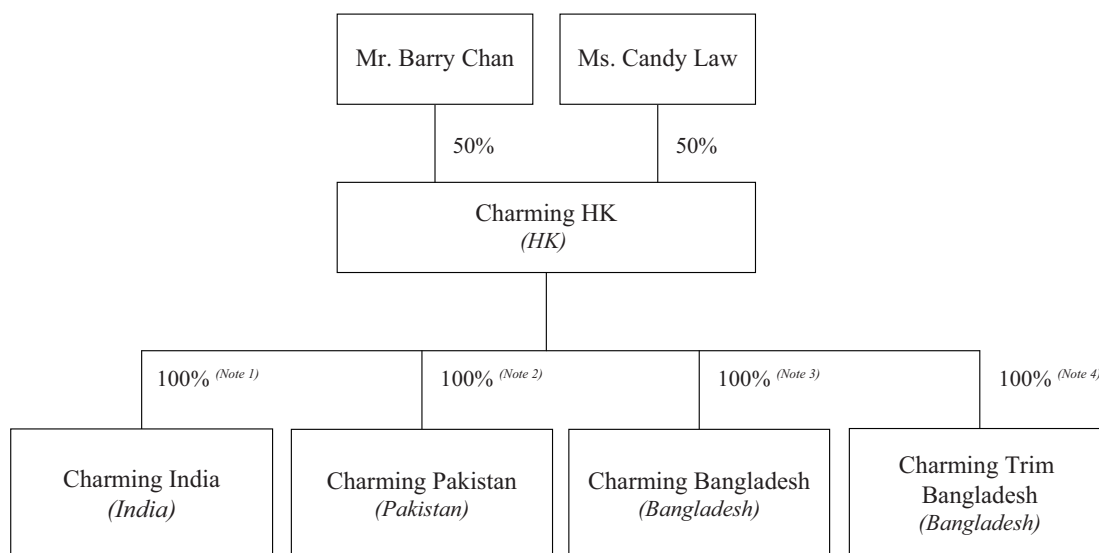
15. Global Offering

A total of 500,000,000 Offer Shares, comprising 50,000,000 Hong Kong Offer Shares and 450,000,000 International Placing Shares, will be offered for subscription/purchase by way of Global Offering, representing approximately 25% of the enlarged issued share capital of our Company upon Listing.

CORPORATE STRUCTURE

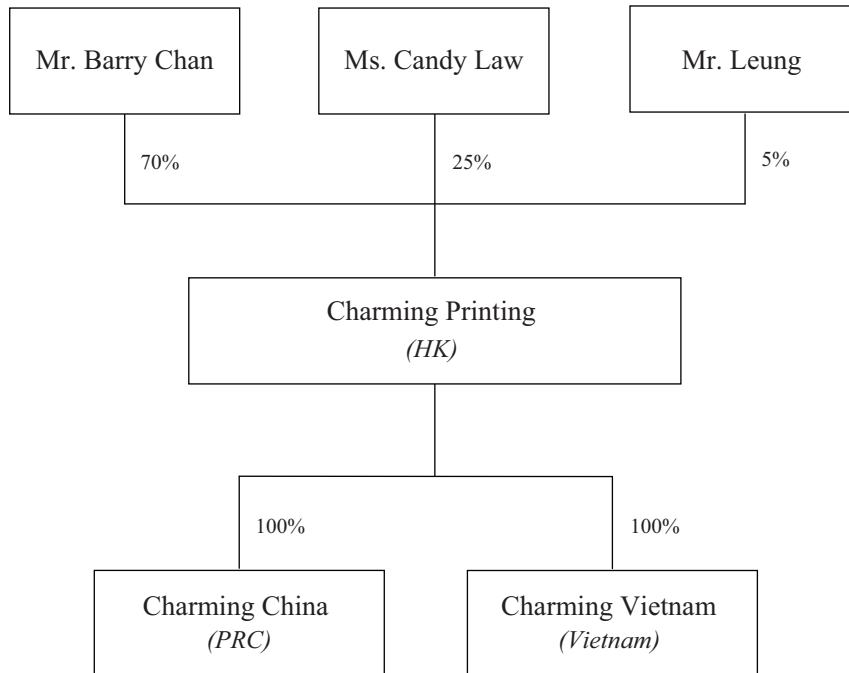
The chart below sets the corporate structure of our Group prior to the commencement of the Reorganisation:

Charming HK

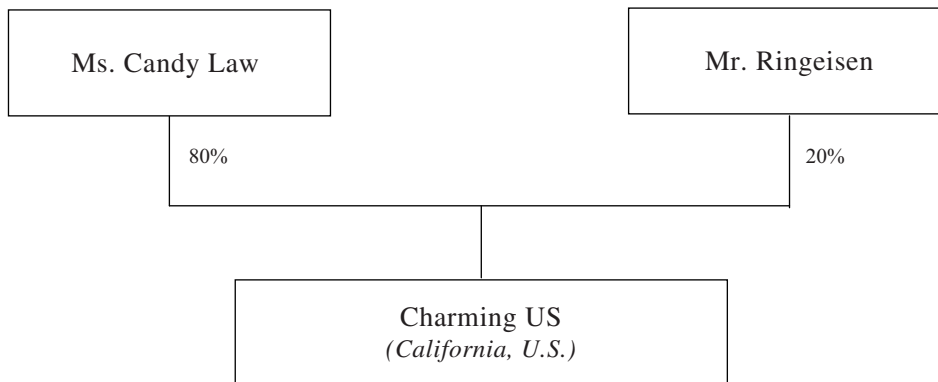


HISTORY, REORGANISATION AND GROUP STRUCTURE

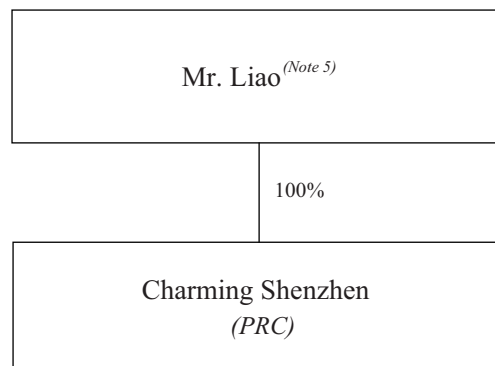
Charming Printing



Charming US

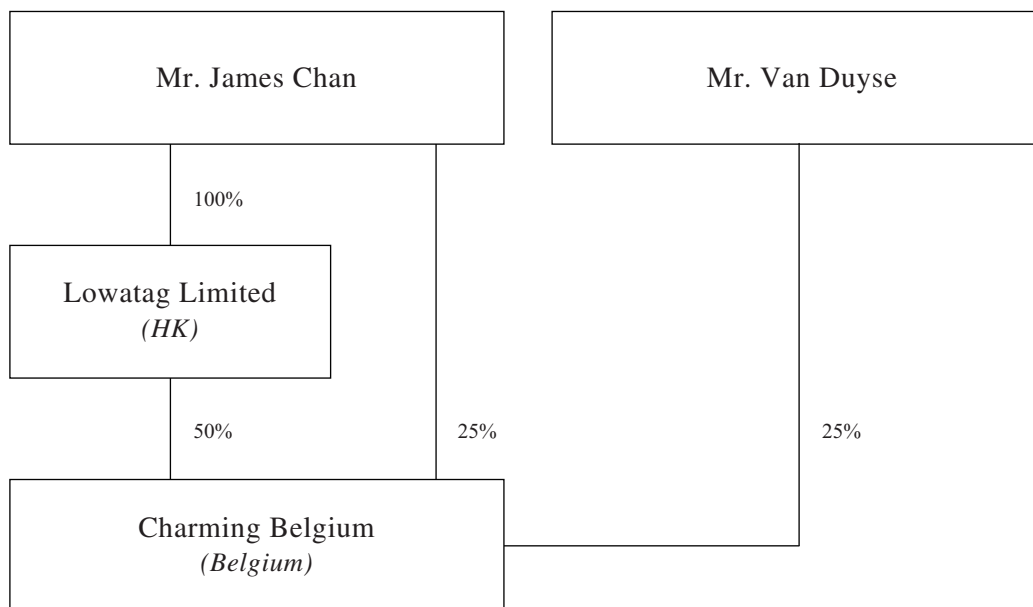


Charming Shenzhen



HISTORY, REORGANISATION AND GROUP STRUCTURE

Lowatag Limited and Charming Belgium

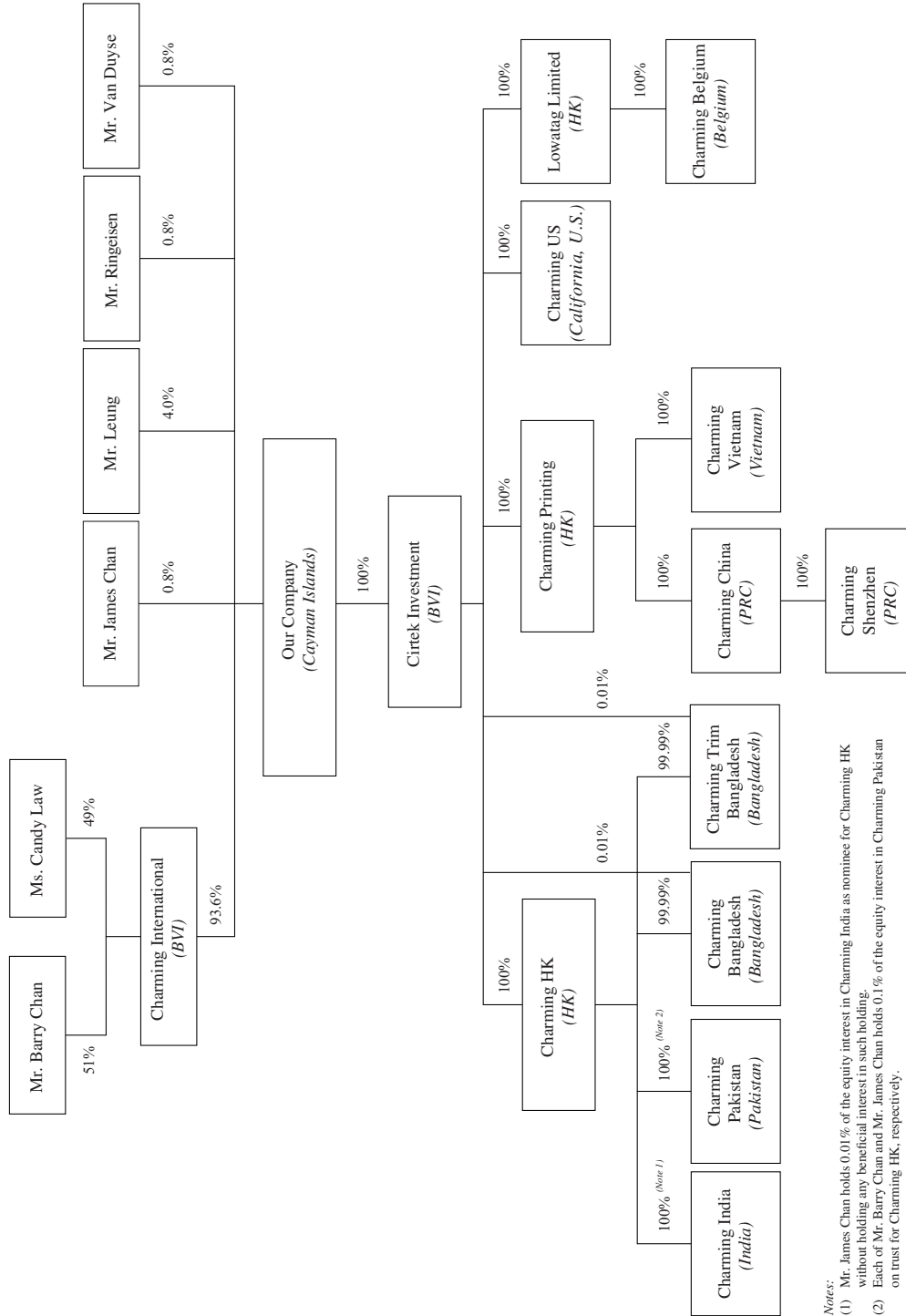


Notes:

- (1) The other shareholder is Mr. James Chan who holds 0.01% of the equity interest in Charming India as nominee for Charming HK without holding any beneficial interest in such holding.
- (2) The other shareholders are Mr. Barry Chan and Mr. James Chan who each holds 0.1% of the equity interest in Charming Pakistan on trust for Charming HK, respectively.
- (3) The other shareholder is Ms. Candy Law who holds 33.3% of the equity interest in Charming Bangladesh on trust for Charming HK.
- (4) The other shareholder is Ms. Candy Law who holds 16.7% of the equity interest in Charming Trim Bangladesh on trust for Charming HK.
- (5) Mr. Liao holds the entire equity interest on trust for Charming China which is the beneficial owner of the entire equity interest in Charming Shenzhen.

HISTORY, REORGANISATION AND GROUP STRUCTURE

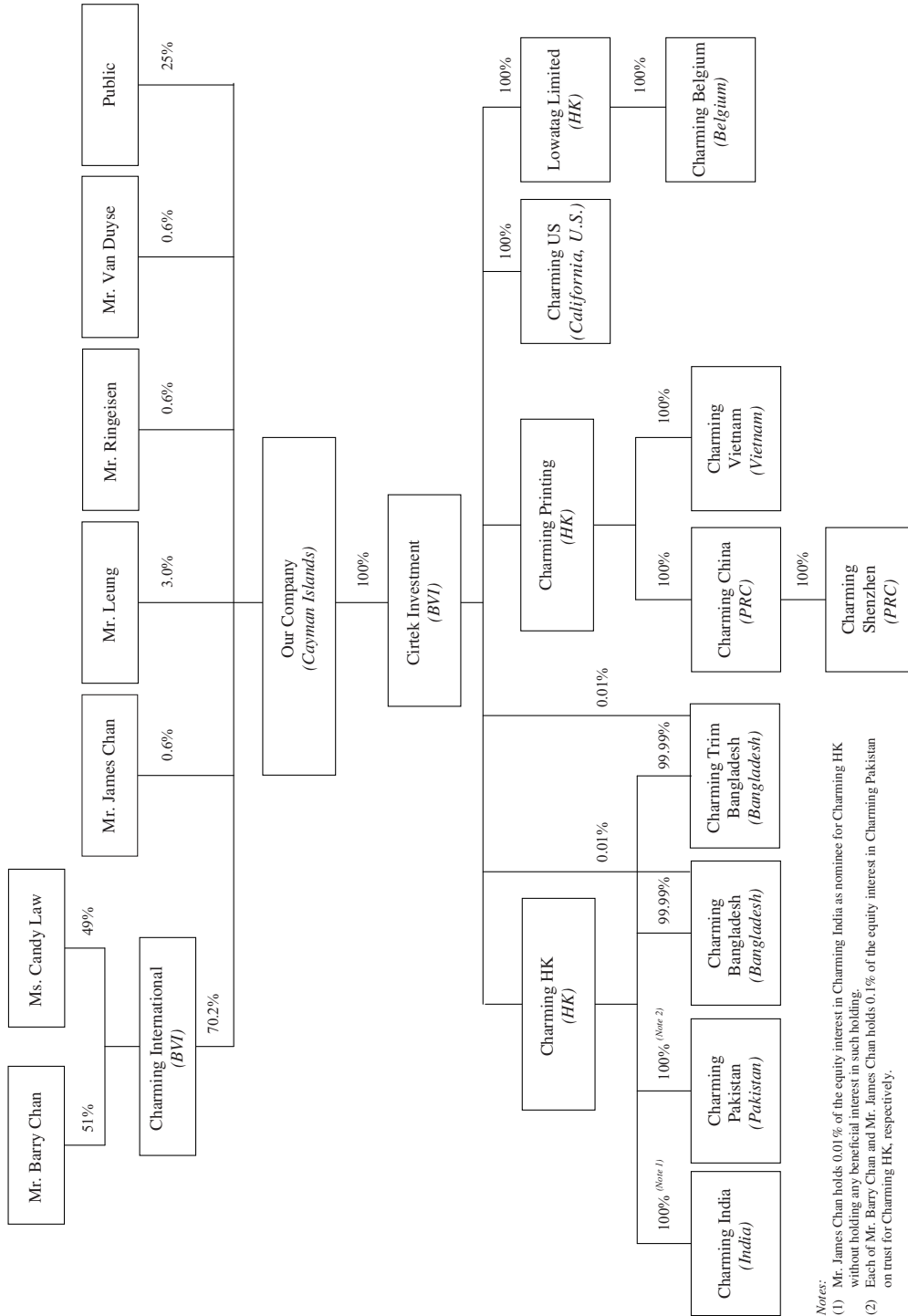
The chart below sets out the corporate structure of our Group immediately after the Reorganisation and before completion of the Capitalisation Issue and the Global Offering:



Notes:
 (1) Mr. James Chan holds 0.01% of the equity interest in Charming India as nominee for Charming HK without holding any beneficial interest in such holding.
 (2) Each of Mr. Barry Chan and Mr. James Chan holds 0.1% of the equity interest in Charming Pakistan on trust for Charming HK, respectively.

HISTORY, REORGANISATION AND GROUP STRUCTURE

The chart below sets out the corporate structure of our Group immediately after the Capitalisation Issue and the Global Offering (assuming the Over-allotment Option and options which may be granted under the Share Option Scheme are not exercised):



Notes:
 (1) Mr. James Chan holds 0.01% of the equity interest in Charming India as nominee for Charming HK without holding any beneficial interest in such holding.
 (2) Each of Mr. Barry Chan and Mr. James Chan holds 0.1% of the equity interest in Charming Pakistan on trust for Charming HK, respectively.

OVERVIEW

We principally manufacture and sell apparel labels and trim products, which are largely accessories attached to apparel products, such as hang tags, woven labels, printed labels and heat transfer products. According to the F&S Report, we ranked fifth in terms of revenue in the apparel labels and trim products manufacturing market in the PRC in 2018.

We generated over 70% of our revenue from the sales of hang tags and woven labels during the Track Record Period. We mainly sell our products to apparel manufacturers which are the manufacturers for some U.S. and European apparel brands' apparel products. In some cases, our products are directly sold to certain apparel brands and sourcing agents appointed by apparel brands or apparel manufacturers. During the Track Record Period, we generated revenue from over 40 countries mainly from Hong Kong, the PRC, Bangladesh, Turkey, Vietnam and the U.S.. We have sales and marketing teams (including marketing services consultants) located in the U.S., Europe, Hong Kong, the PRC, Bangladesh, Vietnam, India, Pakistan and Cambodia responsible for identifying new business opportunities as well as establishing and maintaining relationships with our customers.

We commenced our printing operation in Hong Kong in 1992 and subsequently set up our main production facilities in the PRC, Bangladesh and Vietnam with an aggregate gross floor area of approximately 37,902 sq. m., 3,300 sq. m. and 2,370 sq. m., respectively. In addition, we have a supporting production line in the U.S.. We have more than 400 machines, including offset printing machines with one, two, four, five and six colours, digital printing machines, flexographic printing machines, weaving machines, cutting machines, surface treatment machines, die-cutter machines and cut-fold machines, which enable us to produce a wide range of apparel labels and trim products to cater our customers' need. Depending on customers' requirements, our apparel labels and trim products are typically produced according to the designs and specifications approved by the relevant apparel brands. As at the Latest Practicable Date, we had a total of approximately 1,060 employees.

The apparel brands typically engage apparel manufacturers for manufacturing the apparel products. In addition, the apparel brands may source for apparel labels and trim products from us for use in the production of apparel products either directly or through sourcing agents or apparel manufacturers. In most cases, if the apparel brands appoint their apparel manufacturers to source the apparel accessories from us, the apparel brands will discuss with us on the product designs, specifications and price target. As at the Latest Practicable Date, we were informed that we were on the list of approved suppliers of over 90 apparel brands. The apparel manufacturers will contact us to discuss other detailed terms of the orders, such as quantity, final price per unit, delivery arrangement and payment terms.

Our revenue amounted to approximately HK\$241.6 million, HK\$305.0 million, HK\$371.9 million and HK\$226.5 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. During the same periods, we generated net profits of approximately HK\$19.6 million, HK\$25.7 million, HK\$33.7 million and HK\$12.5 million, respectively.

COMPETITIVE STRENGTHS

Our Directors believe that our historical success and future prospects are underpinned by a combination of competitive strengths including:

Wide range of apparel labels and trim products

Apparel brands have diverse needs and preference for a wide range of product offerings for use in their apparel products. Our customers are mainly apparel manufacturers that manufacture apparel products for these apparel brands. In recognition of the demands of our customers, we offer a wide range of products, which are mainly categorised into (i) hang tags, (ii) woven labels, (iii) printed labels, (iv) heat transfer products, and (v) other products such as stickers, strings and seals, packaging boxes, sequins, patches, bags and badges.

We mainly discuss with the apparel brands on the product specifications they require from us. Occasionally, based on the requirements and preference of the apparel brands and the market trends in the apparel industry, we generate new design concepts and ideas for the apparel brands' consideration. We have been expanding our product range including products incorporating the innovative technologies in line with the industry trend and customers' requirements, such as embedding RFID inlays and NFC tags in our products. This demonstrates our ability to modify our product offerings effectively which has enabled us to position our products advantageously within the competitive market as it evolves.

We provide flexibility to our customers to source a wide range of apparel labels and trim products they require through us instead of purchasing from multiple separate suppliers that may have different product quality and sharing their designs and specifications, which our customers and the apparel brands consider as confidential or trade secrets, with various suppliers.

We believe the above increases customer confidence in our products, solidifies our business relationships with existing customers and enables us to expand our business with new customers and have a competitive advantage over other players in this industry.

Well-established geographical presence to maintain strong relationship with apparel brands and their manufacturers

Given that the PRC, Bangladesh and Vietnam are the top three global exporters of apparel products and the major apparel products manufacturing countries by value, many apparel manufacturers have set up their production facilities in these locations. Given the business opportunities in these markets, we have set up our production facilities in these locations so that we are closer to the factories of these apparel manufacturers. This close proximity has given us the advantages of serving these apparel manufacturers better, shortening the production lead time and reducing the transportation costs delivered to them. Further, we have set up sales offices in the U.S. and Belgium so that we can develop sales network with a view to increasing the level of engagement and consolidating our business relationship with international apparel brands based in the U.S. and Europe. The above has enabled us to develop new international apparel brands in the U.S. and Europe and led to our year-on-year growth. In addition, we have set up sales offices in Hong Kong, the PRC, Bangladesh, Vietnam, India and Pakistan so that we are closer to the local regional offices of international apparel brands to attain the above objectives.

BUSINESS

We believe that we have established our reputation in the apparel labels and trim products manufacturing industry due to the high quality of our products and our good services. We have more than five years of business relationships with some of the leading apparel brands in the U.S. and Europe. As at the Latest Practicable Date, we were informed that we were on the list of approved suppliers of over 90 apparel brands.

Our business relationship with the apparel brands and our major customers provide us with a number of significant advantages, including:

- we have been nominated by the apparel brands to manufacture and supply our products for use in the apparel products manufactured for these apparel brands. While we do not have any direct contractual relationship with most of the apparel brands nor do we enter into written agreements or contracts with term, which is consistent with the industry norm, we have gained the opportunities to become a core and approved supplier of the apparel brands. Please refer to the section headed “Business — Business model and business operations” in this prospectus for details of our working relationship with the various apparel brands;
- we have the opportunities to understand the technical requirements of our customers and identify the latest trends of the markets and the apparel industries in which our customers operate; and
- we are well-positioned to develop new products and increase the number of different products that we supply to them which satisfy their changing demand.

As a result, our Directors believe that our working relationships with the apparel brands and their apparel manufacturers have indicated their recognition of the quality of our products. We consider that this recognition and goodwill is a key factor leading to our success in the industry.

Strong product development and technical capabilities enable us to successfully and continuously expand our product range and increase our production efficiency

We consider that our competency and success lie, to a significant extent, in our strong product development and technical capabilities which enable us to continuously expand our product range and increase our production process efficiency.

Our product development team and product engineering team consist of skilled personnel with extensive experience in the product development and engineering of apparel labels and trim products. They work seamlessly with other teams in our Group to develop new products and production methods which cater for the changing trends in the market. As at the Latest Practicable Date, we had a total of 48 and 31 staff in our product development team and our product engineering team, respectively. For further details, please refer to the section headed “Business — Product development and engineering” in this prospectus.

BUSINESS

We place dedicated product development and engineering resources and efforts to keep abreast of apparel labels and trim technological trends, enabling us to react quickly and flexibly to the changing demands of the market and our customers. Through our in-house product development and engineering efforts, we have successfully developed the following:

- RFID and NFC embedded products – we have produced apparel label tags with embedded RFID and NFC technologies. This demonstrates our ability to modify our product offerings effectively and incorporate the latest innovative technology into our products in a timely manner. It also enables us to position our products advantageously within the competitive market as it evolves. For further details of our RFID and NFC production, please refer to the section headed “Business — Product development and engineering” in this prospectus; and
- heat transfer ink – some of our apparel labels are attached to apparel products or transferred directly onto fabrics of apparel products by way of heat transfer technology, which requires know-how and experience in its application as well as the use of heat transfer ink. We have developed our heat transfer ink and ink mixing technique which our Directors believe would, in turn, help us to expand our own product range and reduce our reliance on our subcontractors to produce heat transfer apparel labels for our customers. For further details of our development of our heat transfer ink, please refer to the section headed “Business — Product development and engineering” in this prospectus.

We stay up-to-date with the latest technologies in the industry where we operate and is committed to innovating new products through our product development and engineering. Further, we have continually developed new products with a view to improving performance. Our Directors believe that this allows our Group to respond to our customers in a timely manner and to keep ourselves ahead of the competition.

High standard of production and commitment to quality control

We are committed to investing in environmentally sustainable solutions in the production of recycled, eco-friendly and sustainable apparel labels and trim products. As such, we are guided by the principles of integrity, efficiency and product quality. To that end, we have in place detailed production and quality control procedures to ensure that our products meet or often exceed the relevant industry standards and/or customer quality requirements. This helps promote customer confidence in our products.

We have received various certifications, including:

- ISO 9001:2015 and ISO 14001:2015 certifications for (i) our quality management systems which demonstrate our technological capabilities in the production of our products, and (ii) our environmental management systems which indicate our commitment to protecting the environment in our production process, respectively;
- FSC certification for the use of FSC certified mixed and recycled printed paper in our production which demonstrates our commitment to protecting forest ecosystem and reducing the impact of climate change;

BUSINESS

- Bluesign system partner certification which indicates that our products are made of Bluesign® approved textile accessories for apparel and demonstrates our effort in sustainable processes, such as producing our products in a safe and resource conserving way with a minimum impact on people and the environment;
- G7 Master Facility Colorspace certification which demonstrates our knowledge and skill in meeting the G7 methodology in a graphic communications production environment, such as our capability of providing colour consistency in our printing products;
- G7 Process Control Master Facility certification which demonstrates our thorough knowledge and skill of the fundamental best practises of process control in a graphic communications production environment. We are the first recipient of this certification in the Greater China Region;
- OEKO-TEX Standard 100 certification which demonstrates that our products meet the human ecological requirements of the Standard 100 by OEKO-TEX in that they have been tested and certified to be free from harmful levels of more than 100 substances known to be harmful to human health;
- Global Recycled Standards 4.0 certification, being the leading standard for recycled materials in the apparel industry, which demonstrates that our hang tags, printed labels, woven fabrics, woven labels and strings and seals products meet the globally recognised recycling standard as well as the social, environmental and chemical processing requirements under the standard; and
- Material Health (Gold level) certification which indicates that our patch products had been assessed based on chemical hazard identification under a globally recognised material health assessment methodology and that they are free from exposure from carcinogens, mutagens or reproductive toxicants.

We have a quality control team that carries out supervision in accordance with our quality control procedures. We impose stringent standards on the selection of our suppliers and subcontractors, such as quality control standards, technical and managerial capabilities, to ensure the quality of our products. Through our established relationship with our customers, we have gained significant knowledge and experience in implementing stringent quality control procedures. Given our stringent quality control procedures, we have been in a position to maintain our status as one of the core suppliers for many of our major customers and obtain their orders for our products on a continuous basis.

Please refer to the section headed “Business — Quality control” in this prospectus for further details.

Experienced management team with extensive knowledge of the apparel labels and trim products manufacturing industry

Our management team, led by our executive Directors, has extensive experience in the apparel labels and trim products manufacturing industry and has played a key management and leadership role in the development of our Group. Our Chairman and executive Director, Mr. Barry Chan, has more than 38 years of experience in the apparel and printing related manufacturing industry and our Chief Executive Officer and executive Director, Ms. Candy Law, has more than 35 years of experience in the apparel labels and trim products manufacturing industry. Further, Mr. Chew Yong Hock, our sales and marketing vice president, has more than 29 years of experience in the apparel labels and trim products manufacturing industry. For the biographical details of our management team, please refer to the section headed “Directors and senior management” in this prospectus.

With the experience of our executive Directors, who are, in turn, supported by our experienced senior management team, we believe that we are able to strengthen our presence in the apparel labels and trim products manufacturing industry. Our capability enables us to engage with our customers in the preliminary stages of their new product development process and design as well as develop a custom-made product based on our customers’ technical, design and performance requirements.

In addition, we encourage continuous professional development of our staff. We are selective in our hiring process with a focus on recruiting and training employees who have the potential to become effective long-term members of our management. Training programmes on technical knowledge are conducted as and when required so as to ensure that our employees are updated on the latest development in the industry where we operate. Regular discussion with employees on how they are meeting the working guidelines and standards and refreshment trainings are also provided.

BUSINESS STRATEGIES

To capture the rapidly growing market, it is essential for us to maintain and strengthen our position in the apparel labels and trim products manufacturing market. We will continue to expand our apparel labels and trim products businesses and strengthen our market position in the apparel labels and trim products manufacturing industry. We plan to implement the following strategies to achieve our objectives above:

Expand our production facilities and increase the production capacity in Bangladesh

We commenced our production in Hong Kong, in 1992, and in the PRC in around 2000 at a production facility measuring approximately 1,500 sq. m. in Huizhou, Guangdong Province, the PRC through an Independent Third Party. In 2009, we set up the PRC Factory 1 which was subsequently expanded to include the PRC Factory 2 with an aggregate gross floor area of approximately 37,902 sq. m.. In 2013, we set up our first overseas production facilities in Bangladesh with a gross floor area of approximately 3,300 sq. m.. In 2014, we set up our production facilities in Vietnam with a gross floor area of approximately 1,650 sq. m. which was subsequently expanded by leasing an additional production plant with a gross floor area of approximately 720 sq. m. in 2018. In line with our historical expansion development above and for the reasons set out below, we intend to expand our production facilities and increase the production capacity in Bangladesh.

BUSINESS

According to the F&S Report, as a result of low labour cost, continuous trade war between the PRC and the U.S. and favourable governmental policies in attracting foreign investments in Bangladesh, such as exemptions from dividend tax and duty-free import of certain raw materials, the apparel labels and trim products manufacturing market in Bangladesh has witnessed continuous growth in recent years to cater for the sourcing requirements from apparel manufacturers locally. Further, according to the F&S Report, there has been a trend in recent years that apparel manufacturers from the PRC setting up production facilities in Bangladesh for the reasons mentioned above and the market size of apparel labels and trim products in terms of revenue in Bangladesh has grown from US\$214.3 million in 2014 to US\$291.3 million in 2018, representing a CAGR of 8.0%, and such growth is forecasted to continue at a growth rate of CAGR of 7.0% from 2019 to 2023. During the three years ended 31 December 2018, our revenue generated from Bangladesh recorded over 45% year-on-year growth. Please refer to the section headed “Business — Production — Production and capacity expansion plan” in this prospectus for further details of the reasons and benefits of our expansion plan.

Given the above, we believe that an increase in the size of our production facility and production capacity in Bangladesh will allow us to meet the demands for our products. For this purpose, we have leased a parcel of land measuring approximately 5,100 sq. m. in the Adamjee EPZ for a term of 30 years effective from 26 February 2018.

We took possession of the above land in Adamjee EPZ in February 2018 and had carried out various works in relation to the construction of the new production plant. For further details, please refer to the sub-section headed “Production and capacity expansion plan” in this section. We plan to commence the construction of the new production plant on the above land comprising three-storey by the first half of 2020 with a total gross floor area of approximately 10,600 sq. m. and commence operation at the above new production plant after completing construction and renovation of the new production plant which is scheduled by the end of the second quarter of 2021. With the addition of the New Bangladesh Factory, we will be able to improve our production efficiency through shortening of our production lead time, in addition to increasing our production capacity and providing us with additional cost-saving advantages as well as additional space for the installation of new machines to expand the product range of our products to be manufactured in Bangladesh.

For the above plan, the total expenditure is estimated to be approximately HK\$44.8 million. We plan to use the proceeds of the Global Offering by stages from the Listing Date to June 2021. For further details, please refer to the section headed “Future plans and use of proceeds” in this prospectus.

Enhance our productivity through the purchase of new printing machines

According to the F&S Report, due to the increasing trend of fast fashion and online retail in the recent years, apparel brands develop new products every four weeks on average and as a result, the production cycle of apparel products is generally and gradually shortened. In order to meet the increasing demands of our customers on product quality and stringent production lead time as well as the expected increase in demand for our products, we believe that the acquisition of new machines will enhance the efficiency, quality and quantity of product outputs. In addition, such investment will expand our production capacity and further enhance our profitability.

BUSINESS

Accordingly, we intend to improve our productivity in the PRC Factories by purchasing one hot foil stamping machine and one die cutter machine to supplement the existing machines in our production facilities in the PRC. We expect that the hot foil stamping machine and the die cutter machine will be in operation by the second quarter of 2020. To facilitate the expansion of our production facility and capacity in Bangladesh as mentioned above, we plan to purchase two five-colour offset press machines and one die cutter machine for installation in the New Bangladesh Factory. We expect that the two five-colour offset press machines and one die cutter machine will be in operation by the end of June 2021 for the expected commencement of operation of the New Bangladesh Factory.

As many of our hang tags and labels require various high quality colour effects, the five-colour offset printing machines will enhance production efficiency and cost effectiveness as they can help reduce the number of passes required for printing multi-colour products which, in turn, can help save production time, manpower, time and cost for washing, changing printing plates, colour tone adjustments and re-registration of printing images and drying of ink. Our Directors consider that our plan to acquire the above machines will enable us to continue printing the products in accordance with complicated specifications efficiently and with good quality.

For the above plan, the total expenditure is estimated to be approximately HK\$31.0 million. We plan to use the proceeds of the Global Offering by stages from the Listing Date to June 2021. For further details, please refer to the sections headed “Future plans and use of proceeds” and “Business — Production — Production and capacity expansion plan” in this prospectus.

BUSINESS MODEL AND BUSINESS OPERATIONS

Business model

We principally manufacture and sell apparel labels and trim products which are largely accessories attached to apparel products such as hang tags, woven labels, printed labels and heat transfer products. Through our products, the apparel brands convey numerous information to their customers, including brand identification, country of origin, size, fabrics and care instructions while serving functions such as in-store security and product tracking for the apparel brands.

We mainly sell our products to apparel manufacturers which handle manufacturing process for the apparel brands. In some cases, our products are directly sold to certain apparel brands and sourcing agents appointed by some apparel brands or apparel manufacturers. The apparel brands typically appoint apparel manufacturers to manufacture their apparel products. For the purpose of manufacturing these apparel products, the apparel brands typically source for apparel accessories, such as apparel labels and trim products, for use in these apparel products, either directly, through sourcing agents or the apparel manufacturers. Occasionally, apparel brands may source and place orders for the apparel accessories from us as apparel accessories suppliers directly.

The apparel brands maintain a list of approved suppliers for apparel accessories (such as apparel labels and trim products) and apparel manufacturers based on the quality of the products and price quotations provided by potential suppliers. In order to be on the approved list of suppliers, potential suppliers are typically required to possess various international and industrial certifications evidencing the requisite product quality and standards in their production process. The apparel brands may conduct site inspections on a random basis as part of their process of enlisting suppliers on the approved supplier list.

BUSINESS

We generally engage in discussion with the apparel brands for feedbacks on the products we manufactured for their apparel manufacturers and provide new product design concepts and product samples with our proposed price quotation to the apparel brands based on their released material specifications for their consideration and selection when their new apparel products are to be launched. Apparel brands will discuss with us on the product design and the price quotation, as well as decide whether to select us for the supply of relevant apparel accessories. If we are selected as the sole nominated supplier by apparel brands for certain apparel labels and trim products, the apparel manufacturers, who are our main direct customers in most cases, will place purchase orders with us with quantity, delivery schedule and payment terms specified. In the cases where there are multiple nominated suppliers by apparel brands for the same product, we will contact the relevant apparel manufacturers to confirm if they are willing to place purchase order with us. The apparel manufacturers are generally responsible for settling our invoices upon the delivery of our products to them. In some cases, our products are sold directly to certain apparel brands if they are in need of our products urgently or have their own apparel factories to manufacture their apparel products.

As mentioned above, designated sourcing agents of apparel brands may liaise and co-ordinate with us for the supply and delivery of apparel accessories to the apparel manufacturers. In these circumstances, we do not deal with the apparel brands directly as the sourcing agents will enter into discussions with us on matters such as product designs and specifications, as well as price quotation on behalf of the apparel brands. The sourcing agents may also engage and place orders with us directly after they have confirmed the product specifications and price with us and instruct us on the delivery timeline, quantity of the apparel accessories required and logistics arrangements.

We are not privy to the contractual arrangements (i) among the apparel brands, their sourcing agents and their apparel manufacturers, and (ii) between the apparel manufacturers and the sourcing agents.

During the Track Record Period, we did not enter into any long term sales agreement with our customers. According to the F&S Report, this is consistent with the industry norm that no long-term sales agreements will generally be entered into between apparel accessories suppliers (such as us) and the apparel manufacturers or the sourcing agents nor will the apparel accessories suppliers (such as us) enter into any written agreements with the apparel brands. While we do not normally have any contractual relationship with the apparel brands, the apparel brands will ultimately determine if the apparel accessories they require for their products should be sourced from us or our competitors. As such, we consider that it is critical for us to establish and maintain our business relationship with these apparel brands or their sourcing agents.

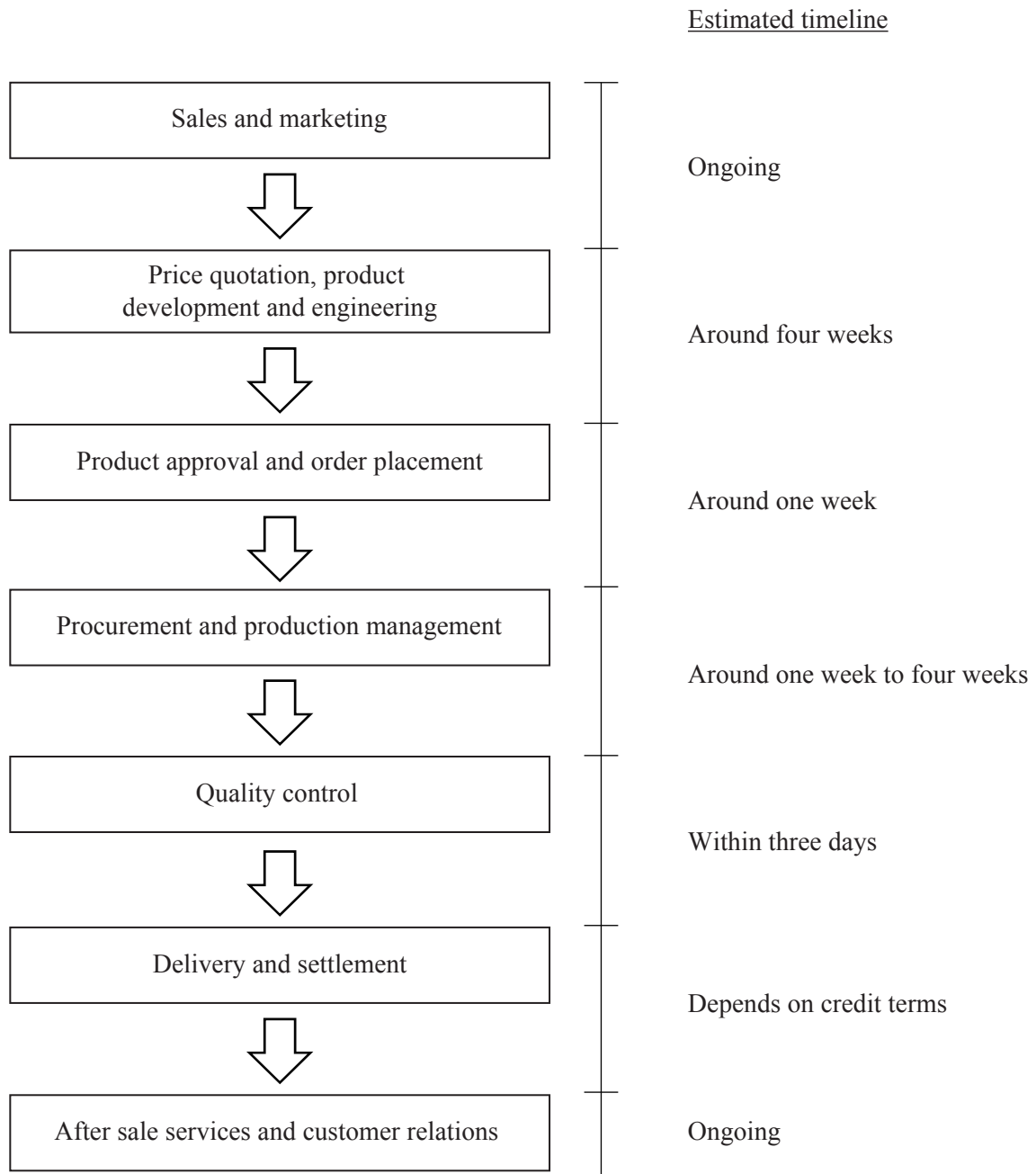
The apparel brands or the sourcing agents appointed by the apparel brands would give us authorisations to use the trademarks of the apparel brands on our products. Some of the apparel brands may, prior to formally engaging us as their apparel labels and trim products supplier, request us to sign various undertakings in relation to corporate social responsibility or legal compliance, such as environmental protection and anti-corruption. To the best knowledge of our Directors, once a supplier is on the approved list of suppliers of the apparel brands, such supplier would usually remain on the list and rarely be removed.

BUSINESS

As confirmed by F&S, the above major arrangements are generally in line with the general industry practice of the apparel labels and trim products manufacturing market.

Business operations

The key phases of our business operations are depicted in the chart below:



BUSINESS

Sales and marketing : Our sales and marketing teams maintain our relationships with existing customers and approaches potential customers who are apparel brands and their apparel manufacturers and sourcing agents. The team also follows up on product designs and orders with customers.

Please refer to the section headed “Business — Sales, marketing and customers” in this prospectus for further details.

Price quotation, product development and engineering : Our product development team works closely with our management team and sales and marketing teams in collecting latest market trends on product designs and specifications. The product development team would then develop, produce and modify new product samples together with the price quotation which would be presented to the apparel brands through our sales and marketing teams. Apparel brands and sourcing agents may also provide artwork or product specifications to us to obtain quotation.

Our product engineering team transforms the customers’ requirements on specifications and materials, as well as the ideas and concepts from product development team into workable production data and instructions. Such data and instructions will be passed to our production team for manufacturing and the costs of production will be passed to our sales and marketing teams.

Please refer to the section headed “Business — Product development and engineering” in this prospectus for further details.

Product approval and order placement : Once the apparel brands have accepted our price quotes and agreed on the product specifications, their apparel manufacturers may place orders with us with quantity, delivery schedule and payment terms specified, upon which we would commence our production process.

BUSINESS

***Procurement and
production
management***

: We generally source our raw materials upon receipt of actual purchase orders from our customers and occasionally based on the forecast of our customers on production, and our raw materials are mainly sourced from suppliers located in the PRC. We also engage external subcontractors to produce some of our products to meet the demands of some of our customers when we do not have production capacities at the time or location or to conduct certain production processes which are more labour intensive and for better time management and efficiency.

Please refer to the sections headed “Business — Raw materials and suppliers” and “Business — Subcontractors” in this prospectus for details.

As at the Latest Practicable Date, save for the situations as disclosed in the section headed “Business — Subcontractors” in this prospectus, we produced our products in our production facilities in the PRC, Bangladesh and Vietnam.

Our entire production process is monitored by our quality control team with the assistance of our production management system. This integrated online system enables us to track and monitor our production information, such as the number of our purchase orders, our daily production volume, raw material schedule and delivery schedules as well as allows our customers to track the production status of the products they order.

Please refer to section headed “Business — Production” in this prospectus for further details.

Quality control

: We emphasise the quality of our products and have implemented a comprehensive quality control system from the sourcing of raw materials to post-production matters.

Please refer to the section headed “Business — Quality control” in this prospectus for further details.

BUSINESS

- Delivery and settlement* : We deliver our products to the apparel manufacturers or sourcing agents for their onward processing. Upon the delivery of our products, the apparel manufacturers or sourcing agents in general settle the payment within the credit period 90 days from the date of our monthly statement. In some cases, apparel manufacturers would designate forwarder companies which would be responsible to settle the payments to us. We engage external logistics companies, which are Independent Third Parties, to transport and deliver our products to our customers. Some apparel manufacturers may arrange their own logistics companies to pick up products from our factory for delivery to designated locations.
- After sale services and customer relations* : We value our relationships with the apparel brands and the apparel manufacturers. We have a dedicated customer service team which attends to customers' enquiries and complaints. Further, we provide after-sales technical support to our customers and where required, appropriate personnel may be assigned to the locations where the apparel manufacturers are based to attend to their needs and enquiries. In addition, we have a detailed complaint handling policy to ensure all complaints are timely and properly handled as well as documented. Please refer to the section headed "Business — Customer service" for further details.

BUSINESS

PRODUCTS

Our key product description with photos for illustrative purpose are set out as follows:

Key products and description	Approximate price range (per unit) during the Track Record Period ^(Note)
	<i>(HK\$)</i>

Hang tags are tags made of paper or plastic which are attached to apparel products by strings or plastic swift tags.	0.0008 – 9.07
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Paper and plastic hang tags



RFID hang tags



NFC hang tags



Woven labels are made through weaving and attached to apparel products by sewing.	0.0082 – 13.56
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Woven labels



Printed labels are made through printing and attached to apparel products by sewing.	0.0027 – 6.65
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Printed labels



BUSINESS

Key products and description	Approximate price range (per unit) during the Track Record Period ^(Note) <i>(HK\$)</i>
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Heat transfer products are made through printing a design in reverse on a release paper using, and combining, screen printing, lithographic printing and digital printing. The printed image is applied against the fabric with industrial heat press. Afterwards, the release paper is peeled away and the image will be transferred to the substrate.	0.05 – 13.18
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Other products comprise stickers, strings and seals, packaging boxes, sequins, patches, bags and badges	0.01 – 126.33
---------------------------------------------------------------------------------------------------------	---------------

Stickers



Strings and seals



Packaging boxes



Sequins



Patches



Bags



BUSINESS

Key products and description	Approximate price range (per unit) during the Track Record Period ^(Note) (HK\$)
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Badges



Note: The sales prices of our products are affected by various factors such as costs of the raw materials, the level of technical skills required in the production, quantity of purchase orders and labour costs. The sales prices of our RFID and NFC products are included in the sales prices of hang tags and labels in which these products are embedded.

Our products are in different shapes, sizes, colours and materials. Further, our products, particularly hang tags, woven labels and printed labels, contain various information, such as the brands' trade marks and logos, size, and fabrics of apparel products and laundry instructions.

In addition, our hang tags and labels could be embedded with RFID inlays and NFC tags to facilitate inventory management of apparel manufacturers or apparel brands which provide a quicker, more reliable and cost-efficient way to keep track of the movements and sales of their inventory in warehouses and retail stores. According to the F&S Report, the application of RFID and NFC technology becomes more popular in apparel labels and trim products as they add value to the products by offering additional functions, such as data management, brand identity and supply chain management, and such growing trend is primarily led by several large global apparel brands and retailers. In view of the above, our Directors are aware of the growing trend of the adoption of technology among the large global apparel brands and retailers and have equipped our machineries to embed our products with RFID inlays during the Track Record Period. According to the F&S Report, the embedding of RFID products with traditional apparel label and trim products would, in turn, create synergy among the existing product offerings of apparel labels and trim products manufacturers. Accordingly, any increase in demand for RFID products or the increasing popularity in the use of RFID technology is not expected to have any material adverse impact on the demand of our Group's products. Given that our Group has production capability to produce hang tags and labels embedded with RFID and NFC technologies and is already equipped with the relevant technologies to produce these products which are more technologically advanced, our Directors consider that our business would not be materially affected should there be a shift of popularity from non-RFID apparel labels and trim products to RFID or NFC embedded apparel labels and trim products. In the event of any growing demand for RFID product, our Group would further utilise the existing production capability to produce hang tags and labels embedded with RFID and NFC technologies and where necessary, further increase such capability by purchasing more machineries for our RFID production line.

Our products are delivered to the apparel manufacturers and will be attached to the apparel products by way of sewing, by strings, or heat transfers, as well as other methods as appropriate in view of the nature of the apparel products and the requirements of the apparel brands.

BUSINESS

The table below sets out the breakdown of our revenue, sales volume and average sales price by product types during the Track Record Period:

Products	For the year ended 31 December						For the eight months ended 31 August												
	2016		2017		2018		2018		2019										
	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)							
Hang tags (Note 1)	58.6	490.2	0.29	168,793	55.3	546.9	0.31	196,749	52.9	626.6	0.31	130,402	51.7	413.5	0.32	122,209	54.0	441.7	0.28
Woven labels (Note 1)	15.0	141.8	0.26	46,343	15.3	181.3	0.26	67,670	18.2	255.6	0.26	46,390	18.4	169.5	0.27	38,333	16.9	141.4	0.27
Printed labels (Note 1)	8.0	94.7	0.20	28,887	9.5	133.8	0.22	38,206	10.3	170.1	0.22	23,699	9.4	112.8	0.21	24,338	10.7	110.8	0.22
Heat transfer products	10.1	109.5	0.22	26,760	8.8	107.9	0.25	24,432	6.6	99.8	0.25	16,715	6.6	68.2	0.25	12,675	5.6	50.6	0.25
Stickers	4.7	86.8	0.13	8,749	2.9	68.1	0.13	10,453	2.8	86.2	0.12	6,949	2.8	54.0	0.13	8,766	3.9	79.1	0.11
Strings and seals	2.1	40.3	0.12	7,055	2.3	54.2	0.13	9,504	2.6	74.3	0.13	6,265	2.5	47.6	0.13	5,420	2.4	49.4	0.11
Other products (Note 2)	5.6	32.9	N/A	28,418	9.2	106.7	N/A	32,136	8.6	38.0	N/A	27,118	10.7	24.0	N/A	18,137	8.0	21.4	N/A
Rebate expenses (Note 3)	(4.1)	N/A	N/A	(10,184)	(3.3)	N/A	N/A	(7,287)	(2.0)	N/A	N/A	(5,383)	(2.1)	N/A	N/A	(3,367)	(1.5)	N/A	N/A
Total	100.0	996.2	0.24	305,021	100.0	1,198.9	0.25	371,883	100.0	1,350.6	0.28	253,155	100.0	889.6	0.28	226,511	100.0	894.4	0.25

BUSINESS

Notes:

- (1) The revenues generated by the sale of our RFID products are included in the revenues of hang tags and labels in which these products are embedded. The revenues generated by the sale of our RFID products were approximately HK\$0.6 million, HK\$4.7 million, HK\$4.4 million and HK\$2.1 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, which accounted for approximately 0.3%, 1.5%, 1.2% and 0.9% of our total revenue for the corresponding period, respectively.
- (2) Other products comprise packaging boxes, sequins, patches, bags and badges. Our Directors believe that it is not meaningful to produce an average sales price for this category because these products have a diverse price range.
- (3) Please refer to the sub-section headed “Sales, marketing and customers — Rebate arrangement” in this section for details.
- (4) The sales prices of our products are affected by various factors such as costs of raw materials, the level of technical skills required in the production, quantity of purchase orders and labour costs. The sales volumes and the average sales prices of our RFID and NFC products are included in the sales volumes and average sales prices of hang tags and labels in which these products are embedded.

Our Directors confirm that there was no material fluctuation in the prices of our products during the Track Record Period.

Gross profit and gross profit margin

For illustrative purpose, the table below sets out the breakdown of our gross profit and gross profit margin of our products by product types during the Track Record Period based on the best estimation of our Directors:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Hang tags	62,775	44.4	75,386	44.7	87,575	44.5	57,805	44.3	59,697	48.8
Woven labels	18,517	51.2	22,823	49.0	33,153	49.0	22,664	48.9	21,600	56.3
Printed labels	10,331	53.3	14,998	51.9	19,708	51.6	12,495	52.7	13,183	54.2
Heat transfers products	14,887	61.1	16,148	60.3	14,116	57.7	9,679	57.9	7,118	56.2
Stickers	6,809	60.3	5,004	57.2	5,735	54.9	3,770	54.3	4,714	53.8
Strings and seals	2,026	40.8	2,851	40.4	3,889	40.9	2,547	40.7	2,150	39.7
Other products ^(Note)	1,699	N/A	3,498	N/A	5,521	N/A	4,983	N/A	4,121	N/A
Sub-total	117,044	N/A	140,708	N/A	169,697	N/A	113,943	N/A	112,583	N/A
Rebate	(9,936)	N/A	(10,184)	N/A	(7,287)	N/A	(5,383)	N/A	(3,367)	N/A
Total	107,108	44.3	130,524	42.8	162,410	43.7	108,560	43.1	109,216	48.2

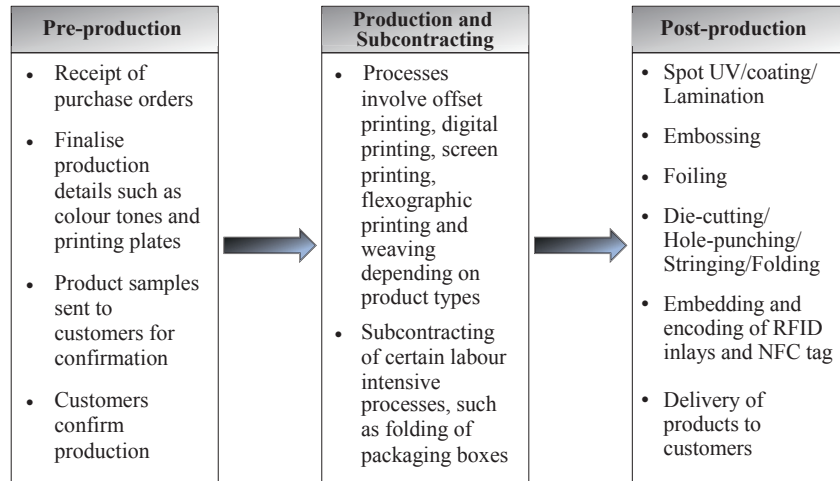
Note: Other products comprise packaging boxes, sequins, patches, bags and badges. Our Directors believe that it is not meaningful to produce a gross profit margin for this category because these products have a diverse gross profit margin range.

PRODUCTION

Production process

We have production facilities located in the PRC, Bangladesh, Vietnam, and a supporting production line in the U.S..

Our production process involves the following principal stages:



- ***Pre-production***

Our production process begins when we receive purchase orders from apparel manufacturers. Apparel manufacturers would supply details of the required specifications (such as colour, size and laundry instructions) as well as order quantity to us by inputting such information via an online platform which connects to our online production management system or by electronic means. Our production management system is embedded with data collection and manufacturing monitoring tools which enable our customers to place orders with us and to monitor their orders on a real-time basis.

After receiving the data, our production team will process and cross-check the production details on the system and ensure that all information is correctly inputted in preparation for printing. Based on the order details, our production team would then involve in pre-production tasks, which include creating plates for each colour of the print job and generating the layout designs of the print products. We will then provide the apparel manufacturers with artwork samples for confirmation, and adjustments may be required to be made according to their instructions. Once the sample is agreed, the apparel manufacturers will confirm and authorise the production. We prepare a colour management report for each of our order to record the type and amount of ink used for future reference. For repeated orders or orders which rely on existing information in the system, the system is able to automatically retrieve or generate an artwork sample for confirmation by the apparel manufacturers. This enhances the efficiency of the ordering process.

Our production management system forms an integral part of our production process. It enables us to track and monitor our production information, such as the number of our purchase orders, production flow, raw material schedule and delivery schedules. With the help of this integrated production management system, we are able to improve the overall productivity, efficiency and quality of our production process, as well as strengthen customer relationships. Further, this system helps eliminate unnecessary downtime as production and maintenance issues are readily identified and reduce production monitoring expenses.

- ***Production***

- (a) *Products*

In order to satisfy our customers' diverse requirements, our products may be produced through different production techniques:

- (i) Hang tags and stickers

The printing of hang tags generally includes offset printing, digital printing, screen printing and flexographic printing. These printing techniques, together with letterpress printing, can also be used in producing stickers. The aggregate sale of hang tags and stickers accounted for approximately 63.3%, 58.2%, 55.7% and 57.9% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. We also produce hang tags embedded with RFID inlays and NFC tags.

- (ii) Woven labels

Our woven labels are manufactured through the process of weaving by machines. The sales of woven labels accounted for approximately 15.0%, 15.3%, 18.2% and 16.9% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively.

- (iii) Printed labels

Screen printing and flexographic printing are the major techniques applied in the production of printed labels. The sales of printed labels accounted for approximately 8.0%, 9.5%, 10.3% and 10.7% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. We also produce printed labels embedded with RFID inlays and NFC tags.

- (iv) Heat transfer products

Our heat transfer products are produced through offset printing, digital printing and screen printing. The sales of heat transfer products accounted for approximately 10.1%, 8.8%, 6.6% and 5.6% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively.

(v) Other products

In addition to the above, we supply other types of apparel labels and trim products including strings and seals, packaging boxes, sequins, patches, bags and badges, of which the sales of strings and seals accounted for 2.1%, 2.3%, 2.6% and 2.4% of our revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. We generally produce or source these products.

(b) *Production technique*

Details of the techniques involved in our production include:

(i) Offset printing

Offset printing refers to a printing technique where the inked image is transferred from a printing plate to a rubber blanket, which then rolls and prints that image from the rubber blanket onto the printed surface (which is mainly paper). Offset printing offers consistently high image quality for products and is relatively cost-effective for a large volume of print orders.

The set of offset printing plates is mounted onto the cylindrical drum on each of the printing units of the printing machine and paper is cut to the required size to minimise wastage. During the offset printing process, ink will be applied on the plate and transferred onto the paper that passes through a set of printing units each with a different colour. Offset printing machines with more colours (such as five or six colours) generally have better performance than those with less colours (such as two or four colours) in terms of quality, speed and colour mixtures.

(ii) Digital printing

Digital printing refers to methods of printing from a digital-based image directly to a variety of printing media using large-format and/or high-volume laser or inkjet printers. This printing method eliminates the mechanical steps required for offset printing and is suitable for orders of variety of designs but relatively small amount of quantity.

(iii) Screen printing

Screen printing refers to a printing technique whereby a mesh is used to transfer ink onto a substrate, except in areas made impermeable to the ink by a blocking stencil. A blade or squeegee is moved across the screen to fill the open mesh apertures with ink, and a reverse stroke then causes the screen to touch the substrate momentarily along a line of contact. This causes the ink to wet the substrate and be pulled out of the mesh apertures as the screen springs back after the blade has passed.

(iv) Flexographic printing

Flexographic printing uses raised image plates to create image. The image areas are raised above the non-image areas on the rubber or polymer plate. The ink is transferred from the ink roll which is partially immersed in the ink tank. It is then transferred to an anilox or ceramic roll (or metre roll) which can hold a specific amount of ink as it is covered with thousands of small wells or cups that enable it to metre ink to the printing plate in a uniform thickness evenly and quickly. The number of cells per linear inch can vary according to the type of print job and the quality required.

(v) Letterpress printing

Letterpress printing is a printing technique in which copies of an image are produced by direct impression of an inked, raised surface against a printed surface.

(vi) Weaving

Our weaving machines weave polyester yarns called warp and weft and create the required image such as the logo or trademark of the apparel brands. The woven labels come off from the weaving machines in a tape form where they are then cut by ultrasonic or laser into individual labels.

- ***Post-production***

After the above production process, we also undertake various post-production operations on the products before delivery according to the customers' requests. Such operations include die-cutting (being a process by which printed products are cut into specific shapes or by a specific way using die-cut moulds which have wooden boards with blades annexed on them), holes punching, stringing or folding, depending on the types of products. We may subcontract these operations during peak season. We engage external subcontractors to conduct certain production processes which are more labour intensive and for better time management and efficiency, such as folding of bags and packaging boxes and putting strings through hang tags. Please refer to the section headed "Business — Subcontractors" in this prospectus for further details on our subcontractors.

We will pack and deliver our products to warehouses or factories of the apparel manufacturers or the warehouse of the forwarder companies as designated by the apparel manufacturers or in the case where apparel brands or sourcing agent purchase our products from us directly, to such locations designated by them. We engage external logistics companies, which are Independent Third Parties, to transport and deliver our products to our customers. Some apparel manufacturers may arrange their own logistics companies to pick up products from our factory for delivery to their designated locations.

Production facilities and machines

Our production facilities are located in the PRC, Bangladesh and Vietnam, as well as a supporting production line for encoding RFID products in the U.S.. We have more than 400 machines which are owned or leased by our Group and used in the production process, including the offset printing machines with one, two, four, five and six colours, digital printing machines, flexographic printing machines, weaving machines, cutting machines, surface treatment machines, die-cutter machines and cut-fold machines. Our Group purchased the majority of our major machinery and equipment used in the production process from Germany, Japan and the PRC, which we have been using for approximately two to 16 years as at the Latest Practicable Date.

During the Track Record Period, (a) our production facilities in the PRC manufactured products for sale to customers in the PRC, Hong Kong, Bangladesh, Vietnam, the U.S. and other countries; (b) our production facilities in Bangladesh manufactured products for sale mainly to customers in Bangladesh, India and Pakistan; (c) our production facilities in Vietnam manufactured products for sale mainly to customers in Vietnam; and (d) our supporting production line in the U.S. encoded RFID on products manufactured in the PRC and for sale to customers in the U.S..

Our Group spent approximately nil, HK\$14.4 million, HK\$35.6 million and HK\$8.0 million on the purchase of plant and machinery for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, which was due to the increase in demand from the apparel brands. Our Group conducts regular maintenance on its machinery and equipment by our internal staff and under the supervision of our general manager, including checking for normal wear and tear, injecting lubricant, keeping record on machines configurations, adjustment settings and care for fittings from time to time and a major maintenance generally once every 12 months. Maintenance costs incurred for the repair and maintenance of its machinery and equipment were approximately HK\$2.0 million in each of the year ended 31 December 2016, 2017 and 2018, and approximately HK\$0.8 million for the eight months ended 31 August 2019. Maintenance costs incurred for the office buildings and items of property, plant and equipments were approximately HK\$0.2 million, HK\$0.7 million, HK\$0.7 million and HK\$0.4 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. During the Track Record Period, there were no major disruptions of the business operations resulting from insufficient equipment maintenance.

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The table below sets out the major machineries with the original purchase prices paid by us of above HK\$3.0 million (excluding VAT, where applicable) in our production facilities as at the Latest Practicable Date:

Name of machines	Year of acquisition	Approximate purchase price (HK\$'000)	Estimated operational life (Years) ^(Note 1)	Estimated remaining		Location
				operational life (Years) ^(Note 2)	Leased/owned ^(Note 3)	
1 Heidelberg Speedmaster Five-Colour Offset Press XL75-5+L	2017	12,266	10	8	Leased ^(Note 3)	The PRC
2 Heidelberg Speedmaster Six-Colour Offset Press CD102-6+L	2017	10,506	10	8	Leased ^(Note 3)	The PRC
3 Heidelberg Speedmaster Five-Colour Offset Press CD74-5-C	2006	9,845	10	–	Owned	The PRC
4 Komori Lithrone Sheet Fed Offset Press LS-529	2014	9,225	10	5	Owned	Bangladesh
5 Heidelberg Speedmaster Four-Colour Offset Press SM52-4+L	2011	6,947	10	2	Owned	The PRC
6 Heidelberg Speedmaster Five-Colour Offset Press SM52-5+L	2007	5,789	10	–	Owned	The PRC
7 Heidelberg Speedmaster Four-Colour SX52-4+L	2012	4,749	10	3	Owned	The PRC
8 HP Indigo Press 5500 7-Colour Printing System	2009	4,210	10	–	Owned	The PRC
9 Heidelberg Speedmaster Four-Colour Offset Press SM52-4-H	2010	3,976	10	1	Owned	The PRC
10 Heidelberg Offset Press Four-Colour CD102-4 ^(Note 4)	2008	3,890	10	–	Owned	Vietnam
11 Heidelberg Speedmaster Four-Colour Offset Press SX52-4-H	2012	3,701	10	3	Owned	The PRC
12 HP Indigo 5900 Digital Press	2017	3,609	10	8	Leased ^(Note 3)	The PRC
13 HP Indigo 5900 Digital Press	2017	3,609	10	8	Leased ^(Note 3)	The PRC
14 Heidelberg Speedmaster Four-Colour Offset Press SM52-4	2003	3,196	10	–	Owned	The PRC
15 Heidelberg Speedmaster Four-Colour Offset Press SM52-4	2010	3,113	10	1	Owned	The PRC
16 Dowellprint Flexo Press L420	2012	3,064	10	3	Owned	The PRC

Notes:

- (1) The estimated operational life of our major machineries is determined by our Directors based on the accounting policy of our Group for the plant and machinery.
- (2) We believe we will be able to continue to use our machines throughout and after their respective estimated remaining operational life as we have regularly maintained our machines in good condition.
- (3) The machines are subject to hire-purchase agreements under which our Group has the option to purchase the machines upon repayment of the loan.
- (4) This was purchased by our Group as a second-handed machine which was manufactured in 2000.

The table below sets out the production volume, sales volume and revenue for products manufactured by each production facilities of our Group:

	Year ended 31 December						Eight months ended 31 August					
	2016		2017		2018		2019		2019		2019	
	Production volume (million)	Sales volume (million)	Revenue (HK\$ million)	Production volume (million)	Sales volume (million)	Revenue (HK\$ million)	Production volume (million)	Sales volume (million)	Revenue (HK\$ million)	Production volume (million)	Sales volume (million)	Revenue (HK\$ million)
The PRC Factories	870	943	219	1,004	1,106	275	1,121	1,193	332	722	771	202
The Bangladesh Factory	14	22	5	45	55	10	105	104	15	77	80	16
The Vietnam Factory	16	31	4	22	35	5	28	37	6	29	33	5

Note: Our Group's total revenue also included revenue attributable to products solely produced by subcontractors whereas the above revenue related to products manufactured by the production facilities of our Group (and for the avoidance of doubt, including products manufactured by us of which the production process may involve subcontractors).

Production capacity

The table below sets out information about the estimated average utilisation rate of our machines for production in our production facilities in the PRC, Bangladesh and Vietnam during the Track Record Period:

The PRC Factories

	Year ended 31 December						Eight months ended 31 August								
	2016			2017			2018			2019					
	Actual working hours	Maximum working hours	Utilisation rate (%) <i>(Note 7)</i>	Actual working hours	Maximum working hours	Utilisation rate (%) <i>(Note 7)</i>	Actual working hours	Maximum working hours	Utilisation rate (%) <i>(Note 7)</i>	Actual working hours	Maximum working hours	Utilisation rate (%) <i>(Note 7)</i>			
Printing ^(Note 1)	94,455	117,488	80.4	97,470	130,064	74.9	111,241	138,688	80.2	72,857	90,208	80.8	79,524	98,496	80.7
Weaving ^(Note 2)	45,222	69,344	65.2	51,384	72,240	71.1	88,197	80,832	109.1	52,305	50,288	104.0	74,922	67,104	111.7
Post-production ^(Note 3)	127,769	208,224	61.4	163,822	265,344	61.7	190,251	296,768	64.1	129,571	195,744	66.2	123,444	209,952	58.8
RFID ^(Note 4)	2,401	3,264	73.6	3,223	8,704	37.0	2,930	11,536	25.4	2,013	6,888	29.2	2,671	9,072	29.4

Production facilities in Bangladesh (the “Bangladesh Factory”)

	Year ended 31 December						Eight months ended 31 August						
	2016		2017		2018		2018		2019		2019		
	Actual working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours
Printing (Note 1)	3,033	40.0	3,716	7,616	48.8	3,710	7,616	48.7	2,466	4,992	49.4	4,639	4,960
Weaving (Notes 2 and 5)	-	-	-	-	-	4,166	6,672	62.4	2,057	3,040	67.7	8,630	7,440
Post-production (Note 3)	20,459	46.9	21,537	43,792	49.2	23,881	43,792	54.5	16,139	28,704	56.2	21,306	29,000

Production facilities in Vietnam (the “Vietnam Factory”)

	Year ended 31 December						Eight months ended 31 August						
	2016		2017		2018		2018		2019		2019		
	Actual working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours	Utilisation rate (%) (Note 7)	Actual working hours	Maximum working hours
Printing (Note 1)	2,346	19.7	4,065	12,712	32.0	5,672	13,888	40.8	3,616	9,184	39.4	5,700	12,184
Weaving (Notes 2 and 6)	-	-	-	-	-	-	-	-	-	-	-	1,434	6,816
Post-production (Note 3)	3,140	15.8	5,202	19,760	26.3	7,030	19,840	35.4	4,567	13,120	34.8	6,105	16,264

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Notes:

- (1) This refers to the average utilisation rates of the machines used in printing including, where applicable in the relevant factories, offset printing machines, rotary printing machines, stamping press machines, digital printing machines, screen printing machines, flexographic printing machines and heat transfer related machines.
- (2) This refers to the average utilisation rates of weaving machines.
- (3) This refers to the average utilisation rates of the machines used in post-production including but not limited to, where applicable in the relevant factories, cutting machine, surface treatment machines and cut-fold machines.
- (4) This refers to the average utilisation rates of the machines in the RFID production line including encoding and verification, labelling machines and RFID inlay wetting machine.
- (5) The weaving machines of the Bangladesh Factory commenced operations in April 2018.
- (6) The weaving machines of the Vietnam Factory commenced operations in April 2019.
- (7) For illustration purposes only, the utilisation rates are calculated based on the actual working hours of the relevant period divided by the maximum working hours of the relevant period.

The actual working hour includes the actual bulk printing time and the time required for changing, mounting and adjusting the printing plates on the presses, and for colour adjustment, before bulk printing, as well as other relevant preparation works.

On the other hand, the maximum working hour refers to the total of maximum working hours for all the machines in each production line. The maximum working hour for each machine is calculated based on the production hours per day for each machine multiplied by production days annually or during the period where:

- the production hours per day are estimated to be 16 production hours per day for the PRC Factories (as normally there were two shifts), save for the RFID production which has an estimated production hours of eight hours per day, and eight production hours per day for the Bangladesh Factory and Vietnam Factory during the Track Record Period; and
 - the production days are assumed to be five days a week but exclude public holiday in the PRC, Bangladesh and Vietnam for the respective factories. On this basis, for each of the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, there were 242, 250, 243, 160 and 162 production days in the PRC Factories, 237, 238, 238, 156 and 155 production days in the Bangladesh Factory, and 248, 247, 248, 164 and 164 production days in the Vietnam Factory, respectively.
- (8) There is no production facility in the U.S. as it only carries out a supporting function. Therefore, it is not included in the calculation of the utilisation rate.

For the year ended 31 December 2018, the average utilisation rate of weaving machines in the PRC Factories was relatively high mainly due to an increase in sales attributable to woven labels by over 50% from the year ended 31 December 2017 to 2018. As the average monthly utilisation rate of weaving machines in the PRC Factories has been over 100% for the year ended 31 December 2018 and the eight months ended 31 August 2019, we plan to continue to engage subcontractors to undertake the production of some of our woven labels especially during peak seasons as the quality of subcontracted woven label is relatively consistent given that it is made by computerised process by the weaving machines. We may also purchase new weaving machines subject to the demands for woven labels products and availability of funds of our Group.

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Despite the average utilisation rates of our machines in the Bangladesh Factory were approximately 50% during the three years ended 31 December 2018 due to certain limitations as described in the section headed “Business — Production — Production and capacity expansion plan” in this prospectus, the utilisation rates in the Bangladesh Factory have been gradually increasing during the Track Record Period. The range of the utilisation rates increased from approximately 40.0% to 46.9% in 2016 to approximately 48.8% to 49.2% in 2017, further to approximately 48.7% to 62.4% in 2018. The increase in the range of the utilisation rates in 2018 was mainly due to the commencement of the operations of weaving machines in April 2018. For the eight months ended 31 August 2019, the range of the utilisation rates further increased to approximately 73.5% to 116.0%. The above increasing trend of utilisation rate was mainly due to (i) an increase in the percentage of sales of our products which were being manufactured in the Bangladesh Factory and sold in Bangladesh locally from approximately 32% in the year ended 31 December 2016 to approximately 67% for the eight months ended 31 August 2019 and (ii) the Bangladesh Factory having manufactured products that were sold to India and Pakistan in 2019.

The increase in the average utilisation rates of our machines in the Vietnam Factory throughout the Track Record Period was mainly due to an increase in sales attributable to Vietnam during the same period. The utilisation rates of the weaving machines in the Vietnam Factory were low as they were newly set up and only commenced production in April 2019.

Production and capacity expansion plan

Our Directors, having considered (i) the opportunities in Bangladesh; (ii) the limitations of our existing production facilities in Bangladesh and the PRC; and (iii) the expected benefits of the expansion as further illustrated below, decide to implement a production and capacity expansion plan in Bangladesh and the PRC.

(a) *Bangladesh*

(i) Opportunities

According to the F&S Report, there has been a trend in recent years of apparel manufacturers from the PRC setting up production facilities in Bangladesh due to the low labour cost, continuous trade war between the PRC and the U.S. and favourable governmental policies in attracting foreign investments in Bangladesh. Further, the market size of apparel labels and trim products in terms of revenue in Bangladesh has grown from US\$214.3 million in 2014 to US\$291.3 million in 2018, representing a CAGR of 8.0%, and such growth is forecasted to continue at a growth rate of CAGR of 7.0% from 2019 to 2023.

In order to capture such demands, and consistent with our existing sale and marketing strategy, we intend to identify potential business opportunities through our sales and marketing teams and marketing services consultants located in the U.S. and Europe through contacting the U.S. and European apparel brands which appoint apparel manufacturers in Bangladesh, India and Pakistan. In addition, our sales and marketing teams located in Bangladesh, India and Pakistan will approach and establish customer relationships with local apparel manufacturers appointed by these apparel brands.

(ii) Limitations

Based on the knowledge of our Directors, apparel brands take into account of various factors, such as quality of the products, price quotations, delivery time and performance of suppliers' factories in terms of production capacity during site inspections, in deciding whether to nominate an apparel labels and trim products manufacturer as their approved supplier. Further, according to the F&S Report, apparel brands through apparel manufacturers generally source apparel labels and trim products in large quantities from a single apparel labels and trim products manufacturer with sufficient production capacity to satisfy the entire order within their lead time with high product quality to ensure consistent printing and finishing quality. During the Track Record Period, (i) the Bangladesh Factory was not approved by Apparel Brand C as its nominated supplier in Bangladesh for the reason that we operate in a shared factory building; and (ii) prior to learning of our expansion plan in Bangladesh, the holding company of Apparel Brand A and Apparel Brand B had previously indicated its preference to handle its orders of our products in the PRC Factories rather than in the Bangladesh Factory as it had concerns over the limited variety of machine types, the production capacity and the size of the Bangladesh Factory. Accordingly, we face not only competition from our competitors but also are limited by our current production capacity and type of machines available due to the size of our production facility in Bangladesh.

Size of our production facility

The gross floor area of our current Bangladesh Factory is only approximately 3,300 sq. m. (as compared to factory size of our competitors ranging from approximately 1,000 sq. m. to 11,000 sq. m.), of which approximately 2,083 sq. m. is used as our production area, 363 sq. m. is used as warehouse for our inventories and 177 sq. m. is used as office (representing approximately 63.1%, 11.0% and 5.4% of the total gross floor area of the Bangladesh Factory, respectively). The remaining area is being used for general facility purpose. Installation and operation of the three new machines we intend to purchase using the proceeds from the Global Offering will require a floor area of not less than 837 sq. m. and additional floor space will also be required for the installation and operation of other machines (being approximately 30 in number) which we plan to purchase with our internal funding as mentioned in the paragraph headed "(iv) Expansion plan" below. In addition, we plan to allocate a floor area of not less than 2,100 sq. m. for sufficient storage space as warehouse to cope with the expansion in the New Bangladesh Factory. As such, due to a lack of available space for installation of new and/or advanced machines for the production of a full range of our products and storage of our inventories, we have not been able to increase the variety of machine types and expand our production capacity in the Bangladesh Factory and are constrained in meeting certain production requirements or satisfying the purchase orders of our customers or potential customers based in Bangladesh, India and Pakistan. All these in turn prevent us from accepting some purchase orders from these customers.

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Types of machines available and choice of production location

During the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we derived aggregate revenue of approximately HK\$26.4 million, HK\$40.8 million, HK\$60.3 million and HK\$35.1 million from our customers in Bangladesh, India and Pakistan, of which approximately HK\$21.3 million, HK\$30.7 million, HK\$42.9 million and HK\$18.1 million of our products in terms of revenue (representing approximately 80.7%, 75.2%, 71.1% and 51.6% of the revenue derived from customers in Bangladesh, India and Pakistan, respectively) were manufactured in the PRC Factories, respectively. A relatively higher percentage of our products sold to these customers were manufactured in the PRC Factories as we were initially not able to offer extended types of products to them, such as woven label as we only installed weaving machines in the Bangladesh Factory which commenced operations in April 2018. Also, some of our products were manufactured in the PRC Factories as we do not have the required machinery and/or sufficient storage space for manufacturing such products in the Bangladesh Factory.

As at the Latest Practicable Date, we had four printing machines (including two five-colour offset press machines), six weaving machines and 23 post-production machines (including two manual die cutter machines) in the Bangladesh Factory. The table below sets out some of the machines that were available in the PRC Factories but not in the Bangladesh Factory, which produced products for our customers in Bangladesh, India and Pakistan in the PRC Factories during the Track Record Period, together with their respective functions and output product types:

Machines	Functions	Product types
<i>Printing machines</i>		
(1) Automatic screen printing machine	Screen printing on woven labels, ribbon tape or printed labels in roll-form automatically	Woven labels and printed labels
(2) Rotary printing device	Printing in web-form	Hang tags and stickers
<i>Post-production machines</i>		
(3) Automatic die cutting machine	Die-cutting of paper or plastic sheet automatically	Hang tags, printed labels, strings and seals

For products that were manufactured in both the Bangladesh Factory and the PRC Factories during the Track Record Period, the management of our Group takes into consideration of various factors, such as the relevant raw material storage level at the Bangladesh Factory and the overall combined size of purchase orders for the particular products from our customers from various countries (including Bangladesh) at the relevant time, to determine the manufacturing factory of these products. In general, during the Track Record Period, where (i) the raw material storage level in the Bangladesh Factory is relatively low, or (ii) it is more cost effective and efficient to have the combined purchase orders to be handled by the PRC Factories, we will manufacture these products in the PRC Factories.

(iii) Benefits of the expansion

Given the above market opportunities and our limitations, the expansion plan in Bangladesh, as a strategic expansion location, has the following benefits:

- reduction of rental expense — based on the lease rental we currently pay in Bangladesh for our current production facility in the Dhaka EPZ, our annual rental expense is approximately US\$108,900 (US\$33 per sq. m. per year), whereas we only need to pay the annual rental of land at the Adamjee EPZ, which is US\$11,220 (US\$2.2 per sq. m. per year), and there is no other rental expenses in relation to the production facility in Bangladesh to be incurred after the completion of the new production plant in Bangladesh;
- capacity to secure sizeable orders — with a larger production facility, which is approximately three times the current size of our production facility, and the purchase of new five-coloured offset press machines, weaving machines, die cutter machine, and other post-production machines, we will be able to grow our business in Bangladesh which, in turn, enable us to take in more customers and hence, purchase orders;
- mitigate against the risks from the trade war between the PRC and the U.S. — Bangladesh enjoys duty-free access to a number of countries, including countries in the European Union, the U.S., Australia, Switzerland, Japan, Turkey, New Zealand, South Korea, Thailand, Malaysia and India, in respect of the trading of various products;
- lower production costs — although we expect that the cost of our raw materials to increase as we will have to incur additional freight and transportation costs for importing more raw materials into Bangladesh from the PRC for the increased production in the new production plant and such increase in costs depends on the size and method of shipment, our production cost will be substantially lower as according to the F&S Report, the labour cost in Bangladesh, being the country with the lowest labour cost in terms of minimum wage among the PRC, Vietnam, Indonesia, and Myanmar, is approximately US\$94 per month in 2019 (which is only approximately 49% of the minimum wage in Huizhou, the PRC) and the average wage of employed person in urban area in manufacturing industry in the PRC increased at a CAGR of 8.5% from 2013 to 2017 due to the rising labour cost in the PRC. The lower labour cost advantage in Bangladesh outweighs the additional increase in the costs of raw materials;

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- shorter product delivery lead time — at present, the delivery of our products manufactured in the PRC and sold to Bangladesh generally takes about four weeks by ship, including time involved in customs clearance. By producing these products in Bangladesh, our delivery time will be substantially reduced to approximately one week. This will, in turn, help us save delivery time and costs for delivery to our customers in Bangladesh, India and Pakistan, and accommodate the fast changing fashion trend of apparel products; and
- safety of production facilities and long-term stability over leased premises — global apparel brands are vigilant about the conditions and safety of the factories of their suppliers. As such, for safety reasons, global apparel brands generally prefer their nominated suppliers to have their own factory buildings instead of having their premises in a shared building. Accordingly, if we fail to set up our own factory in Bangladesh, we will lose our competitive advantage over our competitors which have set up their own factory buildings in the EPZ. According to the F&S Report, many manufacturers of apparel labels and trim products have set up their production facilities in the EPZ. We have attempted to lease a larger property adjacent to our current production facility in the Dhaka EPZ but we were not able to find any available property in the vicinity of our current production facility. Our Directors consider that it is important that we construct and build our production facilities in Bangladesh on a parcel of land instead of a leased property in a shared factory building so that we can control and ensure the safety of our production facilities and avoid accidents, whether fire or otherwise, which may be caused by others in a shared factory building and is beyond our control. In addition, there is no assurance that the lessor of the property where our current production facility in Bangladesh is located will in future agree to continue leasing the property to us.

Our Directors considered that the New Bangladesh Factory allows our Group to enjoy the benefits which will pave the way for our Group's long-term development in the expanding apparel labels and trim products market in Bangladesh, India and Pakistan. Notwithstanding that there was a decline in our revenue by approximately 10.2% for the eight months ended 31 August 2019 when compared to the corresponding period in 2018, our Directors are confident that there will be sufficient demand for our products going forward, having considered the following factors:

- (i) the competitive strength of our Group as disclosed in the section headed "Business — Competitive strengths" in this prospectus;
- (ii) the steady historical growth of revenue of our Group with a CAGR of approximately 15.5% from the financial years of 2016 to 2018;
- (iii) that our Group can leverage on its global geographical presence and sales to over 40 countries with a wide range of product types;
- (iv) the global apparel retail sales value is expected to increase at a CAGR of 5.0% during 2019 to 2023 which in turn drive the growth of apparel labels and trim products manufacturing market, according to the F&S Report;

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- (v) that we have continued to enhance our sales and marketing teams by engaging an additional marketing services consultant in the second half of 2019 covering Cambodia in addition to the existing presences in Europe, the U.S., the U.K., Hong Kong, the PRC, Bangladesh, Vietnam, India and Pakistan as disclosed in the paragraphs headed “Our sales and marketing department” and “Our marketing services consultants” below; and
- (vi) many apparel manufacturers which had supplied to our major apparel brands have set up their production facilities in Bangladesh and all of our major apparel brands (except Apparel Brand E), as set out in the paragraph headed “Our major apparel brands” below, have set up liaison or buying office in Bangladesh and have been sourcing from their suppliers in Bangladesh, according to F&S.

Our Directors also believe that the decline in revenue for the eight months ended 31 August 2019 was in general a result of the expectation of a downturn of the global economy in 2019 as well as the trade war between the U.S. and the PRC since mid-2018 and also shared by other apparel labels and trim products manufacturers. To the best of our Directors’ knowledge and based on information publicly available, our competitors in Hong Kong were also generally affected by the trade war, the uncertainties and risks across the global economy as well as the potential decline in the macro-economic situation in the PRC in 2019. As a result, apparel labels and trim products manufacturers and apparel brands had taken more prudent and conservative business strategies in their order placement. Please refer to “Industry Overview — Market constraints and challenges” in this prospectus for further details.

For further reasons contributing to the decrease in revenue of our Group during the period, please refer to “Financial Information — Review of Historical Results of Operation” in this prospectus.

(iv) Expansion plan

In view of the above and for the purpose of our expansion plan, we have leased a parcel of land measuring approximately 5,100 sq. m. in the Adamjee EPZ, where around 50 enterprises (a majority of them being foreign-invested and garment and textile-related) were operating as of November 2019, for a term of 30 years from 26 February 2018 for the purpose of constructing the New Bangladesh Factory. Since we took possession of the above land in the Adamjee EPZ in February 2018, we had attended to various government administrative filings required for the construction and requisite governmental approvals for the construction have been obtained. We have appointed geotechnical engineers in August 2018 and following their appointment, they carried out a subsoil investigation on the land which was not completed until December 2018. In June 2019, we obtained the structural drawings from the structural engineers in respect of the new production plant.

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The New Bangladesh Factory will be a three-storey building with a total gross floor area of approximately 10,600 sq. m.. We plan to commence the construction of the New Bangladesh Factory on the above land by the first half of 2020 and commence operations after the completion of the construction and renovation of the new production plant which is scheduled by the second quarter of 2021. During the Track Record Period, we had paid approximately HK\$0.5 million in relation to the expansion plan in Bangladesh. Please refer to the paragraph headed “(v) Implementation plan of construction of new production plant in Bangladesh” below for the stage implementation of the expansion plan in Bangladesh.

Upon commencement of operation in the New Bangladesh Factory, our Directors expect that at least HK\$6.5 million of revenue, representing approximately 29.1% of revenue in Bangladesh which were generated by products manufactured in the PRC Factories during the year ended 31 December 2018 could be reallocated from the PRC Factories to the New Bangladesh Factory. Such calculation was based on the same or similar products manufactured in the PRC Factories and sold to Bangladesh during the year ended 31 December 2018 which had also been manufactured in the Bangladesh Factory. The sales volume of such products during the year ended 31 December 2018 was approximately 30.8 million units. The revenue estimation of at least HK\$6.5 million is yet to include the potential revenue contribution of other products that could be manufactured by utilising new machinery after the commencement of operation in the New Bangladesh Factory.

Our Directors consider that there will be no material impact on the utilisation rate of the PRC Factories even if certain products that were originally manufactured in the PRC Factories are to be manufactured in Bangladesh, given such products would only represent approximately 2.0% of our revenue generated by products manufactured in the PRC Factories for the year ended 31 December 2018. In addition, certain products for sale to our customers in Bangladesh, India and Pakistan will remain to be manufactured by the PRC Factories for reasons mentioned above.

In view of our expansion plan and for the purpose of ascertaining their support and future demand of our products, we have communicated with all of our major apparel brands (save for Apparel Brand F which had contributed less than HK\$0.1 million of our revenue for the eight months ended 31 August 2019) as set out in the paragraph headed “Our major apparel brands” below. Six of our major apparel brands have expressed support to the expansion plan and have requested to be informed regarding the progress of the expansion for potential cooperation and growth in business in the future. For instance, after learning of our expansion plan in Bangladesh, the holding company of Apparel Brand A and Apparel Brand B indicated to our Group that since (i) they are sourcing trim products in Bangladesh to support local garment businesses in Bangladesh; and (ii) they are further shortening their product life cycle, they are supportive of our expansion plan in Bangladesh as it will also support their business growth. For the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2019, the six major apparel brands that have expressed support to the expansion plan in aggregate accounted for revenue attributable to our products of approximately 33.4%, 39.8%, 46.6% and 47.6% of our total revenue, respectively.

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In addition to the construction of the New Bangladesh Factory, we plan to undertake the following plans, which is estimated to cost approximately HK\$38.5 million in aggregate, over a period of 12 months after we have commenced production to facilitate our expansion plan in Bangladesh:

- we plan to purchase (i) two five-colour offset press machines which will mainly be used in the production of hang tags, printed labels, heat transfer products and stickers; and (ii) one automatic die cutter machine which will mainly be used in the post-production process of our products such as hang tags, printed labels, strings and seals. We estimate that the total cost of purchasing the above machines for the New Bangladesh Factory will be approximately HK\$24.0 million and we will fund the same by the proceeds from the Global Offering. We expect to install the above machines in the New Bangladesh Factory by the second quarter of 2021 for the expected commencement of productions. During the Track Record Period, our Group had also invested in the acquisition of new machines for our production facility in Bangladesh to cope with the rising demands. The proposed acquisition of new machines is generally in line with this business strategy;
- in addition to the purchase of the above three machines, we plan to purchase approximately 30 other machines, such as digital colour printing machines, weaving machines and post-production machines, which are estimated to cost approximately HK\$10.5 million and will be funded by internal funding to help support the New Bangladesh Factory;
- as at the Latest Practicable Date, we had 143 employees in Bangladesh. We plan to recruit approximately 124 more employees who will primarily be involved in the management, production, sales and marketing and customer service in Bangladesh. The staff cost in connection with such recruitments is estimated to be approximately HK\$3.0 million per year and will be funded by internal funding; and
- after the completion of the New Bangladesh Factory and obtaining all requisite approvals to commence operations, we plan to relocate all production operations in the current Bangladesh Factory to the New Bangladesh Factory within three months after we commence production, and will not continue to lease the current Bangladesh Factory. As part of our expansion plan, we will move our existing machines in the current Bangladesh Factory, and relocate our existing staff, to the New Bangladesh Factory. The relocation cost is estimated to be approximately HK\$1.0 million and will be funded by internal funding.

Our Directors anticipated that there will be an increase of at least 30% in the production capacity over a period of 12 months after the commencement of production of the New Bangladesh Factory as compared to that of the Bangladesh Factory. The above increase is an estimate based on an increase in the number of machines to be installed in the 12 months after the commencement of production as compared to the number of machines in the Bangladesh Factory as at the Latest Practicable Date. The production capacity of the New Bangladesh Factory could be further expanded with sufficient space for purchasing and installing new machines after the first 12 months of commenced production. Our Directors estimate that the gross floor area of the planned production area will increase to not less than 5,500 sq. m. in the New Bangladesh Factory and the remaining area will be served as warehouse, main office and for general facility purpose.

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- (v) Implementation plan of construction of new production plant in Bangladesh

We set out below our implementation plan in connection with the construction of the above new production plant in Bangladesh with the engagement of a construction company:

For the six months ending 30 June 2020

<u>Stages</u>	<u>Implementation activities</u>	Estimated capital expenditure for construction <i>(HK\$ million)</i>	Estimated capital expenditure for purchase of machinery <i>(HK\$ million)</i>
Piling works	To carry out cast-in-situ piling works with layout	4.0	–
Sub-total		4.0	–

For the six months ending 31 December 2020

<u>Stages</u>	<u>Implementation activities</u>	Estimated capital expenditure for construction <i>(HK\$ million)</i>	Estimated capital expenditure for purchase of machinery <i>(HK\$ million)</i>
Construction up to grade beam footing	To carry out earth excavation To carry out pile cap breaking and cap custing works as well as short column, grade beam and floor custing works with layout	9.5	–
Construction and renovation of the first floor of the three-storey building	To carry out construction works, such as column, beam and slab custing, and interior renovation for the first floor	10.2	–
Sub-total		19.7	–

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<u>Stages</u>	<u>Implementation activities</u>	<u>Estimated capital expenditure for construction</u> <i>(HK\$ million)</i>	<u>Estimated capital expenditure for purchase of machinery</u> <i>(HK\$ million)</i>
<i>For the six months ending 30 June 2021</i>			
Construction and renovation of the second floor of the three-storey building	To carry out construction works, such as column, beam and slab casting, and interior renovation for the second floor	10.2	–
Construction and renovation of the third floor of the three-storey building	To carry out construction works, such as column, beam and slab casting, and interior renovation for the third floor	10.9	–
Purchase and installation of machinery	To purchase and install of the two five-colour offset press machines and one die cutter machine	–	24.0
Sub-total		21.1	24.0
Total expenditures		44.8	24.0

(vi) Breakeven and payback analysis

We expect that our expansion plan above will enable us to capture additional demand from the market and will increase our Group's revenue and profit generated from Bangladesh in the future, accompanied with additional depreciation and operating cost in relation to the construction of the New Bangladesh Factory.

For illustration purposes only, we expect that the breakeven period, which is based on the forecasted sales and cost of sales upon commencement of production operation of the New Bangladesh Factory, to be approximately 3.1 years. In addition, we estimate that the payback period, being the number of years we needed to recover the relevant capital expenditures to be incurred in connection with our construction of the New Bangladesh Factory and purchase of new machines in Bangladesh calculated based on our Group's forecasted earnings after tax which exclude non-cash expenses (depreciation and amortisation), will be approximately 7.3 years after the commencement of operation of the New Bangladesh Factory. Further, the internal rate of return for the construction of the New Bangladesh Factory and purchase of new machines in Bangladesh

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is estimated to be approximately 22.0%. All of the above are subject to a number of risks and uncertainties, including the difficulty in forecasting the level of customer orders with certainty. For further details, please refer to the section headed “Risk Factors — We may fail to achieve or manage future growth and expansions” in this prospectus.

(b) The PRC

As at the Latest Practicable Date, we had 25 printing machines (including 10 offset press machines), 27 weaving machines, 18 heat transfer related machines, seven RFID related machines and 81 post-production machines (including six hot foil stamping machines and 10 die cutter machines) in the PRC Factories. Given the prospect of the apparel labels and trim products manufacturing market in the PRC and our Group’s intention to continue to expand our production capacity in the PRC Factories, we plan to purchase two new machines, being (i) one hot foil stamping machine which will mainly be used in the post-production process of hang tags and printed labels; and (ii) one die cutter machine which will mainly be used in the post-production process of hang tags, printed labels, strings and seals.

During the Track Record Period, the monthly utilisation rate of our existing hot foil stamping machines and die cutter machines in the PRC Factories recorded as high as approximately 191.4% and 230.2%, respectively. The hot foil stamping machine and the die cutter machine that we plan to purchase have more features and are of higher speed which we expect to increase our production efficiency as compared with the existing machines in the PRC Factories. Our Directors consider that the above machines are more advanced and have better functions and efficiency to supplement the existing machines in our PRC Factories and will improve our productivity in the PRC Factories.

We expect that the two new machines will be in operation by the second quarter of 2020 and the total cost is estimated to be approximately HK\$7.0 million which will be funded by the proceeds from the Global Offering. Please refer to the section headed “Future plans and use of proceeds” in this prospectus.

PRODUCT DEVELOPMENT AND ENGINEERING

Our product development capacities are pivotal to our success. We have two dedicated teams, namely, our product development team and product engineering team, which are based in the PRC Factories. They work seamlessly with other teams in our Group to develop new products and improve or enhance our production process and technique which cater for the latest trends in the market. As at the Latest Practicable Date, our product development team and our product engineering team consisted of 48 and 31 employees respectively, the key members of which have at least over 10 years of experience in the industry.

The product development team works closely with the management team and the sales and marketing teams in collecting information on customers’ requirements, preference and the latest market trends. They then propose ideas and materials of product designs to the management team for consideration and our product engineering team to follow up on the technical requirements.

The product engineering team is mainly responsible for transforming the ideas and materials from product development team into workable, detailed production data and instructions to be carried out by the production team. Such production data and instructions include the types and amount of ink, the layers of printing and the types of machineries required for producing a hang tag or label. Such data will be stored in our system so that it can be used for the same products in the next batch of order. The product engineering team also informs the sales and marketing teams about the costs of production.

During the Track Record Period, our Group developed certain products which had already been launched for sales and production, including heat transfer products, patches, and double-layered hang tags. The new products developed by the product engineering team will be marketed to customers by the product development team and the sales and marketing teams.

Apart from developing new products, our product engineering team also performs engineering analysis to improve our production process in terms of, for example, equipment capacities and material utilisation. They regularly evaluate our current production activities and assess if any of our production processes may be improved or shortened such that we can produce in a more efficient manner. It normally takes about 12 months for us to devise an innovation in our production process.

During the Track Record Period, we had made improvements to our production process through the following innovations:

- a tailor-made printing/encoding/verifying production line for RFID and NFC production which enables us to encode/verify the RFID inlays and NFC tags at a significantly lower production costs. RFID inlays, which are embedded into hang tags and labels, enable apparel brands or retailers to identify, track and monitor their stock availability with reduced operational costs, optimising their inventory movements and accuracy. On the other hand, NFC tags embedded to apparel products connect consumers to product information such as brand information, promotions, and other brand-directed content when they tap the NFC tags with their compatible smartphones. Further, the NFC tags allow apparel brands to gather information about preferences of purchasers of their apparel products which would be useful for marketing research purposes; and
- home-made ink for heat transfer production which achieve a higher level of printing quality with lower production costs. Our dedicated product development team and our product engineering team had developed our heat transfer ink and ink mixing technique for use with the heat transfer technology with a view to improving the durability of our apparel label products on different types of fabrics of apparel products, which led to the development and production of heat transfer products using our own heat transfer ink.

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The table below sets out the breakdown of our expenses on product development and product engineering teams for the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Product development team	4,339	5,021	5,641	4,549	4,493
Product engineering team	2,006	2,371	2,771	1,405	1,340
Total	6,345	7,392	8,412	5,954	5,833

In addition to our product development team and the product engineering team in our production facilities in the PRC, experienced staff from specific production lines may assist in various product development and product engineering projects from time to time. During the Track Record Period, we had not co-operated with, or obtained assistance of, any external parties in respect of our product development and product engineering.

During the Track Record Period, we had obtained the following research and development subsidies from the relevant PRC government departments:

Date of receipt	Government department	Type of the subsidy	Amount
29 January 2016	Finance Bureau of Boluo County 博羅財政局	2015 energy saving subsidy 2015年省節能專項資金政府補助 (粵港清潔生產製造業節能項目)	RMB50,000
15 May 2018	Technology and Industrial Bureau of Boluo County 博羅科技工業信息化局	2017 technical improvement fund 2017年省級技術改造專項資金	RMB1,072,600

SALES, MARKETING AND CUSTOMERS

Our sales and marketing department

Our sales and marketing department is responsible for identifying new business opportunities as well as establishing and maintaining relationships with our customers. We have sales and marketing teams based in different geographic regions with a total of 48 people as at the Latest Practicable Date. During the Track Record Period, all of our sales were conducted through direct sales and we had not engaged any distributors for the sale of our products.

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We have sales and marketing teams located in Europe (including Belgium, Germany and the Netherlands) and the U.S. where some international apparel brands are based. Our Directors consider that having sale and marketing teams located in regions where the apparel brands are based enables us to have direct, fast and efficient communication with them. Our localised sales and marketing teams can also have a better understanding of the needs and preferences of the apparel brands and conduct regular meetings with the apparel brands to discuss the price, design concepts and specifications of new products for the coming season, their specific requirements on the products, including colours, raw materials and sizes, as well as their feedback on our products. They use their connections and networks to reach out to potential new apparel brands to present our product samples to them. From our experience, apparel brands in general require a very high level of consistency among their products such as colour tone. Through maintaining a regular and ongoing dialogue with the apparel brands, we are able to deliver products that precisely meet their requirements and hence maintain the relationships with them.

Once we are on the list of the apparel brands as their approved supplier, the apparel manufacturers appointed by the apparel brands may obtain background information on our business and products, and contact us to place orders. Our sales and marketing teams in Hong Kong are responsible for identifying new business opportunities as well as establishing and maintaining relationships with our customers in general. Our sales and marketing teams located in the PRC, Bangladesh, Vietnam, India and Pakistan are mainly responsible for communicating with local regional offices of international apparel brands, establishing and maintaining customer relationship with our major apparel manufacturers as well as apparel manufacturers of certain local apparel brands (for example, local apparel brands in Vietnam, Bangladesh, India and Pakistan) and soliciting their orders. They deal with apparel manufacturers by obtaining and following up on their orders (such as order quantity and delivery schedule) as well as providing after-sales services and technical support, such as guiding them as to how to properly apply our heat transfer products on their apparel products. Where required, our sales and marketing teams may visit these apparel manufacturers with a view to soliciting purchase orders from, and establishing customer relationship with, them. In view of the above, our Directors consider it necessary to have sale teams based in locations close to our major apparel manufacturers to promptly attend to their needs and enquiries.

Our sales and marketing department works closely with our other departments, such as product development, product engineering, warehouse/inventory management and quality control, and communicates with them regarding details of the orders, such as product specification, quantity, delivery schedule and shipment. Such coordination among different departments ensures smooth production and delivery of our products and enables us to handle special requests from our customers, such as urgent deliveries and custom-made productions, from time to time.

In addition, as part of our advertising and promotion efforts, we participate in global trade exhibitions to promote our brand image and meet with prospective customers and apparel brands.

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Our marketing services consultants

During the Track Record Period, apart from relying on our local sales and marketing teams, we had engaged individuals and companies as our marketing services consultants to provide marketing consultancy services to us. Our marketing services consultants are responsible for promoting and marketing our products and seeking product nomination from apparel brands. They mainly solicit orders from new and existing apparel brands and are responsible for managing customer relationship with apparel brands. They also co-ordinate, liaise and discuss with apparel brands regarding the price, design concepts and specifications of our products and refer the same for consideration and decision by our management team.

The table below sets out the background of our marketing services consultants and their responsible markets and apparel brands:

	<u>Background</u>	<u>Responsible market(s)</u>	<u>Responsible apparel brand(s)</u>
Mr. Van Duyse ^(Note 1)	Mr. Van Duyse has worked as an independent management consultant with over 15 years' experience in the global retail industry and has been marketing services consultant of our Group since 2011.	The European market	Responsible for over 50 apparel brands during the Track Record Period, which included but not limited to Apparel Brands A, B, D and G. For details, please refer to the paragraph headed "Our major apparel brands" in this section.
Consultant A	Consultant A has over 30 years' experience in the apparel industry and has been a marketing services consultant of our Group since 2013. Amongst her experience in the global retail industry, she has held key positions such as a global key account executive of Coats North America, a global leading industrial thread company and an international development consultant of Manohar Filaments Pvt. Ltd., an international garment brand owner.	The U.S.	Responsible for over 20 apparel brands during the Track Record Period, including Apparel Brand I.
Consultant B ^(Note 2)	Consultant B is a U.K. based service providing company which principally provides strategic marketing services for the Asian apparel sector.	The U.K.	Responsible for three apparel brands since its appointment during the Track Record Period.

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	<u>Background</u>	<u>Responsible market(s)</u>	<u>Responsible apparel brand(s)</u>
Consultant C ^(Note 3)	Consultant C has over 15 years' experience in the global retail industry and has been a marketing services consultant of our Group for the period from July 2011 to August 2015 and since August 2018. Consultant C has previously held managerial level positions in Oilily Sourcing B.V. and WE International BV, two fashion and retail brands bases in the Netherlands.	The European market	Responsible for over 10 apparel brands during the Track Record Period, which included but not limited to Apparel Brands A, B and D. For details, please refer to the paragraph headed "Our major apparel brands" in this section.
Consultant D ^(Note 4)	Consultant D has over 15 years' of sales, marketing, sales and management experience. He has previously held managerial level positions in Huashengda Zipper (Cam) Co., Ltd. and YKK Vietnam Co., Ltd., which are both global zipper manufacturers, as well as in a company that principally manufactures and sells apparel labels and trim products.	Cambodia	N/A ^(Note 4)

Notes:

1. Mr. Van Duyse provided marketing consultancy services to our Group both in his own capacity as well as through his wholly-owned company. He is also the sole director and the general manager of Charming Belgium. Mr. Van Duyse has been with our Group since 2011 and is responsible for overseeing our Group's sales and marketing operations in the European market as well as supervising our sales and marketing teams and other marketing services consultant in Europe. For the year ended 31 December 2018, the total assets, profits and revenue of Charming Belgium were all less than 5% when compared to that of our Group. As such, Charming Belgium is an insignificant subsidiary of our Company under Rule 14A.09 of the Listing Rules and Mr. Van Duyse, being a director of Charming Belgium, is not regarded as a connected person of our Company under the Listing Rules. Accordingly, his engagement as a marketing consultant of our Group will not constitute as a connected transaction of our Company upon Listing.
2. We engaged Consultant B as our marketing services consultant to explore new business opportunities and promote our business in the U.K. since 1 January 2018.
3. We engaged Consultant C as our marketing services consultant through her wholly-owned company.
4. Consultant D is our new marketing services consultant whom we engaged on 1 July 2019 and is in the course of identifying and reaching out to potential customers in his responsible market.
5. During the Track Record Period, we engaged two additional marketing services consultants apart from Mr. Van Duyse, Consultant A, Consultant B, Consultant C and Consultant D. One of them ceased to provide marketing consultancy services to us since November 2016 and another one provided marketing consultancy services to us from 1 September 2018 to 1 April 2019. However, none of the revenue of our Group during the Track Record Period was attributable to them. After the Track Record Period on 1 October 2019, we engaged a marketing services consultant who was mainly responsible for the Vietnam market. The appointment with this marketing services consultant was subsequently terminated on 31 December 2019 by mutual agreement.

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The salient terms of the agreements with our marketing services consultants are as follows:

Contractual term and renewal : The agreement is generally effective for a fixed period of time ranging from one to three years (other than in the cases of Mr. Van Duyse and Consultant C where there is no fixed period) and may be renewed by the parties in accordance with the agreement.

Consultancy fee : We pay monthly consultancy fee to our marketing services consultants ranging from approximately HK\$18,000 to HK\$140,000 as stipulated in the respective agreements.

Some of our marketing services consultants may be entitled to an additional discretionary commission calculated based on, among others, the overall operating and financial results of our Group and the performance of the marketing services consultant, and of which no fixed commission percentage is pre-determined. For Consultant B, fixed commission percentages were pre-determined based on the completed sales transactions with its involvements.

Termination : Where the agreement provides for a termination clause, either party may terminate the agreement upon prior written notice to the other party in accordance with the agreement.

While our marketing services consultants have their respective responsible apparel brands, they generally do not follow up with each of the sale orders or discuss the product specifications with the apparel brands as this will be handled by our sales and marketing teams. After they have reached out to the apparel brands and subsequent to the initial discussions, our sales and marketing teams would follow up with these apparel brands by providing various ongoing customer service assistance including product development, product engineering, order placement and pricing, and shipping logistics as well as coordinating with our other departments. As such, while our marketing services consultants have, indirectly through their connections and initial contacts with the apparel brands, procured sales to our Group during the Track Record Period, our Directors are of the view that such sales were also contributed by the collective efforts of our sales and marketing teams since we are the approved supplier of and have maintained long-term business relationship with our major apparel brands. For details of our major apparel brands, please refer to the paragraph headed “Our major apparel brands” in this section.

To the best of our Directors’ knowledge having made reasonable enquiries, during the Track Record Period, our marketing services consultants have not served or worked with other apparel labels and trim products manufacturers and have not represented any actual/potential direct or indirect competitors of our Group at the same time when they are being a marketing services consultant of our Group. To ensure that there is no actual or potential conflict of interests, our Group has internal control policy in place to require our marketing services consultants to make a declaration on an annual basis to confirm that (i) the provision of consultancy services to our Group is on an exclusive basis; and (ii) the marketing services consultant has not served or worked with other apparel labels and trim products manufacturers and is not representing any actual/potential direct or indirect competitors of our Group.

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The table below sets out the attributable revenue from apparel brands which were managed by each of our marketing services consultants and contributed with the collective efforts of our sales and marketing teams in each year and period comprising the Track Record Period for illustration purpose only:

	For the year ended 31 December			For the eight months ended 31 August 2019
	2016	2017	2018	2019
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Mr. Van Duyse <i>(Note)</i>	91.7	124.6	181.5	111.1
Consultant A	11.0	11.8	12.7	9.7
Consultant B	N/A	N/A	0.5	1.6
Consultant C <i>(Note)</i>	66.8	95.0	137.5	84.7
Consultant D	N/A	N/A	N/A	Nil

Note: Given that both Mr. Van Duyse and Consultant C are responsible for the European market, they managed and conducted follow-up on some of the same apparel brands. As such, the revenue attributable to such apparel brands was accounted for under both Mr. Van Duyse and Consultant C in the table above.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we paid an aggregate of approximately HK\$4.2 million, HK\$5.4 million, HK\$7.8 million and HK\$5.3 million, respectively, to our marketing services consultants. The amounts of consultancy fees are determined based on the agreed terms in the respective consultancy agreements of our marketing services consultants. The amounts of commission (as applicable) are discretionary and generally determined based on factors including the overall operating and financial results of our Group, the performance of the marketing services consultant during the relevant year or period, the revenue attributable to the apparel brands responsible by the marketing services consultant, and the costs and expenses incurred for soliciting the apparel brands.

According to the F&S Report, it is an industry norm for apparel label and trim product manufacturers to engage marketing services consultant to maintain business relationship with and providing customer service to customers in the apparel industry in the U.S. and Europe. Further, according to F&S, it is also an industry norm for more than one marketing services consultant to be responsible for one apparel brand as international apparel brands in general have extensive geographical coverage worldwide. According to F&S, some of the key apparel label and trim product manufacturers in the PRC have also engaged marketing services consultants with similar consultancy agreement to our Group. Based on trade interviews conducted and analysis by F&S, the terms of consultancy agreements between the aforesaid market participants generally last for one year subject to renewal, with a fixed basic monthly salary as remuneration for the marketing services consultants and could also be entitled to commission based on certain percentages of sales revenue contributed. The general terms of the consultancy agreement and/or arrangement of our Group are generally in line with the other key market participants.

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Our Directors consider that the engagement of marketing services consultants enables us to maintain a regular and ongoing dialogue with apparel brands from various regions. Our marketing services consultants have solid experience and business connections in the apparel products industry and/or the apparel labels and trim products manufacturing industry. They can represent our Company to meet the potential new customers physically and provide timely customer service and act as an additional channel for promoting our products such that our products are able to reach out to more apparel brands worldwide. While we have our own sales teams in the U.S. and Europe, our Directors consider that the engagement of marketing services consultants could provide additional value to our Group, given their familiarity with the local markets as well as the local operational environments. We engage our marketing services consultants specifically to focus on the research of business opportunities and the strengthening of sales strategies in the European and the U.S. markets. In addition, when requested by our potential customers and/or apparel brands, we are able to easily deploy our marketing services consultants to contact and meet with potential customers and/or apparel brands in a timely manner. If a new apparel brand in a new geographical location is identified, we may rely on our marketing services consultants to reach out and liaise with the new apparel brand at the outset before we arrange personnel in our sales team to provide follow up and customer services or support. This provides flexibility to the staff structure of our Group in light of our then business requirement in the relevant geographical market with minimal disruptions to the day-to-day operations of our sales teams.

Save for Mr. Van Duyse who is a director and the general manager of Charming Belgium and a Shareholder, none of our marketing services consultants and the marketing services consultancy firms engaged by us have any past or present relationship with our Group, our Shareholders, our Directors, our senior management members or any of their respective associates.

Our major apparel brands

The table below sets out the revenue contribution by our top five apparel brands during the Track Record Period based on relevant information and figures extracted from our Group's production management system:

Apparel brands	Background	Number of years of business relationship with us up to 31 August 2019	Revenue attributable to our products				
			For the year ended 31 December			For the eight months ended 31 August	
			2016	2017	2018	2018	2019
			<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Apparel Brand A <i>(Note 1)</i>	A U.S. premium retail clothing company which is one of the world's leading designer lifestyle brands with collections including men's, women's and kids' sportswear, denim, accessories, and footwear.	6	42.9	57.3	61.7	40.9	39.3

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Apparel brands	Background	Number of years of business relationship with us up to 31 August 2019	Revenue attributable to our products				
			For the year ended 31 December			For the eight months ended 31 August	
			2016	2017	2018	2018	2019
			(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Apparel Brand B (Note 1)	A U.S. luxury fashion house which is one of the leading fashion design and marketing studios in the world that designs and markets women's and men's designer collection apparel and a range of other products.	6	12.6	23.5	60.5	40.7	30.9
Apparel Brand C	A Swedish multinational clothing-retail company known for its fast-fashion clothing for men, women, teenagers and children and the second largest global clothing retailer.	8	28.7	27.6	25.2	15.7	16.3
Apparel Brand D	A U.S. manufacturer of jeans and other clothing items, particularly workwear.	7	7.4	9.3	9.8	6.2	11.1
Apparel Brand E	An international underwear manufacturer headquartered in Switzerland with branches in 45 countries worldwide, and an industry leader of women's underwear and sleepwear.	7	6.0	7.8	13.9	8.4	9.2
Apparel Brand F	An Italian clothing company with presence in 35 countries in Europe and the largest clothing retailer in Italy.	7	8.5	7.9	1.8	1.8	0.0 (Note 2)
Apparel Brand G	A German lifestyle clothing company that offers fashionable clothing and accessories in the mid-price segment and one of the leading fashion and lifestyle companies in Europe.	7	7.5	12.4	13.1	8.2	8.4
Apparel Brand H (Note 3)	A surf and snow apparel and sports goods brand listed on the Australian Securities Exchange.	4	4.4	11.2	14.4	9.2	8.8
Apparel Brand I (Note 4)	A U.S. apparel company and a global leader in jeans with about 500 stores worldwide and products available in over 100 countries.	6	7.9	8.6	8.9	6.4	6.4

BUSINESS

Notes:

1. Apparel Brand A and Apparel Brand B are both under the same group.
2. The revenue contribution by Apparel Brand F for the eight months ended 31 August 2019 was less than HK\$0.1 million.
3. Apparel Brand H is a subsidiary of Company M.
4. The revenue contribution by Apparel Brand I for the eight months ended 31 August 2019 included a rebate amount of approximately HK\$0.2 million.

Customers

Our customers are mainly apparel manufacturers which are the manufacturers of some U.S. and European apparel brands. In addition, our products are directly sold to certain apparel brands and sourcing agents appointed by some apparel brands or apparel manufacturers.

The table below sets out the breakdown of revenue by customer types:

Customer types	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%	(HK\$'000)	%
Apparel										
Manufacturers	174,529	72.2	223,481	73.2	288,191	77.5	193,073	76.6	179,543	79.3
Apparel brands	18,972	7.9	19,183	6.3	20,671	5.6	14,757	5.9	12,688	5.6
Sourcing agents	53,881	22.3	59,071	19.4	52,750	14.2	36,565	14.5	28,709	12.7
Others ^(Note)	4,182	1.7	13,470	4.4	17,558	4.7	13,143	5.1	8,938	3.9
Subtotal	251,564	104.1	315,205	103.3	379,170	102.0	257,538	102.1	229,878	101.5
Rebate expenses	(9,936)	(4.1)	(10,184)	(3.3)	(7,287)	(2.0)	(5,383)	(2.1)	(3,367)	(1.5)
Total	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0

Note: Others mainly represent online store for sale of third party designer brands and agents for apparel manufacturers (which are not sourcing agents).

Our top five customers, which were Independent Third Parties, in aggregate accounted for approximately 30.8%, 28.4%, 24.5% and 22.7% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Our largest customer accounted for approximately 20.2%, 17.4%, 12.8% and 11.6% of our total revenue for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. 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 top five customers for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 and all of them were Independent Third Parties.

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Due to the outbreak of COVID-19 and up to the Latest Practicable Date, certain cities in the PRC have been subject to lockdown by the relevant PRC authority to contain COVID-19. None of our major customers operate in these cities, such as Wuhan (武漢), and their operations were not subject to material disruptions up to the Latest Practicable Date.

The table below sets out the background information about our top five customers for the periods indicated:

Top five customers for the year ended 31 December 2016

Customer ^(Note 1)	Background	Product categories we provided	Revenue	Approximate percentage of our total revenue	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			(HK\$'000)	(%)	(years)		
Customer A ^(Note 2)	Established in 1977 and listed on Nasdaq Nordic which is an agent and manufacturer with operations in Europe and Asia	Hang tags, Woven labels, Printed labels, Heat transfer products and others	48,788	20.2	8	30 to 45 days	Bank transfer
Customer B	Founded in the early 1900s in Sri Lanka which is an apparel manufacturer	Hang tags, Woven labels, Printed labels and others	9,299	3.8	7	30 days	Bank transfer
Customer C	Founded in Hong Kong in 1978 which is an apparel manufacturer	Hang tags, Woven labels, Printed labels, Heat transfer products and others	7,070	2.9	6	30 days	Bank transfer
Customer D	Established in 2005 in Tunisia which is an apparel manufacturer and exporter	Hang tags, Woven labels, Printed labels, Heat transfer products and others	5,053	2.1	7	30 days	Bank transfer
Customer E	Founded in 2000 in the U.S. which offers apparel products under international apparel brands through online platform	Stickers	4,387	1.8	4	Month end	Cheque
			<u>74,597</u>	<u>30.8</u>			

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Top five customers for the year ended 31 December 2017

Customer ^(Note 1)	Background	Product categories we provided	Revenue	Approximate percentage of our total revenue	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			<i>(HK\$'000)</i>	<i>(%)</i>	<i>(years)</i>		
Customer A ^(Note 2)	Established in 1977 and listed on Nasdaq Nordic which is an agent and manufacturer with operations in Europe and Asia	Hang tags, Woven labels, Printed labels, Heat transfer products and others	53,197	17.4	8	30 to 60 days	Bank transfer
Customer B	Founded in the early 1900s in Sri Lanka which is an apparel manufacturer	Hang tags, Woven labels, Printed labels and others	12,343	4.0	7	30 days	Bank transfer
Customer C	Founded in Hong Kong in 1978 which is an apparel manufacturer	Hang tags, Woven labels, Printed labels, Heat transfer products and others	8,663	2.8	6	30 days	Bank transfer
Customer D	Established in 2005 in Tunisia which is an apparel manufacturer and exporter	Hang tags, Woven labels, Printed labels, Heat transfer products and others	6,282	2.1	7	30 days	Bank transfer
Customer F	Agent for apparel manufacturers	Hang tags, Woven labels, Printed labels, Heat transfer products and others	6,253	2.1	5	30 days	Cheque
			<u>86,738</u>	<u>28.4</u>			

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Top five customers for the year ended 31 December 2018

Customer ^(Note 1)	Background	Product categories we provided	Revenue	Approximate percentage of our total revenue	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			<i>(HK\$'000)</i>	<i>(%)</i>	<i>(years)</i>		
Customer A ^(Note 2)	Established in 1977 and listed on Nasdaq Nordic which is an agent and manufacturer with operations in Europe and Asia	Hang tags, Woven labels, Printed labels, Heat transfer products and others	47,725	12.8	8	30 to 60 days	Bank transfer
Customer B	Founded in the early 1900s in Sri Lanka which is an apparel manufacturer	Hang tags, Woven labels, Printed labels and others	16,701	4.5	7	30 days	Bank transfer
Customer F	Agent for apparel manufacturers	Hang tags, Woven labels, Printed labels, Heat transfer products and others	11,477	3.1	5	30 days	Cheque
Customer C	Founded in Hong Kong in 1978 which is an apparel manufacturer	Hang tags, Woven labels, Printed labels, Heat transfer products and others	8,667	2.3	6	30 days	Bank transfer
Customer G	Established in 2000 in Turkey which is an apparel manufacturer	Hang tags, Woven labels, Heat transfer products and others	6,727	1.8	6	30 days	Bank transfer
			<u>91,297</u>	<u>24.5</u>			

BUSINESS

Top five customers for the eight months ended 31 August 2019

Customer ^(Note 1)	Background	Product categories we provided	Revenue	Approximate percentage of our total revenue	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			<i>(HK\$'000)</i>	<i>(%)</i>	<i>(years)</i>		
Customer A ^(Note 2)	Established in 1977 and listed on Nasdaq Nordic which is an agent and manufacturer with operations in Europe and Asia	Hang tags, Woven labels, Printed labels, Heat transfer products and others	26,255	11.6	8	30 to 60 days	Bank transfer
Customer B	Founded in the early 1900s in Sri Lanka which is an apparel manufacturer	Hang tags, Woven labels, Printed labels and others	7,590	3.4	7	30 days	Bank transfer
Customer D	Established in 2005 in Tunisia which is an apparel manufacturer and exporter	Hang tags, Woven labels, Printed labels, Heat transfer products and others	5,818	2.6	7	30 days	Bank transfer
Customer F	Agent for apparel manufacturers	Hang tags, Woven labels, Printed labels, Heat transfer products and others	5,788	2.6	5	30 days	Cheque
Customer G	Established in 2000 in Turkey which is an apparel manufacturer	Hang tags, Woven labels, Heat transfer products and others	5,715	2.5	6	30 days	Bank transfer
			<u>51,166</u>	<u>22.7</u>			

Notes:

- (1) The revenues attributable to each of the customers is the aggregate revenue of that customer and its associated companies.
- (2) Revenue includes deduction of aggregate rebate amounts to Customer A.

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During the Track Record Period, we did not enter into any long-term sales agreement with our top five customers.

We generally give our customers credit terms within 90 days from the date of our monthly statement which we will determine after taking into account our historical relationship with, and the creditworthiness of, each customer as well as our cashflow. For certain customers with relatively less years of business relationship with us, we will request for payment before the delivery of products. Sales payments are normally settled by cheques or bank transfers. The delivery term of our products is ex-factory, and we recognise our sales to the customers when we delivery our products to them and the title to such products passes to them without recourse.

As far as our Directors are aware, none of our customers ceased sourcing products from us due to prohibition from any of the apparel brands and the sourcing agents during the Track Record Period.

Product returns and warranty

Our Group does not have a product warranty policy. If there is any defective products after we deliver our products to our customers, our Group or a third party inspector appointed by our customers will then check if there is any major defect as compared to our sample products. If the result shows that we are responsible for the defect, we will then rectify the defect, produce and deliver the products again or offer credits to our customers for the defective quantities. Our Directors confirm that our Group did not record any material sales return nor were we subject to any material product liability claims during the Track Record Period.

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Revenue by geographic location

The table below sets out a breakdown of revenue according to geographical locations of our customers during the Track Record Period:

Countries/region	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Hong Kong	86,841	35.9	104,344	34.2	112,996	30.4	76,959	30.5	62,075	27.4
The PRC	64,890	26.9	84,152	27.6	92,602	24.9	65,120	25.8	58,104	25.7
Bangladesh	16,177	6.7	25,673	8.4	37,350	10.0	24,695	9.8	22,018	9.7
Vietnam	9,495	3.9	11,758	3.9	19,382	5.2	11,296	4.5	12,342	5.5
United States	13,692	5.7	15,485	5.1	19,074	5.1	14,467	5.7	12,205	5.4
Turkey	9,841	4.1	13,049	4.3	15,112	4.1	8,457	3.4	10,525	4.6
India	5,551	2.3	8,139	2.7	14,131	3.8	8,157	3.2	7,467	3.3
Pakistan	4,638	1.9	6,963	2.3	8,822	2.4	5,417	2.1	5,637	2.5
Others ^(Note)	40,439	16.7	45,642	14.8	59,701	16.1	42,970	17.1	39,505	17.4
Rebate expenses	(9,936)	(4.1)	(10,184)	(3.3)	(7,287)	(2.0)	(5,383)	(2.1)	(3,367)	(1.5)
Total	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0

Note: Others mainly include our revenue generated from over 40 countries, including Tunisia and Germany. None of them generated more than 5% of our revenue during the Track Record Period.

Rebate arrangement

During the Track Record Period:

- (a) save as further disclosed in (b) below, we had entered into written agreements with (i) three of our customers (Customer A, Customer I and Company N); (ii) three apparel brands (Apparel Brand I, Company J and Company M); and (iii) a marketing agent (Company K), which were Independent Third Parties, pursuant to which we agreed to pay them financial incentives to help obtain sales in the form of rebates calculated at a fixed percentage of our Group's direct sales to our customers, the apparel manufacturers of the apparel brands, or customers introduced by the marketing agent, as appropriate;

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- (b) we had entered into a written agreement with Company L and had legally binding arrangement with Company X (which was our subcontractor headquartered in the U.S.), which were Independent Third Parties, pursuant to which we agreed to pay them a sum based on our Group's total sales to the customers introduced by them. We did not enter into any written agreement in respect of the above arrangement with Company X during the Track Record Period as we consider it more appropriate to allow us to first observe and assess if it could, under the rebate arrangement, attract and bring in additional sales to our Group before reducing the rebate arrangement into a written agreement. We are continuously assessing our rebate arrangement with Company X and will, subject to the additional sales that Company X may bring in and other commercial considerations, endeavour to enter into written rebate agreement with Company X. The amount of rebates payable by our Group to Company L and Company X was determined with reference to the difference between the sales price and the ex-factory price of our products, where the sales price refers to the price set by the above relevant parties for their suppliers or manufacturers, being our customers, for the supply of our products (which is the same price quoted by our Group to our customers), and the ex-factory price refers to the price quoted by us to the above relevant parties for the above products. The sales price is generally higher than, or equal to, the ex-factory price; and
- (c) we had previously entered into a written agreement with Company Y (a sourcing agent headquartered in Italy), which was an Independent Third Party, and such written agreement had expired prior to the commencement of the Track Record Period. Subsequent to the expiry of the above written agreement, we continued the arrangement with Company Y pursuant to which we agreed to pay Company Y financial incentives in the form of rebates calculated at a percentage of our Group's sales to a specified apparel brand introduced by Company Y. The actual percentage depends on the apparel brand and products. As at the Latest Practicable Date, this rebate arrangement had been discontinued as we were not able to agree on the commercial terms of the arrangement with Company Y after considering the potential profitability of such arrangement and prospects of future business relationship with Company Y.

We entered into the above rebate agreements or arrangements (including the basis adopted for calculating the amount of rebates) based on commercial negotiations and the requests of the above parties and after taking into account, on a case by case basis, the amount of the fixed percentage of the rebate and the expected volume of sales the above parties may refer to us. The rebate payable is calculated periodically based on the sale in the previous period and will be settled in an agreed time limit. During the Track Record Period, our Group generally settled its rebate payables within 45 days after receiving the invoice from the rebated parties, and there is no material difference between the accrued rebates and the final rebate amounts paid by our Group.

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The salient terms of the rebate agreements that we have entered into with the above parties are as follows:

	Contract with Customer A	Contract with Customer I	Contract with Company J	Contract with Company K	Contract with Apparel Brand I	Contract with Company M	Contract with Company L	Contract with Company N
Background	Headquartered in Sweden listed on Nasdaq Nordic which is an agent and manufacturer with operations in Europe and Asia	Headquartered in Denmark which is a sourcing agent	Headquartered in Sweden which is an apparel brand	A sourcing agent in Hong Kong which is a subsidiary of an Italian apparel brand listed in Borsa Italiana	Headquartered in the U.S. which is an apparel brand	Headquartered in the U.S. which is an apparel brand	Headquartered in the United Kingdom which is a multinational department store retailer and owns a number of apparel brands	Headquartered in the PRC which is an apparel manufacturer
Date	29 September 2010	10 December 2010	18 August 2013	2 February 2018	15 November 2018	31 May 2019	4 June 2019	8 August 2019
Effective date	1 July 2010	1 January 2011	1 April 2013	2 February 2018	15 November 2018	1 July 2019	4 June 2019	10 July 2019
Duration and termination	Remains valid until either party terminates the above agreement by giving three months' prior written notice to the other party.	Not specified	Remains valid until either party terminates the above agreement by giving one month prior written notice to the other party.	Remains valid until either party terminates the above agreement by giving 120 days prior written notice to the other party.	Unless the apparel brand terminates the agreement by giving 90 days' prior written notice, the above agreement shall expire on the first anniversary, and subject to a successive one-year renewal.	Valid for 36 months and thereafter continue on a monthly basis until terminated by either party.	Remains valid until the agreement is terminated by mutual agreement of the parties.	One year and subject to renewal.

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During the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, the revenue attributable to the sales to our customers or to the apparel manufacturers of the apparel brands or customers introduced by the marketing agent, Company L, Company X and Company Y amounted to approximately HK\$93.4 million, HK\$94.6 million, HK\$65.2 million and HK\$40.6 million, respectively and we paid an aggregate sum of approximately HK\$9.9 million, HK\$10.2 million, HK\$7.3 million and HK\$3.4 million to the above parties, respectively. The amounts of rebates incurred by our Group represented approximately 10.6%, 10.8%, 11.2% and 8.4% of the revenue contribution from the relevant customers or apparel manufacturers of the apparel brands or customers introduced by the marketing agent for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. The above decrease in rebate percentage incurred by our Group for the eight months ended 31 August 2019 was mainly as a result of (i) the discontinuation of our Group's rebate arrangement with Company Y in 2018; and (ii) the entering into rebate agreements with Apparel Brand I and Company M. The rebate percentage of Company Y was over 15% during the three years ended 31 December 2018, and the rebate amounts of Company Y attributed to approximately 11.2% of the aggregated rebate incurred by our Group for the year ended 31 December 2018. Our Company has, in November 2018 and May 2019, entered into rebate agreements with Apparel Brand I and Company M, respectively, and both of them had a lower fixed rebate percentage than the average rebate percentage of our Group and the relevant rebate amounts incurred attributed to approximately 11.8% of the aggregated rebate incurred by our Group for the eight months ended 31 August 2019.

According to F&S, (i) it is an industry norm for some of the apparel brand owners, apparel manufacturers, marketing and sourcing agents to request the apparel label and trim product manufacturers to pay rebate to them; and (ii) the salient terms of our Group's rebate agreements or arrangements are in line with the industry norm. Based on F&S's research and analysis, some of the key apparel label and trim product manufacturers in the PRC have also adopted rebate arrangement similar to our Group. Based on F&S's research, the rebate rate offered by such market participants are subject to commercial negotiation with their respective customers, order quantity and background of customers, which is generally calculated by a fixed percentage of the sales to their customers. It is considered not uncommon for the rebate amount determined with reference to the difference between the sales price and the ex-factory price of the products, where the sales price refers to the price set by the rebate entity and quoted to the customer by apparel label and trim product manufacturers, and ex-factory price refers to the price quoted by the label and trim product manufacturers to the rebate entity. The terms of rebate agreement are subject to negotiation between both parties and prior notice period is required for termination. The rebate rate and salient terms of the rebate agreement of our Group are generally in line with the other key market participants.

We may consider any future request to enter into rebate arrangements as we may receive from any of our customers, apparel brands and marketing agents and enter into such arrangement after taking into consideration the above factors. We have adopted relevant internal control policy regarding the procedures of rebate arrangements. Particularly, in considering any future rebate agreements or arrangements, our Company would take into consideration, on a case-by-case basis, the amount of the fixed percentage of the rebate and the expected volume of sales the rebate party may refer to us and rebate should only be made payable to the counterparty of the relevant rebate agreement or arrangement or its affiliated entity. All rebate arrangements are required to be approved by our managing director. As at the Latest Practicable Date, we did not receive any requests from any other customers, apparel brands and marketing agents to enter into any rebate arrangement.

Pricing policy

Our sales and marketing teams negotiate our quote directly with the apparel brands once a year and such quoted fee generally remain as the quote for our products during the year. In general, the price of our products is fixed between us and the apparel brands directly or through the sourcing agents. Occasionally, the apparel manufacturers may negotiate for a discount on the unit price of the fee quote that has been agreed with the apparel brands. Such requests for discounts are handled on a case-by-case basis. In determining our quote, we take into account the raw materials, the level of technical skills required, quantity of purchase orders, the number of delivery places, locations and labour cost.

Seasonality

Demands for our products are closely tied with the demands and trends of the apparel products market. We experience peak seasons typically (i) from March to April each year as our customers generally place more orders after the Chinese New Year in anticipation of the production of apparel products for the upcoming sales in fall and winter; and (ii) from September to October each year in anticipation of the production of apparel products for the upcoming sales in spring and summer.

Delivery arrangement

We will pack and deliver our products to our customers for their onward processing. For this purpose, we engage external logistics companies to transport and deliver our products to our customers.

As mentioned under the section headed “Summary — Recent Developments — Outbreak of COVID-19” in this prospectus, the operation of the PRC Factories was only gradually resumed since 10 February 2020. Our Directors expect that there may be slight delays of seven to 10 days in meeting the delivery schedule in February 2020 for some of the purchase orders from our customers. As the subject purchase orders do not contain any compensation clause for delay in delivery of products, the expected delay in delivery will not result in any penalty or compensation to be paid by our Group. We maintain active and continuous dialogues with our customers and if the situation of delay in delivery of our products to our customers continues, we will negotiate with our customers as to a practical delivery schedule.

Please refer to the section headed “Business — Business model and business operations — Business operations” in this prospectus for further details on delivery arrangement.

Trade War between China and the U.S.

As a result of the trade war between China and the U.S., the U.S. government imposed the following additional tariffs on certain products imported from China with an economic value of about US\$550 billion at rates currently ranging from 7.5% to 25% as set out in the following lists of products:

- the first list of products, which are subject to an additional 25% tariff, was released and came into effect on 6 July 2018;

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- the second list of products, which covers a wider range of products imported from China and are subject to an additional 25% tariff, was released and came into effect on 23 August 2018;
- the third list of products (“**List 3**”), which were subject to an additional 10% tariff, was released and came into effect on 24 September 2018. On 9 May 2019, the U.S. government officially announced that effective 10 May 2019, the tariffs imposed on the third list of products would be increased from 10% to 25%;
- the fourth list of products, which was proposed to be subject to an additional 10% tariff, was initially released on 17 May 2019 and proposed to become effective on 1 September 2019; however, on 30 August 2019, the U.S. government officially announced that the products under the initial fourth list were reclassified as (i) category A (“**List 4A**”) and products under List 4A will be subject to an additional 15% tariff effective from 1 September 2019; (ii) category B (“**List 4B**”) and products under List 4B will be subject to an additional 15% tariff with an effective date of 15 December 2019; and (iii) certain products that were under the initial fourth list that were ultimately removed. On 15 January 2020, China and the U.S. signed a Phase One Economic and Trade Agreement. This Phase One Economic and Trade Agreement confirmed the U.S. Trade Representative’s (USTR) notice in December 2019, which stated that the additional tariffs of 15% on List 4B products scheduled to go into effect on 15 December 2019 are suspended indefinitely. The U.S. further agreed to reduce tariffs on List 4A products from a rate of 15% to a rate of 7.5%, effective 14 February 2020. The 25% tariffs on products of China on List 1, List 2, and List 3 will remain in place; and
- a proposal initially announced by the U.S. government on 23 August 2019 to increase the tariff level on the products under the first, second and third lists, from 25% to 30%. The USTR has not yet announced in its recent notice to withdraw this proposed increase. However, at the same time, the proposal has no legal effect until formally issued by the USTR under a notice.

Pursuant to the federal law of the U.S., persons or entities identified as an importer of record will have the ultimate responsibility for paying all customs duties, including the Trade War Tariffs assessed on such products. An importer of record must be the “owner or purchaser” of the imported merchandise, or a licensed customs broker when designated by the “owner, purchaser or consignee” of the imported merchandise.

To the best of our Directors’ knowledge, our Directors understand that some of the products manufactured by the PRC Factories that we sell and export to our customers situated in the U.S. (the “**U.S. Customers**”) were included in List 3, such as hang tags, printed labels, woven labels, stickers, strings (such as sewing thread, twine and cordage), patches and packaging boxes. Some of our products, including heat transfer products and strings (such as other articles of plastic), were included in List 4A. Therefore, they are subject to the Trade War Tariffs.

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Given that our sales to the U.S. Customers did not contribute a significant portion of our revenue during the Track Record Period, our Directors do not expect that the Trade War Tariffs have or will have any material impact on our business and outlook. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we derived approximately 5.7%, 5.1%, 5.1% and 5.4% of our revenue from sales to the U.S., respectively. For the year ended 31 December 2018 and the eight months ended 31 August 2019, we had made net tariff payments under the Trade War Tariffs of approximately US\$7,000 and US\$7,700, respectively.

As advised by our legal advisers as to U.S. law, if our products manufactured by the PRC Factories are sold to customers in non-U.S. countries which manufacture apparel products for apparel brands and attach our products as components or accessories to the apparel products, and such apparel products are then shipped to the U.S., the component and accessory products we provided (if they are subject to the Trade War Tariffs) generally are not considered as separate products being imported into the U.S. for customs duty purposes. The tariff assessment would be based on the transaction value of the import and be paid by the importer of record.

While we may be identified as the importer of record for the sales of our products to the U.S. Customers, a majority of these sales are conducted under the pre-existing term that the sales prices are exclusive of any tax or tariff payments and accordingly, any tax or tariff payments would be borne by the U.S. Customers unless such products were first imported by Charming US before distributing to the U.S. Customers. Such term and arrangements have been in place prior to the imposition of the Trade War Tariffs and going forward, we will endeavour to negotiate and conclude our sales to any new U.S. Customers based on this similar term as well. As such, our exposure under the Trade War Tariffs is not significant.

Concerning our sales to other U.S. Customers which are not based on the term as described above, we have negotiated with these U.S. Customers, either for them to bear the additional Trade War Tariffs or to increase the resale price to U.S. Customers of the relevant products sold to them after importation into the U.S.. The change in payment term and/or the price adjustment did not and is not expected to materially affect the demand of these U.S. Customers of our products as our products are largely accessories attached to apparel products and our Directors consider that any potential impact of the increased selling price of our product on the cost structure of the relevant U.S. Customers should be insignificant.

In any event, our sales to the U.S. Customers did not contribute a significant portion of our revenue during the Track Record Period. Therefore, we do not expect that the trade war between China and the U.S. has or will have any material impact on our business and outlook. Further, we do not consider that our expansion plans will be adversely affected by such tariffs as majority of the proceeds from the Global Offering will be applied to our expansion plan in Bangladesh. However, there is no assurance that our products will not be subject to any new tariff imposed by any government in the future and that our measures are effective at all times. Please refer to the section headed “Risk Factors — Conducting business in overseas markets involves risks and uncertainties, such as political and economic uncertainty, which may lead to reduced overseas sales and reduced profitability associated with such sales” in this prospectus for further discussion of the related risks.

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We are closely monitoring the development of the situation and are in continuous dialogues with our U.S. Customers such that we will be able to promptly respond to any new development. Other strategies may be adopted by us from time to time to respond to changing situations and mitigate the impact of the trade war on our business and operations.

CUSTOMER SERVICE

Our customer service team comprised 80 staff as at the Latest Practicable Date and is responsible for maintaining relationships with our existing customers. Our customer service team communicates with our customers on a regular basis to collect their feedback on our products as well as with our other departments to follow up on customers' orders. They are also responsible for handling complaints from our customers. Complaints received are handled in a timely manner and if required, we will despatch appropriate personnel to the location of the complainant to attend to their needs. Our Directors confirm that during the Track Record Period, we did not receive any material complaints or claims from our customers.

RAW MATERIALS AND SUPPLIERS

Raw Materials

Cost of raw materials consumed accounted for approximately 51.3%, 55.5%, 48.9% and 47.8% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. The major raw materials we used in our production process are papers, chemical products, strings and seals, and yarns. For details of our suppliers, procurement process and inventory management, please refer to the sections headed "Business — Raw materials and suppliers — Suppliers" and "Business — Inventory management" in this prospectus. Further, we procure various apparel accessories such as sequins and badges for direct selling to our customers such that we may provide a one-stop solution to our customers.

The table below sets out the cost of our major raw materials consumed, and their respective percentage to our total cost of sales during the Track Record Period:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Papers	26,267	19.5	36,173	20.7	39,359	18.8	28,928	20.1	20,371	17.4
Chemical products	9,682	7.2	12,376	7.1	13,572	6.5	9,113	6.3	7,607	6.5
Strings and seals	10,932	8.1	9,120	5.2	9,429	4.5	6,695	4.7	4,611	3.9
Yarns	3,073	2.3	3,498	2.0	7,699	3.7	5,411	3.8	3,218	2.7

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The table below sets out the purchase price range of our major raw materials during the Track Record Period:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Papers (<i>per 1,000 pieces</i>)	63.7 to 27,000.0	46.5 to 21,750.8	46.5 to 18,969.7	46.5 to 18,000.0	60.3 to 15,610.0
Chemical products (<i>per kg</i>)	6.8 to 445.0	6.8 to 451.0	6.8 to 438.4	6.8 to 421.3	6.8 to 448.3
Strings and seals (<i>per kg</i>)	18.8 to 96.9	18.8 to 94.0	19.0 to 93.1	23.5 to 93.1	19.0 to 95.6
Yarns (<i>per kg</i>)	20.9 to 2,000.0	22.2 to 2,000.0	23.9 to 1,500.0	23.9 to 196.7	25.0 to 1,500.0

Due to the nature of the raw materials required for our production, their price quotes are readily available in the market for our reference and comparison. No significant changes in the purchase price of the raw materials were experienced during the Track Record Period. We have adopted certain cost control measures to mitigate the impact of rising raw material costs on us. Our procurement teams will, in accordance with the cost control targets set down for the year, look for appropriate alternative sources of raw materials with lower prices or engage in negotiations with our suppliers for a discount on their products. In addition, our product development team is dedicated to research if any new raw materials of a lower cost may be used in our production process to replace raw materials of a higher cost while ensuring the quality of our products will not be compromised; or if any products may be developed on our own for use as raw materials in our production process. For instance, we have developed our own heat transfer ink and ink mixing technique for use with the heat transfer technology. The costs for producing the heat transfer ink on our own is also lower than purchasing similar ink from our suppliers. Through these measures, we have been able to have a close control on our cost of sales. Our Directors consider that if the purchase costs of our major raw materials increase significantly, we may be able to pass on these additional costs to our customers.

As a result of the outbreak of COVID-19, some countries have implemented travel restrictions on, among others, travellers coming from the PRC and Hong Kong. Given that such restrictions apply only to travellers but not goods, our Directors consider that such restrictions did not have any adverse impact on the supply of our raw materials up to the Latest Practicable Date. Our Directors also confirm that there was no actual or foreseeable disruption on the supply of raw materials from our suppliers up to the Latest Practicable Date. Our Directors expect that our inventory of raw materials and work in progress as at the Latest Practicable Date may produce products of approximately 371.7 million in terms of sales volume. If the operation of our suppliers is disrupted, suspended or locked down due to the outbreak, we will be able to find suitable replacements with comparable quality and if, in extreme circumstances, no supplier in the PRC is available, we will be able to source from suppliers in Hong Kong. Our Directors consider that sourcing raw materials from suppliers in Hong Kong will not materially increase our production cost. We will also prioritise the use of raw materials to more urgent purchase orders.

Sensitivity analysis on cost of raw materials

Any significant fluctuation in the price of our major raw materials may have a significant adverse impact on our cost of sales and profitability.

Please refer to the section headed “Financial information — Key factors affecting our results of operations” in this prospectus for sensitivity analysis on cost fluctuation of our raw materials.

Suppliers

We mainly source our raw materials from suppliers located in the PRC and engage only suppliers which are on our approved supplier list. In some cases, apparel brands may require us to procure raw materials from their designated suppliers. We generally select our suppliers based on the following criteria: (i) product quality; (ii) price; (iii) their production capability and stability in the supply of raw materials; (iv) their logistic arrangements; (v) payment terms offered; and (vi) after-sale services. Our procurement and quality control staff will normally conduct a quality assessment on the potential suppliers before they are selected as our approved suppliers. The quality assessment will involve the inspection of relevant qualification certificates, such as FSC certificate and OEKO-TEX certificate, raw materials samples and in some cases, the production sites, of the suppliers. After the potential supplier is approved, we will add the supplier to our approved supplier list. The approved supplier list is reviewed on an annual basis for their performance based on the above criteria. An internal grading would be given to our suppliers following the performance reviews in respect of which we would adjust our ongoing purchase orders with the suppliers with reference to such internal gradings.

We have not entered into long-term supply contracts with our suppliers and this conforms with the industry practice as our demands for raw materials are subject to fast changing fashion trend in the market. We generally place orders for our raw materials on an order-by-order basis after seeking and confirming quotations from the suppliers. Our purchase order includes order information such as unit price, quantity, delivery schedule and payment details. Credit terms with our major suppliers are generally within 60 days, and payments are mainly made by bank transfers. Raw materials ordered are usually delivered to us within three to 14 days. During the Track Record Period, we did not encounter any significant shortage or delay in the supply of raw materials.

We consider that it is not difficult to replace majority of our suppliers with other suppliers of comparable quality and price in the market. Other than the price transparency of our raw materials, we source our key raw materials by obtaining quotes from two to five suppliers at a time such that we are able to compare their prices and product quality, as well as to find suitable replacements as and when the need arises. We maintain a stable relationship with our suppliers during the Track Record Period and have a business relationship of over six years with some of our major suppliers.

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For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our top five suppliers, which were Independent Third Parties, in aggregate accounted for approximately 12.1%, 10.3%, 13.0% and 9.4%, and our largest supplier accounted for approximately 4.3%, 2.3%, 3.3% and 2.8%, of our total cost of sales (including subcontracting services), respectively. 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 top five suppliers during the Track Record Period and all of them were Independent Third Parties.

Due to the outbreak of COVID-19 and up to the Latest Practicable Date, certain cities in the PRC have been subject to lockdown by the relevant PRC authority to contain COVID-19. None of our major suppliers operate in these cities, such as Wuhan (武漢), and their operations were not subject to material disruptions up to the Latest Practicable Date.

The table below sets out a summary of our top five suppliers during the Track Record Period:

Top five suppliers for the year ended 31 December 2016

Supplier	Background	Major raw materials and services provided to our Group	Procurement amount (HK\$'000)	Approximate percentage of our total cost of sales (%)	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
Supplier A	Manufacturer of heat transfer products	Heat transfer products	5,753	4.3	6	60 days	Cheque/bank transfer
Supplier B	Supplier of papers	Papers	2,872	2.1	12	60 days	Bank transfer
Supplier C	Supplier of papers	Papers	2,788	2.1	8	30 days	Bank transfer
Supplier D	Supplier of textile	Strings and seals	2,553	1.9	3	30 days	Bank transfer
Supplier E	Supplier of apparel accessories	Strings and seals	2,333	1.7	6	30 days	Bank transfer
			16,299	12.1			

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Top five suppliers for the year ended 31 December 2017

Supplier	Background	Major raw materials and services provided to our Group	Procurement amount	Approximate percentage of our total cost of sales	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			(HK\$'000)	(%)			
Supplier F	Supplier of printed products and woven labels	Woven labels	4,070	2.3	4	30 days	Bank transfer
Supplier G	Supplier of papers	Papers	3,863	2.2	3	Cash on delivery	Bank transfer
Supplier H	Supplier of RFID inlays	RFID inlays	3,586	2.1	3	30 days	Bank transfer
Supplier I	Supplier of plastic products	Strings and seals	3,248	1.9	8	30 days	Bank transfer
Supplier C	Supplier of paper	Papers	3,153	1.8	8	30 days	Bank transfer
			<u>17,920</u>	<u>10.3</u>			

Top five suppliers for the year ended 31 December 2018

Supplier	Background	Major raw materials and services provided to our Group	Procurement amount	Approximate percentage of our total cost of sales	Number of years of business relationship with us as at 31 August 2019	Credit term	Payment method
			(HK\$'000)	(%)			
Supplier G	Supplier of papers	Papers	6,868	3.3	3	30 days	Bank transfer
Supplier J	Supplier of papers	Papers	6,847	3.3	6	60 days	Bank transfer
Supplier F	Supplier of printed products and woven labels	Woven labels	6,548	3.1	4	30 days	Bank transfer
Supplier K	Supplier of papers	Papers	3,572	1.7	2	60 days	Bank transfer
Supplier L	Manufacturer of soft 3D labels	Patches	3,296	1.6	3	30 days	Bank transfer
			<u>27,131</u>	<u>13.0</u>			

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Top five suppliers for the eight months ended 31 August 2019

Supplier	Background	Major raw materials and services provided to our Group	Procurement amount <i>(HK\$'000)</i>	Approximate percentage of our total cost of sales <i>(%)</i>	Number of years of business relationship with us as at eight months ended 31 August 2019	Credit term	Payment method
Supplier G	Supplier of papers	Papers	3,279	2.8	3	30 days	Bank transfer
Supplier J	Supplier of papers	Papers	2,407	2.1	6	60 days	Bank transfer
Supplier K	Supplier of papers	Papers	1,932	1.6	2	75 days	Bank transfer
Supplier N	Supplier of plastic products	Plastic films	1,796	1.5	2	60 days	Bank transfer
Supplier I	Supplier of plastic products	Strings and seals	1,668	1.4	8	30 days	Bank transfer
			<u>11,082</u>	<u>9.4</u>			

Overlapping suppliers and customers

During the Track Record Period, Supplier F was also our customer and our subcontractor. Supplier F principally supplies printed products and woven labels. The transaction involved the sale of raw materials from us to Supplier F, who processed the raw materials in accordance with our specifications. We then purchased the processed goods from Supplier F and sold to other customers.

Sales to Supplier F amounted to nil, nil, approximately HK\$13,917 and approximately HK\$192,443 for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. The amount of subcontracting fee paid to Supplier F attributed to approximately 1.3%, 2.3%, 3.0% and 1.0% of our total cost of sales for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. The revenue and gross profit generated by our Group for the sales of goods purchased from Supplier F attributed to approximately 1.4%, 2.8%, 4.1% and 0.9% of our total revenue, and approximately 1.4%, 3.6%, 5.3% and 0.9% of our total gross profits, for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively. Our Directors confirm that Supplier F was one of our top five suppliers and was not our major customer. Save and except for the above transaction, none of our top five suppliers was our customer, or vice versa, during the Track Record Period.

Subcontractors

We engage external subcontractors to produce some of our products, such as heat transfer products, woven labels and sequins, to meet demands of some of our customers when we do not have the required production technologies or machineries at the relevant time or relevant location or to conduct certain production processes which are more labour intensive and for better time management and efficiency, particularly during our peak seasons, such as folding of bags and packaging boxes and putting strings through hang tags.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we engaged over 30 subcontractors for conducting the above production processes, respectively. The total amount paid to these subcontractors accounted for approximately 11.5%, 9.3%, 10.7% and 9.0% of our cost of sales for the same period, respectively. All of our subcontractors were Independent Third Parties and we have more than five years of business relationships with some of our subcontractors.

We maintain a list of subcontractors and take into account factors such as product quality, pricing, proximity of their factories or workshops to our production facilities, time of delivery and years of their business relationship with us as key considerations when we select our subcontractors. After we have approved a subcontractor, we will add the subcontractor to our approved vendor list and will engage only those subcontractors from our approved vendor list. We review the performance of our subcontractors on an annual basis in terms of product and service quality. As part of our quality control, we inspect the quality of the products from our subcontractors on a random basis. We may also visit their production facilities and inspect their work process where required.

We have not entered into long-term and legally binding contracts with our subcontractors and this conforms with the industry practice. We generally place purchase orders with our subcontractors on an order-by-order basis.

The salient terms of our purchase order with our subcontractors during the Track Record Period are as follows:

Salient terms	Descriptions
Product descriptions	The descriptions of the products, such as product type, specifications and materials used, are included.
Order details	The number of pieces for each colour, size, the unit price and the total amount, are specified.
Delivery	The subcontractor shall generally be responsible for all delivery arrangements and to deliver products to our specified location at their own cost.
Payment terms	The credit terms are generally within 30 days of delivery.

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Before we place orders, we normally seek quotations from our subcontractors with credit terms ranges from 30 to 60 days. The subcontracting fee is determined by reference to a number of factors, including costs of raw materials, technical elements of products and delivery terms. Payment is mainly made by bank transfer in Renminbi.

During the Track Record Period, we had not received any material claims or complaints by our customers in respect of the quality of products processed by our subcontractors. Our Directors consider that our Group did/does not have undue reliance on our subcontractors as we would be able to find alternative subcontractor(s) readily and on similar commercial terms if any of our major subcontractors ceases to provide services to us. During the Track Record Period, we did not experience any situation where the subcontractors had failed to fulfil any significant orders, and we had not received any material claims or complaints by our customers in respect of the quality of products processed by our subcontractors.

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 top five subcontractors for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019.

INVENTORY MANAGEMENT

The major raw materials used in the production of our products are papers, chemical products, strings and seals, and yarns. We have warehouses in our production facilities in the PRC, Bangladesh and Vietnam for the storage of raw materials and finished goods, and we have warehouses in Hong Kong and the U.S. for the storage of finished goods. We source a majority of our raw materials when our customers confirm their purchase orders with us. If a certain type of raw material has been repeatedly ordered in a particular month, our procurement team will discuss with our management for placing a bulk order of that specific raw material for use in the coming two to three months. Towards the end of each month, our procurement team also discusses with our management and our sales and marketing teams as to the estimated raw material quantity required for the following month.

As our suppliers are mainly located in the PRC, they are generally able to deliver to us the raw materials we ordered within a period of three to 14 days upon receipt of our orders. If the raw materials are for use by our production facilities outside the PRC, such raw materials will first be shipped to Hong Kong and then to the location of the relevant production facilities. We will arrange the transportation of raw materials from Hong Kong to our relevant production facilities. We prefer this arrangement than sourcing raw materials locally as it is more cost-effective and we are able to have a better control on the quality of the raw materials we use in the production of our products.

We source a majority of our raw materials when customers confirm their purchase orders with us. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our inventory turnover days were approximately 93.1 days, 76.5 days, 68.9 days and 86.5 days, respectively. Of approximately HK\$42.0 million inventory as at 31 August 2019, approximately HK\$13.1 million was attributable to finished goods. Further, due to the rapidly changing consumer preferences for apparel products, it is not of our industry norm to retain high levels of raw material inventories. We perform reviews on our inventory levels at the end of each month with reference to the aged inventory analysis, historical trends and management judgement to determine if any write-down of inventories is required. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we did not have any write-down of inventories.

QUALITY CONTROL

We take pride in the quality of the products we produce and strongly emphasise quality control over our products. We implement stringent quality control systems and procedures including the following:

- *Purchase of raw materials* — we only purchase our raw materials from suppliers who are on our approved supplier list and adjust our purchase orders with reference to our internal gradings of these suppliers. In selecting our approved suppliers, reference is made to (i) product quality; (ii) price; (iii) their production capability and stability in the supply of raw materials; (iv) their logistic arrangements; (v) payment terms offered; and (vi) after-sale services. We perform sample checks on the raw materials in accordance with our internal quality standards on raw materials and return any raw materials that fail to meet our standards.
- *Pre-press* — prior to printing a particular set of products, our pre-press production staff will input the relevant information about the product into our system, such as size, colour, style, fabric content, country of origin, and washing and care instructions. An input checking system is adopted where one staff is responsible for inputting the relevant information into our system, while another staff is responsible for checking the input results. This ensures that the products produced accurately meet the specifications requested by customers and minimise production errors.
- *Production and printing* — we place a lot of emphasis on ensuring that our products are printed in the exact colour tone requested by our customers as any colour deviation may have an immense impact on the corporate image of the apparel brands. Our ink mixing personnel are responsible for mixing inks in appropriate proportions to yield the required colour. This process is monitored by our quality control team to ensure it conforms with specific quality control and production process requirements.

In addition to colour management, we have put in place quality control steps to ensure that the papers we use for printing meet the requirements of our customers, including their texture, colour and dimension.

Further, we have detailed internal control standards governing different printing processes, such as paper printing and woven label printing. For example, our staff will perform an initial checking and inspection of first batch finished products during the production process, as well as random sample checks of the finished products during the production process. By strictly adhering to these standards, we ensure that our products are correctly printed in exact positions without any missing prints and free from ink traces or marks.

- *Post-press* — after the production process, our quality control team will then check the finished products on a sampling basis. We also perform laboratory tests on our finished products to ensure the colours of our products will not fade away after several rounds of washing.
- *Subcontractors* — we review the performance of our subcontractors on an annual basis in terms of their product and service quality. Our quality control staff inspect the quality of the products from our subcontractors on a random basis.

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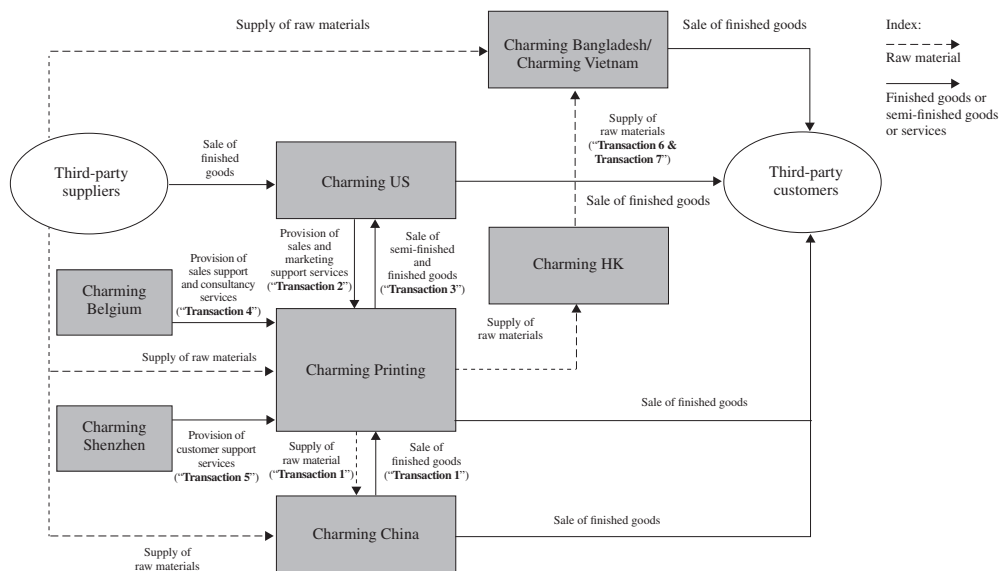
Each of above process is clearly governed by detailed internal procedures and guidelines. Our quality control team performs internal reviews on the above processes from time to time to ensure they are up to international and industry standards.

Apart from performing quality control on the production process, our quality control team is also responsible for conducting regular inspections on our machines and equipment to ensure they can perform at optimum level. Regular internal assessments are conducted on our quality management systems to ensure they are in continuous compliance of international and industry standards. We do not have any product warranty policy. In the event that there are any potential issues regarding the quality of our products, our quality control team will negotiate with our customers to resolve the issues, including rectifying the defects, producing and delivering the products again or offering credits to our customers for the defective quantities. For details, please refer to the section headed “Business — Sales, marketing and customers — Product returns and warranty” in this prospectus.

We were awarded various accreditations and awards in relation to our quality products and our quality management systems. Please refer to the section headed “Business — Awards and recognitions” in this prospectus for further details.

TRANSFER PRICING

During the Track Record Period, we carried out our operations mainly in Hong Kong, the PRC, Bangladesh and Vietnam, and conducted businesses with customers and suppliers in different jurisdictions. The diagram set out below illustrates the major business and logistic flow of raw materials, semi-finished and finished products and provisions of support and consultancy services within our Group during the Track Record Period.



We mainly procure required raw materials from third party suppliers or from some of our subsidiaries in Hong Kong. Apart from the sale of our products to third party customers, we have intra-group sale of our products and provisions of support and consultancy services.

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We have engaged Ernst & Young Tax Services Limited, an independent tax consultant (the “**Tax Consultant**”), to review our transfer pricing arrangements so as to evaluate specifically compliance of the above intra-group transactions with the relevant transfer pricing regulations and guidelines and the potential tax implications on our Group during the Track Record Period. Benchmarking studies were performed using the transaction net margin method as the appropriate transfer pricing method to evaluate whether the above intra-group transactions were conducted at arm’s length basis between the above intra-group companies during the Track Record Period.

The scope of work of the Tax Consultant includes review of the functional profiles, preparation of comparable searches and quantification of potential exposure (if any) for applicable Group entities in accordance with the prevailing local transfer pricing laws and regulations for the Track Record Period. Based on the above work performed, the Tax Consultant is of the view that the tax payable of HK\$627,607 estimated by our Group is based on arm’s length standard and that the amount is adequate. The breakdown of potential tax exposure by entity and year is provided below:

	For the years ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Charming US	180,718	145,202	–	–
Charming Belgium	86,575	–	105,676	89,430
Charming Shenzhen	3,901	5,358	5,231	5,516
	271,194	150,560	110,907	94,946
Total				

Having considered the work of the Tax Consultant, our Directors are of the view that potential transfer pricing exposure at our Group level during the Track Record Period is insignificant given the size and transaction volume of the relevant Group entities is not significant. The estimated tax exposure of HK\$627,607 is immaterial at our Group level during the Track Record Period. In addition, our Controlling Shareholders have entered into a Deed of Indemnity to indemnify us for all costs, losses and/or expenses for any taxation of our Group incurred with respect to the transfer pricing arrangement that arose prior to the Listing.

Based on the benchmarking analysis performed, the three-year weighted average mark up on total costs (the “**MTC**”) of Charming China in Transaction 1, which refers to the supply of raw material to Charming China by Charming Printing and the sale of finished goods to Charming Printing by Charming China, falls within the inter-quartile range established by comparable manufacturers in the Asia Pacific region. As such, the Tax Consultant concluded that the pricing of Transaction 1 is consistent with the arm’s length principle during the Track Record Period.

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In relation to Transaction 6 and Transaction 7, the raw materials sold were based on the purchase costs plus relevant expenses. Therefore, the Tax Consultant concluded that the loss incurred by Charming Vietnam and Charming Bangladesh in these transactions did not arise from the profit shifting through transfer pricing arrangements during the Track Record Period. Having considered the work of the Tax Consultant, our Directors consider that there is no transfer pricing risk.

In relation to:

- (a) Transaction 2 and Transaction 3, they were assessed in an aggregate basis by comparing the three-year weighted average operating margin (the “OM”) of Charming US against the OM of comparable distributors in the North America region;
- (b) Transaction 4, the MTC earned by Charming Belgium was compared against the MTC of comparable service providers in Europe region; and
- (c) Transaction 5, the MTC earned by Charming Shenzhen was compared against the MTC of comparable service providers in Asia Pacific region.

Based on the above analyses, certain transfer pricing risks were identified in these intra-group transactions. In relation to Transaction 2, Transaction 3 and Transaction 5, Charming US and Charming Shenzhen incurred operating loss on a three-year weighted average basis. In relation to Transaction 4, Charming Belgium generated a thin profit margin on a three-year weighted average basis. Accordingly, the above entities’ results in these transactions fall below the arms’ length range. Assuming that each of Charming US, Charming Shenzhen and Charming Belgium earns a margin based on the median of the benchmark of the relevant comparable companies as mentioned above during the Track Record Period, our Group would have quantified an aggregate tax payable amount of approximately HK\$627,607 for the Track Record Period. However, given the size and transaction volume of Charming US, Charming Shenzhen and Charming Belgium is not significant and having considered the work of the Tax Consultant, our Directors consider that the potential transfer pricing exposure should be limited and no provision needs to be made in respect of such liability. In addition, as a further mitigating measure, our Controlling Shareholders have entered into a Deed of Indemnity to indemnify us for all costs, losses and/or expenses for any taxation of our Group incurred with respect to the transfer pricing arrangement that arose prior to the Listing. Further details of the Deed of Indemnity are set out in Appendix IV to this prospectus.

We have adopted the following measures to ensure on-going compliance with relevant transfer pricing laws and regulations in Hong Kong and the PRC:

- our transfer pricing arrangements were monitored to ensure compliance with the arm’s length principle;
- training was provided to the senior management relating to updates on relevant transfer pricing laws and regulations in the relevant jurisdictions to ensure no material deviation exists between the transfer pricing methodology adopted by us and the relevant laws and regulations;
- all reporting forms are reviewed by two of our executive Directors before submitting to the relevant tax authority;

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- the benchmarking analysis will be updated periodically (e.g., annually) to reflect the corresponding market conditions; and
- transfer pricing documentation will be prepared annually for compliance purpose.

However, similar to other matters relating to tax, we cannot assure that relevant tax authorities would not subsequently challenge the appropriateness of our Group’s transfer pricing arrangement or that the relevant regulations or standards governing such arrangement will not be subject to future changes. Please refer to the section headed “Risk factors — Taxation authorities could challenge our allocation of taxable income which could increase our consolidated tax liability” in this prospectus for further details.

Our Directors confirm that during the Track Record Period and up to the Latest Practicable Date, we were not aware of any inquiries, audit, investigation or challenge by any relevant tax authorities in Hong Kong, the PRC, the U.S., Belgium, Bangladesh and Vietnam in relation to our intra-group transactions.

AWARDS AND RECOGNITIONS

Over the past years, we have received various awards and certifications in respect of the quality and reputation of our products, which include the following:

Awards and accreditations	Years of award or certification/ valid period	Issuing institution/ authority	Description
1. ISO 9001:2015	2012 to 2015 2015 to 2018 2018 to 2021	TUV Rheinland Cert GmbH	Our systems are in compliance with the ISO 9001:2015 quality management requirements.
2. ISO 14001:2015	2013 to 2016 2016 to 2018 2018 to 2021	TUV Rheinland Cert GmbH	Our systems are in compliance with the ISO 14001:2015 environmental management requirements.
3. FSC Chain of Custody Certification	2011 to 2016 2016 to 2021	SGS Hong Kong Limited	Our products meet the requirements of chain of custody by purchasing FSC certified mixed and recycled paper, paperboard and adhesive paper, and sales of FSC certified mixed and recycled paper and paperboard.
4. G7 Master Qualification — Master Facility Colorspace	2012 to 2013 2013 to 2014 2014 to 2015 2015 to 2016 2016 to 2017 2017 to 2018 2018 to 2019 2019 to 2020	Idealliance	We achieved the compliance level of G7 Master Qualification by demonstrating through production of print and/or proofing, the knowledge, skill, and best practices required to effectively operate the G7 methodology in a graphic communications production environment.

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	Awards and accreditations	Years of award or certification/ valid period	Issuing institution/ authority	Description
5.	G7 Master Qualification — Process Control Master Facility	2013 to 2014 2014 to 2015 2015 to 2016 2016 to 2017 2017 to 2018 2018 to 2019 2019 to 2020	Idealliance	We achieved the compliance level of G7 Process Control Master Qualification by demonstrating a thorough knowledge and skill of the fundamental best practices of process control in a graphic communications production environment.
6.	OEKO-TEX Standard 100 certificate (woven label and printed label)	2012 to 2013 2013 to 2014 2014 to 2015 2015 to 2016 2016 to 2017 2017 to 2018 2018 to 2019 2019 to 2020	OEKO-TEX Association	Our woven label and printed label products meet the human ecological requirements of the Standard 100 by OEKO-TEX.
7.	OEKO-TEX Standard 100 certificate (heat transfer printed label)	2012 to 2013 2013 to 2014 2014 to 2015 2015 to 2016 2016 to 2017 2017 to 2018 2018 to 2019 2019 to 2020	OEKO-TEX Association	Our heat transfer printed label products meet the human ecological requirements of the Standard 100 by OEKO-TEX.
8.	OEKO-TEX Standard 100 certificate (silicone patch)	2018 to 2019 2019 to 2020	OEKO-TEX Association	Our silicone patch products meet the human ecological requirements of the Standard 100 by OEKO-TEX.
9.	Bluesign Certificate	2018 to 2021	Bluesign Technologies AG	Our textile accessories products meet the relevant Bluesign criteria.
10.	Global Recycled Standard (GRS) 4.0 — Certificate of Compliance	2019 to 2020	Control Union Certifications B.V.	Our printed woven fabric and woven fabric comply with the relevant standards for fabric under the global recycled standard 4.0.

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	Awards and accreditations	Years of award or certification/ valid period	Issuing institution/ authority	Description
11.	Global Recycled Standard (GRS) 4.0 — Certificate of Compliance	2019 to 2020	Control Union Certifications B.V.	Our woven label products comply with the relevant standards for functional accessories under the global recycled standard 4.0.
12.	Global Recycled Standard (GRS) 4.0 — Certificate of Compliance	Valid until: 29 October 2020	Control Union Certifications B.V.	Our hang tags, printed labels and strings and seals products comply with the relevant standards for fabrics and accessories under the global recycled standard 4.0.
13.	Material Health Certificate — Gold level	Valid until: 2 June 2021	Cradle to Cradle Products Innovation Institute	Our patch products were assessed against the requirements in the Material Health category of the Cradle to Cradle Certified™ Product Standard for chemical hazard identification and achieved a gold level.
14.	Certificate of Completion (Higg Index)	2016	Sustainable Apparel Coalition	Our sustainability practice was certified to have utilised the Higg Index for measure and grow.
15.	Hong Kong — Guangdong Cleaner Production Partner (Manufacturing)	Valid until: 4 February 2017	The Economic & Information Commission of Guangdong Province; Environment Bureau, The Government of the HKSAR	We were awarded as the Hong Kong – Guangdong Cleaner Production Partner (Manufacturing).

COMPETITION

We face competition in many aspects of our business. The apparel labels and trim products companies generally face competition in terms of product quality, offerings and service delivery as well-established business relationship with customers and suppliers. According to the F&S Report, entry barriers to the apparel labels and trim products manufacturing industry, include (i) the requirement to commit heavy capital investment as the industry is considered capital-intensive with high operational costs required in respect of the establishment of production facilities, recruitment of technical staff and workers as well as procurement and the diversification into different product lines; and (ii) the possession of industry knowledge and technological know-how in production is critical especially given the evolving fashion trends, apparel manufacturers are required to demonstrate proven industry knowledge in fulfilling requirements and product specifications of apparel brands. In view of this, new entrants without industry knowledge are difficult to be shortlisted as approved suppliers of established apparel brands.

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According to the F&S Report, (i) the apparel labels and trim products manufacturing industry in the PRC is highly fragmented with a majority of them being small-scale apparel labels and trim products companies; and (ii) the top 10 players in the apparel labels and trim products manufacturing market in the PRC accounted for approximately 18.4% of the market share in the PRC in 2018 in terms of revenue.

Further, according to the F&S Report, the apparel labels and trim products manufacturing market in Bangladesh and Vietnam are equally highly fragmented and competitive with thousands of market participants with a substantial number of them comprising small enterprises engaged in printing business and apparel accessories. In particular, the competition in the apparel labels and trim products manufacturing industry in Bangladesh has further intensified in recent years due to the rapid development of downstream apparel product industry in Bangladesh and the rising labour cost in the PRC which led to multinational apparel labels and trim products manufacturers in the PRC, setting up their sales offices and production facilities in Bangladesh.

Our Directors consider that we are well-positioned to compete effectively in the apparel labels and trim products manufacturing industry and that our strengths will distinguish us from our competitors. In addition, our Directors believe that (i) our position and competitive advantage over some players, such as our strong relationship with apparel brands and their manufacturers and our strong product development and technical capabilities, and (ii) our commitment to quality control, have placed us in a position to maintain our status as a core supplier for many of apparel brands. Further, our intention to enhance and expand our production capacity in Bangladesh will increase our production capacity which, in turn, will provide us with additional cost-saving advantages from economies of scale. Our Directors believe this will provide us with opportunities to grow, increase our market share and further enhance our position in the market. Please refer to the sections headed “Business — Competitive strengths”, “Business — Business strategies” and “Industry overview” in this prospectus for further details.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had one registered trademark in the U.S. and two registered trademarks in the PRC which are material to our business. We are the registered owner of six domain names. For further information, please refer to the section headed “Further information about our Company — Intellectual property rights” in Appendix IV to this prospectus.

As at the Latest Practicable Date, we had not been sued for infringement of intellectual property rights by any third party, and we were not aware of any threatened material proceedings, disputes or claims relating to intellectual property rights against us. In addition, despite our best efforts, we cannot be certain that third parties will not infringe or misappropriate our intellectual property rights or that we will not be sued for intellectual property infringement.

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INSURANCE

As at the Latest Practicable Date, we maintained customary insurance policies within our industry to protect us against bodily injury and property damage claims for our inventories, property, plant and equipment. In particular, we maintain a property all risks insurance policy for our inventories, major property, plant and equipment. In respect of the construction of production facilities, we will ensure that sufficient insurance cover is to be maintained by the relevant contractors and/or sub-contractors to safeguard the relevant risks and uncertainties. In addition, we generally maintain medical insurance and/or work related insurance for our employees.

During the Track Record Period and up to the Latest Practicable Date, we had not made any material insurance claims. Our Directors consider that the above insurance plans and the amounts insured are sufficient and adequate to cover the operational risks and uncertainties and protect us from any potential loss or damage and are consistent with the customary industry practice.

EMPLOYEES

As at the Latest Practicable Date, we had a total of 1,046 full-time employees (including our three executive Directors but excluding our three Independent Non-executive Directors), 14 part-time employees and seven consultants comprising five marketing services consultants and two production support technicians. A majority of our employees are in the PRC.

The table below shows the breakdown of our employees by function and location of employment as at the Latest Practicable Date:

Functional role	Number of employees					Others (Note)
	Hong Kong	The PRC	Bangladesh	Vietnam	The U.S.	
Management	10	5	6	–	1	–
Administration and human resources	5	39	6	3	–	1
Accounting and finance	9	11	3	2	–	–
Sales and marketing	14	2	6	4	11	11
Customer service	–	68	7	5	–	–
Production	15	471	102	48	–	–
Warehouse/inventory management	5	48	6	2	1	–
Quality control	–	24	4	9	–	–
Product development	11	32	2	3	–	–
Product engineering	–	31	–	–	–	–
Information technology	2	14	1	–	–	–
Total	71	745	143	76	13	12

Note: Others include countries in Europe, India and Pakistan.

Recruitment and Training

We recruit our employees mainly through advertising on the job market and on websites, and internal referrals. We recruit our employees based on factors, such as their work experience, education background and our job requirements. During the Track Record Period, we did not engage any human resources agencies for recruitment purpose.

We believe the quality and skills of our employees are critical for our business and operations. Hence, we provide trainings to our employees on a continuous and regular basis covering areas such as machines operation, work safety, fire safety, and the safe use and storage of chemical products with a view to enhancing their technical knowledge, skills and work efficiency.

Directors and Staff Remuneration

Our Group incurred staff costs (including directors remuneration) of approximately HK\$77.4 million, HK\$94.9 million, HK\$116.2 million and HK\$76.4 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019.

The remuneration for our employees generally includes salaries, bonuses, over-time payments, pension scheme contributions and, where applicable, allowances. We conduct reviews and evaluations of our employees' performance once a year which will be taken into account in determining the level of bonus, salary increment and staff promotions. To incentivise the performance of our employees in the production and sales and marketing department, we set annual performance goals for them and those achieving such goals are awarded with monetary rewards.

Welfare Contribution

We maintain employees' compensation insurance for all our employees in Hong Kong in accordance with the requirements under the Employees' Compensation Ordinance (Chapter 282 of the laws of Hong Kong). Further, we participate in a provident fund scheme registered under the Mandatory Provident Schemes Ordinance (Chapter 485 of the laws of Hong Kong) for all our eligible employees in Hong Kong.

During the Track Record Period and up to the Latest Practicable Date, our Group had made contributions to the social insurance and housing provident fund for our employees in the PRC. However, due to the inadvertent oversight of our administrative staff, the contributions made were not adequate. Please refer to the sub-section headed "Non-compliance in relation to PRC laws and regulations" in this section for details of the non-compliances, and the internal control measures adopted by our Group to prevent recurrence of such incidents.

During the Track Record Period and up to the Latest Practicable Date, our Group had made contributions to the social security for our employees in the U.S., Europe, Bangladesh and Vietnam.

During the Track Record Period, our Group's contribution to various social security insurance were approximately HK\$6.6 million, HK\$9.4 million, HK\$11.5 million and HK\$8.0 million, respectively.

Employee Relationship

Our Directors consider that our Group has maintained good relationships with our employees. We have not set up any trade union for our employees. During the Track Record Period and up to the Latest Practicable Date, we did not experience any work stoppage or disruptions to our operations due to labour disputes or strikes, nor did we experience any difficulties in the recruitment or retention of experienced staff or skilled personnel.

Share Option Scheme

Our Group has conditionally adopted the Share Option Scheme under which certain employees, consultants and advisers of our Group including the executive Directors may be granted options to subscribe for Shares. The principal terms of the Share Option Scheme are summarised in the section headed “Statutory and general information — E. Share Option Scheme” in Appendix IV to this prospectus.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to various laws and regulations on occupational health and safety in the PRC, Bangladesh and Vietnam, including the Regulations on Safety Production of Guangdong Province, the Labour Law of the PRC, the Bangladesh EPZ Labour Act, 2019 and the Labour Code 2012 of Vietnam. These laws and regulations set out the relevant requirements regarding occupational health and work safety. Please refer to the sections headed “Regulatory Overview — PRC laws and regulations”, “Regulatory Overview — Bangladesh laws and regulations” and “Regulatory Overview — Vietnam laws and regulations” in this prospectus for further details.

Apart from the above laws and regulations, we are also subject to certain conventions under the International Labour Standards in relation to product safety, labour (including the use of child labour), working environment and conditions in respect of our factories in the PRC and Vietnam.

In respect of our factories in the PRC, we are subject to the relevant international conventions which require us to, among others, (i) have weekly rest days; (ii) comply with minimum wage requirements; (iii) comply with the minimum age requirements; (iv) ensure occupational safety and health; and (v) adopt measures to prohibit the use of child labour. These labour standards have also been promulgated and reflected in the relevant PRC laws and regulations.

In respect of our factories in Vietnam, we are required under the relevant international conventions to, among others, (i) adopt measures to prevent and control occupational hazards in the working environment that may occur due to air pollution, noise pollution and vibration; (ii) participate in measures relating to the provision of occupational health services to employees, such as annual health checks; (iii) comply with the provisions regarding basic labour and employment statistics; and (iv) adopt measures to prohibit the use of child labour.

After discussing with our legal advisers as to Bangladesh law, our Directors understand that, while the above international standards do not apply to our production facilities in Bangladesh as the application of which have not been made mandatorily by law in Bangladesh, the relevant local laws and regulations in Bangladesh on occupational health and safety are largely comparable to the international standards.

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Our Directors confirm that during the Track Record Period, to the extent that such international standards are applicable to us, we were in compliance with the relevant international standards in all material respects.

During the Track Record Period, we had adopted the standards under the Sedex Members Ethical Trade Audit for assessing our business practice in the areas of labour rights, health and safety, environment and business ethics. Through adopting such standard, we ensure that our business activities and practice are managed and are in compliance with the recommended best practices in the above areas.

We have a policy and set up the procedures regarding workplace safety and healthy work environment. We have placed instructions and procedures for the safe operation of the machinery and equipment in our production facilities to remind employees of the importance of safety practices. Further, through participating in occupational health and safety training we organise, we ensure that our employees learn about potential occupational hazards in their positions and have taken precautionary measures. In addition, occupational hazard notices have also been posted to raise employees' safety awareness. To promote the productivity, skills and professionalism of our employees, we, from time to time, offer our staff, in particular our staff from the logistics department, with occupational safety training aimed at reducing the chance of any accident, or if an accident should occur, the damages incurred by it, in our workplace. All accidents in our workplace, including information on the employee involved, date, time and place of the accident and future precaution measures, were properly documented and recorded.

Our Directors confirm that there were no material accidents, work injury claims for personal or property damages, compensation to staff or any other incidents arising from non-compliance with occupational health and safety laws and regulations during the Track Record Period and up to the Latest Practicable Date.

In addition to the above occupational health and safety laws and regulations and international standards, we may be required to comply with protocols or code of conduct imposed by our customers and/or the apparel brands, such as compliance with environmental standards (in respect of which we have obtained the ISO 14001:2015 certification), prohibition on the use of toxic chemicals and requirements on the use of environmentally friendly raw materials (in respect of which we have obtained various certifications, including the Bluesign certificate and OEKO-TEX Standard 100 certificate), and prohibition against discrimination in employment and the use of child labour. During the Track Record Period, our Directors confirm that we have complied with such protocols or code of conduct imposed by our customers and/or the apparel brands. For details of the awards and accreditations we have obtained, please refer to the section headed "Business — Awards and recognitions" in this prospectus. For this purpose, some of our customers and/or the apparel brands may require us to produce the relevant environmental certificates for their verification and conduct annual audits or site inspections to our production facilities from time to time to ensure that we are in compliance with their protocols or code of conduct.

ENVIRONMENTAL PROTECTION

We are subject to environmental laws and regulations in the PRC, Bangladesh and Vietnam, including the Environmental Protection Law of the PRC, the Bangladesh Environment Conservation Act of 1995, the Environmental Rules of 1997 and the Law on Environmental Protection in Vietnam. These laws and regulations govern a wide range of environmental matters, including air pollution, noise emissions, water waste discharge and hazardous waste. Please refer to the sections headed “Regulatory Overview — PRC laws and regulations” and “Regulatory Overview — Vietnam laws and regulations” in this prospectus for further details.

We are committed to clean production, reducing the emission of polluted gas, the discharge of waste, the consumption of energy and resources, as well as strengthening our sense of social responsibility. Our production facilities and printing process discharge various kinds of waste, including sewage, gas, used paper and chemical. We have adopted a set of waste treatment procedures in our production facilities to prevent and minimise pollution during our production process to comply with applicable environmental standards. For example, we have installed in our production facilities filtering systems to filter any sewage and gas before their discharge, and to recycle waste water such that they can re-enter the relevant systems for re-use by us. Most of our used papers are recycled; and a qualified chemical waste collector is engaged by us for collecting our chemical waste. The management system of our production facilities in the PRC have been assessed and certified as meeting the environmental management requirements of ISO 14001:2015. We believe that our production process does not have a significant adverse effect on the environment and natural resources and that our environmental protection measures are adequate to ensure compliance with the applicable laws and regulations in the PRC, Bangladesh and Vietnam.

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, we incurred approximately less than HK\$0.1 million, HK\$0.3 million, HK\$0.3 million and HK\$0.6 million, respectively, for environmental compliance matters. We expect that the costs to be incurred by us for environmental compliance matters will generally remain at similar levels as during the Track Record Period going forward. Our Directors confirm that no material sanctions, penalties or punishments had been imposed upon us for the violation of any environmental laws or regulations in the PRC, Bangladesh and Vietnam during the Track Record Period and up to the Latest Practicable Date.

EMPLOYEE RELATED POLICY

We believe that it is important to maintain harmonious employment relationships and working atmosphere with a view to ensuring stable growth of our Group. As such, in addition to complying with relevant labour laws, we have developed sound wage systems and benefit policies to ensure all employees are treated reasonably and fairly, including:

- Equal opportunities, diversity and inclusiveness: we respect the gender, age and ethnicity of each person. Each job applicant has an equal job opportunity. All of them will be treated equally and there is no discrimination as to gender, age and ethnicity. Further, any promotion within our Group would be based solely on the employee’s performance, experience and capability. As such, any factors not related to work, such as marital status, would have no impact on employee’s promotion; and

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- Employee's protection and benefits: we will enter into an employment contract with all of our employees so as to accord protection to our employee by relevant labour laws. In addition, we purchase medical insurance for employees so that they could enjoy medical services and provide reasonable compensation for employees and their families when there is work-related injuries and death in accordance with the labour laws.

PROPERTY INTERESTS

As at the Latest Practicable Date, our Group leased certain properties in Hong Kong, the PRC and overseas to support our business activities and operations. We did not own any real property as at the Latest Practicable Date.

The table below sets out the particulars of the properties leased by us as at the Latest Practicable Date:

<u>No.</u>	<u>Location</u>	<u>Usage</u>	<u>Approximate leased space</u>	<u>Lease term</u>
Hong Kong				
1.	Car Parking Space No. 5 on the Ground Floor and the First Floor of Wing Ming Industrial Centre, No. 15 Cheung Yue Street, Kowloon Hong Kong	Industrial use and car park	12,058 sq. ft.	21 April 2018 to 17 June 2022
The PRC				
2.	Southern Development Zone, Shiwan Town Boluo County, Huizhou Guangdong Province the PRC	Production plant, office and staff dormitory	23,828 sq. m.	10 November 2014 to 10 November 2024
3.	Southern Industrial Zone Shiwan Town Boluo County, Huizhou Guangdong Province the PRC	Production plant and warehouse	14,074.5 sq. m.	1 March 2018 to 28 February 2028

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<u>No.</u>	<u>Location</u>	<u>Usage</u>	<u>Approximate leased space</u>	<u>Lease term</u>
4.	Unit 1802A, 18/F, Block A Tianan Innovative Technology Plaza Chegongmiao Futian District Shenzhen the PRC <i>(Note 1)</i>	Customer service centre	353 sq. m.	1 May 2018 to 30 April 2020
Vietnam				
5.	Lot E, Street No. 2 Dong An IP Thuan An Ward Binh Duong Province Vietnam	Production plant	1,650 sq. m.	1 June 2017 to 31 May 2020
6.	Street No. 2A, Dong An IP Thuan An Ward Binh Duong Province Vietnam	Production plant	720 sq. m.	1 May 2018 to 30 April 2022
7.	U41 Street No. 15 Ehome 4 North Saigon Vietnam <i>(Note 2)</i>	Staff quarter	76.2 sq. m.	20 August 2019 to 19 February 2020
8.	House No. 5, Street No. 21 Ehome 4, Vinh Phu Ward Thuan An District Binh Duong Province Vietnam <i>(Note 1)</i>	Staff quarter	90 sq. m.	15 April 2019 to 14 April 2020
Bangladesh				
9.	SFB No. 6, Ground Floor East Wing & 1st Floor both wings, Dhaka Export Processing Zone Extension Area, Ganakbari Savar Dhaka-1349 Bangladesh	Factory	3,300 sq. m.	1 July 2019 to 30 June 2021
10.	Apartment 2-D of Kisukkhon Bhavon Bipal, Ashulia, Dhaka Bangladesh	Staff quarter	1,065 sq. ft.	1 December 2019 to 30 November 2020

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<u>No.</u>	<u>Location</u>	<u>Usage</u>	<u>Approximate leased space</u>	<u>Lease term</u>
11.	Plots Nos.216 and 216/A, Adamjee Export Processing Zone Area Siddhirgonj, Narayangoinj, Bangladesh ^(Note 3)	Factory building	5,103.76 sq. m.	26 February 2018 to 25 February 2048
12.	No.214 and 215, Hossian Plaza, Ashulia, Savar Dhaka Bangladesh	Warehouse	240 sq. ft.	1 December 2019 to 30 November 2020
13.	Flat No.D-5, 5th Floor, Shums Parasol, Plot#CWS(C)5, Road#21, Gulshan Model Town, Gulshan, Manza, Bhola Shamair, Dhaka District	Office	2,200 sq. ft.	1 June 2019 to 31 May 2024
The U.S.				
14.	50 W. 34th Street, Suite 12A8, New York NY10001 the U.S. ^(Note 4)	Office	44.8 sq. m.	1 August 2018 to 31 March 2020
15.	5889 Rickenbacker Road, Commerce, CA 90040 California the U.S.	Warehouse and office	4,160 sq. ft.	15 October 2014 to 31 December 2024
Other countries				
16.	A-2/4, First Floor Mayapuri, Phase-1 New Delhi-110064 India	Office	925 sq. ft.	1 September 2016 to 31 August 2021
17.	Office No. 911, 9th Floor Portway Trade Center P.E.C.H.S Main Shahrah-e-Faisal, Karachi 75350 Pakistan ^(Note 1)	Office	706 sq. ft.	16 May 2019 to 15 April 2020

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No.	Location	Usage	Approximate leased space	Lease term
18.	Herenstraat 2 B6, 9170 Sint-Gillis-Waas, BTW BE 0837896490, rek BE52 1430 8973 5209 RPR Dendermonde Belgium	Office	90 sq. m.	1 July 2011 to 30 June 2020

Notes:

1. We will commence discussion with the respective landlord on the renewal of the lease.
2. We have commenced discussion with the landlord on the renewal of the lease as at the Latest Practicable Date.
3. The property is a parcel of land.
4. We intend to lease another property upon the expiry of this lease on 31 March 2020 and are in the process of looking for suitable locations.

As mentioned above, we leased the PRC Factories in Boluo County, Huizhou, Guangdong Province, the PRC with a total gross floor area of approximately 37,902.5 sq. m..

As at the Latest Practicable Date, the lessor of the PRC Factory 1 had failed to provide us with the valid building ownership certificate and the lessor of the PRC Factory 2 had failed to provide us with both the valid land use right certificate and the building ownership certificate. Notwithstanding the above, according to our PRC Legal Advisers, the above title defects amount to non-compliance on the part of the landlords and the lease agreement of the PRC Factory 1 is valid and the chance of us being forced to relocate is very remote, and the risk that the lease agreement of the PRC Factory 2 being declared void and the chance of us being forced to relocate are remote. We believe that in the unlikely event that we are not able to continue to use such properties and are required to relocate due to the defective titles of such property(ies), we will be able to find legitimate places as alternatives in the relevant regions to continue our operations in a timely manner, and such relocation will not have material adverse effect on our financial condition and results of operations. As a backup plan to mitigate the associated risks of the title defects of such property(ies), we have, in May 2019, identified two potential sites in Boluo County, Huizhou, Guangdong Province, the PRC which are readily available for lease and for industrial use. These two sites have an aggregate site area of over 30,000 sq. m., and are located in close proximity with the PRC Factories. We have devised a relocation contingency plan which includes a by-stage relocation of our production facilities and machineries from the PRC Factories to these two new sites. It is estimated that we will incur costs amounting to approximately HK\$4.7 million in relation to the above relocation of the PRC Factories, and the relocation would be completed in around three months. Therefore, in the unlikely event that we are being forced to relocate from the PRC Factories due to the title defects, we shall negotiate with the potential landlord(s) and arrange to lease the new sites accordingly so that we may relocate and commence our operations within a reasonable time. Our Directors are of the view that the relocation will not cause any material disruption to our business operations or result in any potential loss of revenue of our Group.

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LICENCES AND PERMITS

Our Directors, after consultation with our PRC Legal Advisers, our legal advisers as to Bangladesh laws and our legal advisers as to Vietnam laws, confirm that as at the Latest Practicable Date, we had obtained all material licences, approvals and permits from the relevant authorities in the PRC, Bangladesh and Vietnam, respectively, for our operations in the PRC, Bangladesh and Vietnam. The table below sets out details of our material permits and licences:

	Licence/permit/certificate	Holder	Effective date/ date of issue	Expiration date
The PRC				
1.	Printing operation licence (印刷經營許可證)	Charming China	26 April 2018	31 March 2021
2.	Permit for the emission of pollutants in the Guangdong Province of the PRC (廣東省污染物排放 許可證)	Charming China	22 July 2019	30 December 2020
Bangladesh				
3.	Bonded/Special bonded warehouse licence	Charming Bangladesh	13 August 2014	6 August 2020
4.	Trade licence	Charming Bangladesh	3 July 2018	30 June 2020
		Charming Trim Bangladesh	12 August 2018	30 June 2020
5.	Renewal of environmental clearance certificate	Charming Bangladesh	29 September 2019	14 June 2020
Vietnam				
6.	Enterprise registration certificate	Charming Vietnam	15 January 2014	Not applicable
7.	Investment registration certificate	Charming Vietnam	15 January 2014	24 October 2054
8.	Business licence	Charming Vietnam	11 July 2016	30 November 2055

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During the Track Record Period and up to the Latest Practicable Date, we did not experience any material difficulty in obtaining or renewing the required permits and licences for our business operations. We do not expect any material impediment in renewing our material permits and licences as they expire in the future.

LEGAL COMPLIANCE

Our Directors confirm that save as disclosed below, we had complied with all applicable laws and regulations in the PRC, Hong Kong, Bangladesh and Vietnam (being the principal jurisdictions where we operate) in all material respects during the Track Record Period and up to the Latest Practicable Date.

A summary of the non-compliance incidents of our Group during the Track Record Period is set out below:

Non-compliance in relation to PRC laws and regulations

In the PRC, employers are required to make contributions to, and employees are required to participate in, (i) a number of social insurance funds, including funds for basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance in accordance with the Social Insurance Law of the PRC 《中華人民共和國社會保險法》; and (ii) the housing provident fund in accordance with the Regulations on the Administration of Housing Provident Fund 《住房公積金管理條例》. Please refer to the section headed “Regulatory overview — PRC laws and regulations” in this prospectus for further details.

(a) *Non-compliances with respect to social insurance and housing provident fund contributions*

During the Track Record Period, Charming China did not fully make social insurance and housing provident funds contributions and Charming Shenzhen did not fully make social insurance contributions in accordance with the relevant PRC laws and regulations due to the inadvertent oversight of our administrative staff.

According to the relevant PRC laws and regulations, the relevant government authority may require us to make the supplementary payments for:

- (i) the unpaid social insurance premium within a prescribed time limit, together with a 0.05% daily surcharge of the unpaid social insurance premium from the due date and may impose fines on us ranging from one to three times of the total outstanding amounts if we fail to make the supplementary payments within the specified period. In view of this, we have made provisions in the sum of approximately RMB0.8 million, RMB1.5 million, RMB2.6 million and RMB3.2 million in respect of the social insurance contributions as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively; and

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- (ii) the unsubscribed housing provident fund contributions within a specified period and an application may be made to the People's Court of the PRC for compulsory enforcement if we fail to make the supplementary payments within the specified period. In view of this, we have made provisions in the sum of approximately RMB1.5 million, RMB2.2 million, RMB2.5 million and RMB1.7 million in respect of the unpaid amount of the housing provident fund as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively.

Our Directors believe that the above provisions are sufficient to cover our liabilities in respect of the unpaid social insurance and housing provident fund contributions.

During the Track Record Period and up to the Latest Practicable Date, we had not received any complaint from our employees for insufficient contributions by us to any social insurance or housing provident fund nor had we received any order or notice from the relevant PRC regulatory authorities requesting contributions to any social insurance or housing provident fund.

We have obtained written confirmations from the competent local authorities of social insurance and housing provident funds of the PRC which confirm that (i) Charming China had not been penalised for violating the relevant PRC laws and regulations regarding the social insurance from 1 January 2016 to 28 February 2019 and had made social insurance contributions in line with the customary practices of other enterprises in the Boluo County, Huizhou, Guangdong Province, the PRC, and had not been penalised for violating the relevant PRC laws and regulations regarding the social insurance from 28 February 2019 to 11 November 2019; (ii) Charming Shenzhen had not been penalised for violating the relevant PRC laws and regulations regarding the social insurance from 1 September 2014 to 31 October 2019; and (iii) Charming China had not been penalised for violating the relevant PRC laws and regulations regarding the housing provident fund from 1 March 2017 to 30 November 2019.

Our PRC Legal Advisers have advised us that the likelihood of the relevant PRC local authorities imposing any administrative penalties on us in respect of the above non-compliances is remote once Charming China and Charming Shenzhen, respectively, makes the outstanding payment within the prescribed time limit as required by the relevant authorities. As at the Latest Practicable Date, we had complied with the local PRC law and rule enforcement practices in making contributions for social insurance and housing provident funds for our PRC subsidiaries.

(b) Internal control measures adopted

As at the Latest Practicable Date, our administrative staff had adopted measures to ensure the correctness of the amounts of contributions to be made to social insurance for each employee before the payment due date in accordance with the local PRC law and rule enforcement practices. They would (i) notify our accounting department on or before the due date to arrange for payment; and (ii) create and update a register of payment record of contributions to social insurance.

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In addition, we have assigned our accounting manager to carry out procedures to review and double-check on a monthly basis with a view to ensuring that the register of payment records is updated properly and that all payments of contributions to the social insurance for each employee are made on a timely basis.

LEGAL PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge after having made reasonable enquiries, there was no litigation or arbitration or administrative proceedings pending or threatened against our Group or any of our Directors which could have a material adverse effect on our Group's financial condition, results of operations or reputation.

INTERNAL CONTROLS

It is the responsibility of our Board to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. In order to continuously improve our Group's corporate governance and to prevent recurrence of the non-compliance incidents in the future, we have engaged an independent internal control consultant to perform compliance procedures in connection with our internal control policies related to the historical non-compliance incidents and further put forward respective recommendations for enhanced internal control measure as mentioned below. We have adopted the following internal control policies and procedures:

- our Directors and the senior management have attended trainings conducted by our Company's legal advisers on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the SFO and the Listing Rules and other relevant laws and regulations. We will provide our Directors, senior management and employees with training, development and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group on an annual basis, which will be provided by external legal advisers or other professional advisers;
- induction training will be arranged for any newly appointed directors or company secretary so as to familiarise themselves with the relevant regulatory requirements in relation to directors' responsibilities and duties under the relevant laws and regulations;
- our Company has assigned a human resource officer with relevant experience to carry out calculations, declarations, administration and actual payment of the social insurance and contributions/payments of housing provident funds. Our Directors will review and approve the work performed by the human resource officer;

BUSINESS

- our Group has appointed Elstone Capital Limited as its compliance adviser initially for a term as required under the Listing Rules to advise on compliance matters;
- our Group has established an audit committee responsible for overseeing our financial records, internal control procedures, risk management systems, monitoring our Group's exposure to risks and the implementation of related internal control policies. Please refer to the section headed "Directors and senior management" in this prospectus for a detailed description of the responsibility of our audit committee as well as the qualifications and experience of its members;
- all management and staff of our Group will be required to report to and/or notify our Directors, our compliance officer or the legal advisers of our Group promptly of any non-compliance or potential non-compliance events; and
- we will engage an independent internal control consultant to carry out an annual review on the adequacy and effectiveness of our internal control system after the Listing, including areas of financial, operational, compliance and risk management.

We do not adopt any hedging policy. For details of risk associated, please refer to the section headed "Risk factors — Increases in the prices of raw materials may materially and adversely affect our business, financial condition and results of operations" in this prospectus.

After considering that (i) our Group has implemented (or, where applicable, will implement) the above measures; (ii) our Group has established a proper internal control system to prevent future non-compliance with the relevant laws and regulations; and (iii) the above non-compliance incidents were not material and have not resulted, and are not expected to result, in any material impact on our financial and operational aspects, our Directors are of the view that, and the Sole Sponsor concurs that, our internal control measures adopted are adequate and effective and consider that the non-compliance incidents do not have any material impact on our suitability for listing under Rule 8.04 of the Listing Rules.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to ensure that risks in relation to our operations are identified, monitored and mitigated. We have formal risk assessment procedures under our risk management policy, and we integrate risk management into our daily decision-making processes as well as the planning processes of our different departments. Our Board is responsible for overseeing our overall risk management and assessing and updating our risk management policy on a regular basis. Our audit committee will also perform annual review on the effectiveness of our risk management strategies.

For details regarding the risks involved in our operations, please refer to the section headed "Risk factors" in this prospectus.

CORPORATE GOVERNANCE MEASURES

We recognise the value and importance of achieving high corporate governance standards to enhance our business performance, operational transparency and the confidence of our Shareholders in our Group. In order to comply with the requirements under the Listing Rules, in particular, the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, as at the Latest Practicable Date, we had adopted the following measures:

- we have established the audit committee, remuneration committee and nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. Please refer to the section headed “Directors and senior management” in this prospectus for further information;
- our Board has adopted the terms of reference with regard to corporate governance in accordance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules;
- we will arrange appropriate insurance cover on our Directors’ liabilities in respect of legal actions against our Directors arising out of corporate activities before the Listing;
- our Directors will act in accordance with the Articles which require the interested Director not to vote or to be counted in the quorum on any resolution of our Board approving any contract, arrangement or other proposal in which the interested Director or any of his/her close associates is materially interested;
- our Directors, including our independent non-executive Directors, will be able to seek independent professional advice from third parties in appropriate circumstances at our cost;
- our Company has adopted comprehensive internal policies covering legal and regulatory compliance; and
- our Directors will attend professional development trainings on various topics including corporate governance after the Listing.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

OUR CONTROLLING SHAREHOLDERS

Immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), Mr. Barry Chan and Ms. Candy Law, through Charming International, will own 70.2% interest in the enlarged issued share capital of our Company. Accordingly, Mr. Barry Chan, Ms. Candy Law and Charming International are together considered as a group of our Controlling Shareholders after Listing under the Listing Rules. Save as mentioned above, there is no other person who will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme), be directly or indirectly interested in more than 30% or more of the Shares in issue.

Competing interests

Save and except for their respective interest in our Company, none of our Controlling Shareholders nor any of their respective associates had interests in any other companies that compete or are likely to compete, either directly or indirectly, with the business of our Company during Track Record Period and as at the Latest Practicable Date.

Undertakings

Our Controlling Shareholders have given certain undertakings in respect of the Shares (including those as required by Rule 10.07(1) and Note (3) to Rule 10.07(2) of the Listing Rules) to our Company, the Stock Exchange, the Sole Sponsor, the Joint Global Coordinators and the Underwriters. Please refer to the section headed “Underwriting — Undertakings to the Stock Exchange pursuant to the Listing Rules” in this prospectus for further details.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Our Directors consider that we are capable of carrying its business independent of our Controlling Shareholders and their respective associates following the Listing.

Management independence

Our Board comprises three executive Directors and three independent non-executive Directors. Save as disclosed in the section headed “Directors and senior management” in this prospectus, there is no other relationship among our Directors. Notwithstanding that Mr. Barry Chan and Ms. Candy Law, our executive Directors, are the Controlling Shareholders, our Directors are of the view that our Company is capable of maintaining management independence as:

- our Group’s strategies, management, operations and affairs are formulated, led, managed and/or supervised by our Board and not by any individual Director. All major and important corporate actions of our Company are and will be fully deliberated and determined by our Board collectively and objectively as a collective body;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- pursuant to the terms of the service contracts entered into between our Company and the executive Directors, every executive Director is required to devote substantially the whole of his time, attention and abilities during normal business hours and such additional hours as may reasonably be requisite to our Group;
- in the event that there is a potential conflict of interest in or arising out of any transaction to be considered and approved by our Board, the interested Director(s) shall abstain from voting at the relevant meeting of our Board considering and approving such transaction and shall not be counted towards the quorum of such Board meeting unless this is otherwise permitted under the Articles and/or the Listing Rules;
- we have three independent non-executive Directors who are not associated with our Controlling Shareholders or their respective associates. Resolutions of our Board approving any matters in which any of the executive Directors has a potential conflict of interest and/or material interest will, only be considered and approved by the independent non-executive Directors (as under the provisions of the Articles and the Listing Rules, the executive Directors will then be prohibited from voting on the resolution(s) and will not be counted towards the quorum of the relevant Board meetings at which the relevant resolution(s) is/are approved). The independence of our Board's decisions in respect of any matters in which any of our Group's executive Directors has a potential conflict of interest and/or material interest is and can be ensured;
- our Company has established corporate governance procedures in safeguarding the interests of the shareholders and enhancing shareholders' value. Each Director is fully aware of his/her fiduciary duty to our Group, and will abstain from voting on any matter where there is or may be a conflict of interest as required under and in accordance with the applicable Articles and the Listing Rules; and
- our Board from time to time delegates certain functions to, and is assisted by its senior management in the implementation of the business plan and strategy as laid down by our Board. The day-to-day management and operations of our Group is operated independently from the influence of our Controlling Shareholders and their respective associates.

Operational independence

Our Group has its own organisational structure made up of divisions including management, administration and human resources, accounting and finance, sales and marketing, customer service, production, warehouse/inventory management, product development, product engineering, quality control and other divisions. Each division has a clear delineation of duties and functions as determined by our Board to promote efficiency, effectiveness and quality in the development of our Group's business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

We have independent access to sources of suppliers or materials necessary for the operation of our business as well as customers which are all Independent Third Parties. All operating subsidiaries of our Company hold the licences necessary for the operation of our Group's business in their own names.

Financial independence

We have established a financial system (including bank accounts) that operates independently. During the Track Record Period, certain of the banking facilities granted to our Group were secured by personal guarantees provided by our Controlling Shareholders, Mr. Barry Chan and Ms. Candy Law. Our Group has obtained consent-in-principle letters from the relevant banks for its agreement to release all such guarantees provided to our Group by Mr. Barry Chan and Ms. Candy Law upon Listing. As such, upon Listing, our Group will have independent access to third party financing without relying on any guarantee from its Controlling Shareholders, certain Directors and their respective associates. All loans and advances due from/to our Controlling Shareholders, certain Directors, related parties and their respective associates will be fully settled before Listing. Our Directors are of the view that our Group is able to obtain external financing on market terms and conditions for its business operations as and when required and is not financially dependent on our Controlling Shareholders, Directors, related parties or any of their respective associates in the operation of its business.

To further protect the interests of the minority Shareholders of our Company, any transaction that is proposed between our Group and our Controlling Shareholders and/or their respective associates will be required to comply with the requirements of the Listing Rules, including, where appropriate, the reporting, annual review, announcement and independent shareholders' approval requirements.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board consists of six Directors, including three executive Directors and three independent non-executive Directors. The table below sets out certain information concerning our Directors:

Name	Age	Time of joining our Group	Current position in our Company	Date of appointment as a Director	Key role and responsibilities	Relationship with other Directors and senior management
Mr. Barry Chan (陳醒明)	60	February 1992	Executive Director and Chairman of our Board	25 January 2019 (re-designated as an executive Director on 21 February 2020)	Overseeing our Group's overall management	Mr. Barry Chan is the spouse of Ms. Candy Law and the father of Mr. James Chan
Ms. Candy Law (羅妙蘭)	57	September 1994	Executive Director and Chief Executive Officer	17 May 2019 (re-designated as an executive Director on 21 February 2020)	Overseeing our Group's overall management	Ms. Candy Law is the spouse of Mr. Barry Chan and the mother of Mr. James Chan
Mr. James Chan (陳梓峰)	30	October 2013	Executive Director	17 May 2019 (re-designated as an executive Director on 21 February 2020)	Overseeing the product development and marketing of our Group	Mr. James Chan is the son of Mr. Barry Chan and Ms. Candy Law
Mr. Lam Chor Ki Dick (林楚祺)	54	21 February 2020	Independent non-executive Director	21 February 2020	Supervising and providing independent advice to our Board	None
Mr. Lee Tak Cheong (李德昌)	49	21 February 2020	Independent non-executive Director	21 February 2020	Supervising and providing independent advice to our Board	None
Dr. Wong Chi Wing (王志榮)	56	21 February 2020	Independent non-executive Director	21 February 2020	Supervising and providing independent advice to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Name	Age	Time of joining our Group	Current position in our Group	Key role and responsibilities	Relationship with other Directors and senior management
Mr. Chew Yong Hock (周榮福)	60	July 2012	Sales and marketing director of Charming Printing	Overseeing and managing the sales and marketing functions of our Group	None
Mr. So Shing Chuen (蘇成全)	56	October 2017	General manager of Charming Printing	Overseeing and managing the operation of our Group's factories in the PRC	None
Mr. Richard Ringeisen	61	February 2011	President of Charming US	Overseeing and managing the sales and marketing of our Group's business in the United States	None
Mr. Liao Wenwei (廖文偉)	51	August 2000	General Manager of Charming China	Overseeing and managing the operation of Charming China	None
Mr. Chan Wai Shing Kevin (陳偉成)	45	February 2016	Finance and accounts manager of Charming Printing	Overseeing the financial management of our Group	None

BOARD OF DIRECTORS

Our Board is responsible for and has general powers over the management and conduct of our business. It consists of six Directors including three executive Directors and three independent non-executive Directors.

Executive Directors

Mr. Chan Sing Ming Barry (陳醒明), aged 60, being one of our Controlling Shareholders and Chairman of our Board, was appointed as our managing director in February 1992 and appointed as our Director on 25 January 2019 and re-designated as our executive Director on 21 February 2020. Mr. Barry Chan is also the director of Cirtek Investment, Charming Printing, Charming HK, Charming China, Charming Vietnam, Charming India, Charming Pakistan, Charming Bangladesh and Charming Trim Bangladesh. Mr. Barry Chan is responsible for our Group's overall management, corporate development and strategic planning. He obtained a higher certificate in fashion and clothing manufacture from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1984.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Barry Chan has over 38 years of experience in the apparel labels and trim products manufacturing industry. From December 1981 to March 1988, Mr. Barry Chan worked as a sample room assistant with his last position as a merchandiser – woven section at Detex Limited, a company primarily engaged in the apparel industry. From October 1988 to May 1991, he worked as a senior merchandiser at the Hong Kong office of a U.S. incorporated private company which primarily imports apparel in the United States. Mr. Barry Chan is the spouse of Ms. Candy Law and the father of Mr. James Chan, who are both our executive Directors.

Mr. Barry Chan was a director of the following company incorporated in Hong Kong prior to its dissolution:

<u>Name of company</u>	<u>Principal business activity or nature of business prior to dissolution</u>	<u>Date of application for dissolution/date of dissolution</u>	<u>Means of dissolution</u>
Charming Graphic Arts Limited	Production of photographic films	14 February 2001/ 22 June 2001	Deregistration

A defunct, solvent private company which meets the statutory requirements may be dissolved by way of a summary procedure called deregistration under section 291AA of the Predecessor Companies Ordinance. Mr. Barry Chan confirms that the de-registration of the above company was voluntary by way of submitting an application to the Companies Registry of Hong Kong and Charming Graphic Arts Limited was solvent at the time of it being dissolved by de-registration.

Ms. Law Miu Lan (羅妙蘭), aged 57, being one of our Controlling Shareholders, was appointed as our assistant managing director in September 1994, our Chief Executive Officer and Director on 17 May 2019 and was re-designated as our executive Director on 21 February 2020. Ms. Candy Law is also the director of Cirtek Investment, Charming Printing, Charming HK, Charming China, Charming Bangladesh, Charming Trim Bangladesh and Charming US. Ms. Candy Law is responsible for our Group's overall management, operation and strategic planning. She obtained a higher certificate in fashion and clothing manufacture from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1984.

Ms. Candy Law has over 35 years of experience in the apparel labels and trim products manufacturing industry. From October 1984 to January 1994, Ms. Candy Law worked as a senior merchandiser at Crystal Garments Limited, a company which primarily manufactures apparel. Ms. Candy Law is the spouse of Mr. Barry Chan and the mother of Mr. James Chan, who are both our executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chan Tsz Fung (陳梓峰), aged 30, joined our Group in October 2013 as an operations assistant and is currently a product development manager of Charming Printing. He was appointed as our Director on 17 May 2019 and was re-designated as our executive Director on 21 February 2020. Mr. James Chan is also the director of Charming India, Charming Pakistan and Lowatag Limited. Mr. James Chan has over five years of experience in the apparel labels and trim products manufacturing industry. He is primarily responsible for overseeing the product development, marketing and strategic planning of our Group, in particular our Group's sales and marketing activities in Europe. He studied diploma of engineering at Deakin University from February 2011 to February 2012. He is the son of Mr. Barry Chan and Ms. Candy Law, our executive Directors.

Independent Non-executive Directors

Mr. Lam Chor Ki Dick (林楚祺), aged 54, was appointed as our independent non-executive Director on 21 February 2020. He graduated from the Hong Kong Baptist University with a bachelor's degree in business administration in November 1990. He then obtained the master of arts in electronic business from the City University of Hong Kong in November 2003.

From July 1990 to October 2000, Mr. Lam held various accounting and finance positions in a number of companies including AIA Group Limited, Inchcape Marketing Ltd., LeaRonol (S.E. Asia) Ltd., Elite Business Machines Mfg. Co. Ltd., Dong Ying Computer Label & Embroidery Company Limited and AFG Company Limited. From November 2000 to January 2005, Mr. Lam served as a financial controller at Lexmark International (China) Co., Ltd., a company principally engages in the provision of printing and imaging products and software solutions services. From January 2005 to December 2005, he worked as a financial controller at Fellowes Consulting LLC Dongguan Representative Office, a company principally manufactures paper shredders. From January 2006 to November 2008, Mr. Lam worked as a director at Electrical Components International Inc., a company principally manufactures wire harness, with his last position being a finance and administrative director and was the director of business administration at ECI (Huizhou). From December 2008 to October 2010, Mr. Lam served as an operation controller at Shakespeare (Hong Kong) Ltd., a company principally manufactures sports hardware. From November 2010 to January 2012, he served as a consultant at Resources Global Professionals (HK) Limited, a consultancy firm. Mr. Lam has served as a vice president of the asian operation department in ECI (Huizhou) since February 2012.

Mr. Lee Tak Cheong (李德昌), aged 49, was appointed as our independent non-executive Director on 21 February 2020. Mr. Lee graduated from the University of Hong Kong with a bachelor's degree in engineering in November 1993. He then obtained a postgraduate diploma in quality management from the Hong Kong Polytechnic University in November 2000. In December 2003, Mr. Lee obtained a master's degree in business administration from The Chinese University of Hong Kong.

From April 2004 to December 2007, Mr. Lee worked as a general manager overseeing factory management at Mansfield Manufacturing Co. Ltd., a company primarily engaged in metal stamping business. From December 2007 to June 2009, he served as a general manager at Top Link Industrial Co. Ltd., a company primarily manufactures electric powered tools. From September 2009 to August 2014, Mr. Lee started working as a general manager at Charming Printing and was promoted as an operational director in April 2012. From October 2014 to the present, Mr. Lee has been serving as a director overseeing the business management at Dreamcubics 3D Printing Limited, a company primarily sells 3D printers and provides 3D printing service.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Wong Chi Wing (王志榮), aged 56, was appointed as our independent non-executive Director on 21 February 2020. He graduated from the Chinese University of Hong Kong with a bachelor's degree in science in December 1986. In addition, Dr. Wong obtained (i) a master's degree in business administration from the City University of Hong Kong in November 1995; (ii) a master's degree of science in electronic commerce from the City University of Hong Kong in November 2003; and (iii) a doctorate degree in business administration from the City University of Hong Kong in February 2011. Dr. Wong has been a fellow of Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants) since July 2000.

From May 2002 to March 2007, Dr. Wong served as a vice president at PCCW Solutions (formerly known as Unihub Limited), a company primarily engages in the provision of information technology services. From May 2010 to August 2014, Dr. Wong was the managing director at Accenture Consulting for Greater China, a company primarily provides management consulting and strategy expertise services. Since March 2015, Dr. Wong has served as a managing partner at Big Data Elite Asia Limited and GCE Consulting Limited, both of which are consulting companies, primarily providing advisory and training services in relation to big data, digital transformation, FinTech and strategic management. Since July 2016, Dr. Wong serves as an independent non-executive director at Autotoll Limited, a company primarily provides electronic toll clearing facilities in Hong Kong. Since September 2018, he serves as an independent non-executive director at SCUD Group Limited, a company listed on the Main Board (Stock code: 1399) and which primarily manufactures and sells lithium-ion battery products. Dr. Wong also serves as the Deputy President, Chairman of New Economy Committee and Chairman of Training & Accreditation Committee of The Hong Kong Independent Non-Executive Director Association Limited since October 2019.

Other disclosures pursuant to Rule 13.51(2) of the Listing Rules

Save as disclosed above, each of our Directors confirm with respect to himself or herself that: (i) he or she is independent from and had no other relationships with any Directors, members of our senior management, substantial shareholders or Controlling Shareholders as at the Latest Practicable Date; (ii) apart from our Company, in the last three years leading up to and as at the Latest Practicable Date, he or she is not holding, nor had he or she held directorships in any other public company the securities of which are listed on any securities market in Hong Kong and/or overseas; (iii) he or she did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (iv) he or she does not have any interests in our Shares within the meaning of Part XV of the SFO, save as disclosed in the section headed "Statutory and general information — C. Disclosure of interests — 1. Disclosure of interests — (a) Interests and short positions of our Directors in the share capital and the associated corporations following the completion of the Capitalisation Issue and the Global Offering" in Appendix IV to this prospectus; (v) he or she does not have any interests in any business which competes or may compete, directly or indirectly, with us, which is disclosable under the Listing Rules, save as disclosed in the section headed "Relationship with Controlling Shareholders" in this prospectus; and (vi) to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there is no additional information relating to our Directors or senior management that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and no other matters with respect to their appointments that need to be brought to the attention of our Shareholders as at the Latest Practicable Date.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Our senior management is responsible for the day-to-day management and operation of our business.

Mr. Chew Yong Hock (周榮福), aged 60, was appointed as the sales and marketing director of Charming Printing in July 2012. Mr. Chew obtained a higher stage certificate in salesmanship and sales management from The London Chamber of Commerce and Industry in spring 1984.

Mr. Chew has more than 29 years of experience in the apparel labels and trim products manufacturing industry. From June 1987 to July 1992, Mr. Chew worked at Freudenberg & Vilene International Ltd., a company primarily manufactures innovative technical textiles, with his last position being a sales manager. From September 1992 to August 2002, Mr. Chew worked as a regional general manager overseeing the sales, marketing and operations at RVL Packaging Singapore Pte Ltd., a company primarily engaged in the business of trims and packaging. He later worked as a sales and marketing director at Shore To Shore (Far East) Ltd., a company primarily engaged in the trims and packaging business from January 2003 to March 2006 and December 2006 to June 2007. From July 2007 to November 2008, Mr. Chew served as a senior vice president at SML Far East Pte. Ltd. where he was responsible for the sales, marketing and operations of the company which is primarily engaged in trims and packaging business. He then worked as a sales and marketing manager in NexGen Packaging Ltd., a company primarily engaged in trims and packaging business, from June 2009 to June 2012.

Mr. So Shing Chuen (蘇成全), aged 56, was appointed as our general manager in October 2017. Mr. So obtained a diploma in chemical technology from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1986. He then obtained a higher certificate in manufacturing engineering of plastics from The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic) in November 1990. In November 1991, Mr. So was awarded an endorsement certificate in management services at The Hong Kong Polytechnic University (formerly known as Hong Kong Polytechnic). He then obtained a bachelor's degree in manufacturing engineering from the City University of Hong Kong in November 1997. In November 2004, he received a master of science in automation systems and management from the City University of Hong Kong.

From May 1992 to March 1993, Mr. So worked as a senior process engineer at Climax Paper Converters Ltd, a company primarily manufactures and distributes paper products. Mr. So then worked as an assistant production manager at Coates Brothers (Hong Kong) Limited where he was in charge of manufacturing inking and coating products from April 1993 to May 1996. From August 1996 to July 2000, Mr. So worked as an assistant vice president of the engineering department at Climax Paper Converters Ltd, a company primarily manufactures and distributes paper products. From July 2000 to September 2004, Mr. So worked as a manufacturing engineering manager at Lamex Holdings Limited, a company primarily manufactures office furniture, where he was responsible for the engineering works of the company and environment protection projects. From November 2004 to February 2006, Mr. So worked as a head of manufacturing operations overseeing the establishment of manufacturing systems in China and training of staff at Keenpac Group, a company primarily provides luxury packaging solutions for retailers. From April 2006 to March 2009, Mr. So served at Wah Tong Paper Products Group Ltd, a company which primarily provides paper products and disposable tableware products, with his last position being a general manager. From April 2009 to September 2017, Mr. So was a director manager at Esperpack Corporation Limited overseeing the business of the company which is primarily engaged in paper converting and manufacturing varnish for packaging industry in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Richard Phillip Ringeisen, aged 61, was appointed as the president of Charming US in February 2011 and is the director of Charming US. Mr. Ringeisen studied at the Western Michigan University from 1979 to 1980. Prior to joining our Group, Mr. Ringeisen worked as a western region sales manager at US Label Corporation, a company primarily sells and markets apparel identification products, from 1999 to 2001. Mr. Ringeisen worked as a sales manager in the western region of the United States at Alkahn Labels Inc, a company primarily engaged in the sales business, from 2001 to 2003. Mr. Ringeisen then worked as a vice president at 28 Packaging Inc, a company primarily engaged in the sales and marketing business from 2003 to 2008. He later worked as a vice president at Integra Trim, a company primarily engaged in the sales and marketing business from 2008 to 2010 where he was responsible for overseeing and managing the sales business of the company.

Mr. Liao Wenwei (廖文偉), aged 51, was appointed as the general manager of Charming China in August 2009. He obtained a diploma in business administration from the Huizhou University in July 1997. From April 1992 to July 2000, Mr. Liao worked as a salesman at Huizhou Jiangbei Building Material Company* (惠州市江北建材公司), a company primarily engaged in the trading business, with his last position being a manager. Mr. Liao then worked as a factory manager at Boluo County Shiwan Chuangmei Printing Factory* (博羅縣石灣創美印刷廠) from August 2000 to July 2009.

Mr. Chan Wai Shing Kevin (陳偉成), aged 45, was appointed as the finance and accounts manager of Charming Printing in February 2016 and the company secretary of our Company on 17 May 2019. Mr. Chan obtained a diploma in accounting from Hong Kong Shue Yan University (formerly known as Shue Yan College) in July 1998. He was then awarded a diploma in operating business in China and a diploma in professional management for China business from the City University of Hong Kong in April 2004 and October 2004, respectively. Mr. Chan has been a fellow member of the Association of Chartered Certified Accountants since August 2008 and a member of The Institute of Chartered Secretaries and Administration since February 2010.

Prior to joining our Group, Mr. Chan worked as a cost analyst at Decca Limited, a company primarily manufactures and trades furniture and decoration materials, from July 1997 to April 2001. From March 2002 to March 2006, Mr. Chan served as a management accountant and was promoted as an accounting supervisor at PI Electronics (Hong Kong) Limited, a company primarily trades and manufactures power supply and conversion products. From April 2006 to July 2007, Mr. Chan worked as an accounting manager at CN Innovations Limited, a company primarily trades and manufactures metal products. From March 2008 to February 2011, Mr. Chan served as an accounting manager with his last position being an accounting manager at Jijiang Company Limited, a company primarily trades and manufactures toys and apparel products. From February 2012 to January 2016, Mr. Chan worked as a senior accounting manager at Evergreen Products Factory Limited, a company primarily trades and manufactures wig products.

COMPANY SECRETARY

Mr. Chan Wai Shing Kevin (陳偉成) is the company secretary of our Company.

For details of Mr. Chan Wai Shing Kevin (陳偉成), please refer to the sub-section headed “Senior management” in this section.

DIRECTORS AND SENIOR MANAGEMENT

AUDIT COMMITTEE

We have established an audit committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as 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, risk management systems and internal control system of our Group, monitor our Group's exposure to risks, oversee the audit process, provide advice and comments to our Board and perform other duties and responsibilities as may be assigned by our Board.

The audit committee consists of three members, namely Dr. Wong Chi Wing, Mr. Lee Tak Cheong and Mr. Lam Chor Ki Dick. The chairman of the audit committee is Dr. Wong Chi Wing who is the independent non-executive Director with the appropriate professional qualifications.

REMUNERATION COMMITTEE

We have established a remuneration committee with written terms of reference in compliance with the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to establish, review and make recommendations to our Directors on our policy and structure concerning remuneration of our Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration, determine the terms of the specific remuneration package of each executive Director and senior management and review and approve performance-based remuneration by reference to corporate goals and objectives resolved by our Directors from time to time.

The remuneration committee consists of three members, namely Mr. Lee Tak Cheong, Ms. Candy Law and Dr. Wong Chi Wing. The chairman of the remuneration committee is Mr. Lee Tak Cheong.

NOMINATION COMMITTEE

We have established a nomination committee with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code. The primary duties of the nomination committee include, without limitation, reviewing the structure, size and composition of our Board, assessing the independence of independent non-executive Directors and making recommendations to our Board on matters relating to the appointment of Directors.

The nomination committee consists of two executive Directors, being Mr. Barry Chan and Mr. James Chan, and three independent non-executive Directors, being Dr. Wong Chi Wing, Mr. Lee Tak Cheong and Mr. Lam Chor Ki Dick. The chairman of the nomination committee is Mr. Barry Chan.

DIRECTORS AND SENIOR MANAGEMENT

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors and members of our senior management receive compensation from our Company in the form of salaries, bonuses and other benefits in kind such as contributions to pension plans.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Directors for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 were approximately HK\$4.7 million, HK\$4.8 million, HK\$5.1 million and HK\$2.7 million, respectively.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses, housing and other allowances and other benefits in kind) paid to our Group's five highest paid individuals for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 were approximately HK\$9.4 million, HK\$9.7 million, HK\$11.0 million and HK\$7.2 million, respectively.

During the Track Record Period, no remuneration was paid by us 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, former Directors, or the five highest paid individuals for each of 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 or agreed to waive any remuneration during the Track Record Period.

Pursuant to the existing arrangements that are currently in force as of the date of this prospectus, the aggregate amount of remuneration (including benefits in kind but excluding discretionary bonuses) payable to our Directors by our Company for the year ending 31 December 2020 is estimated to be HK\$5.7 million.

Our Board will review and determine the remuneration and compensation packages of our Directors and senior management and will, following the Listing, receive recommendation from the Remuneration Committee which will take into account salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

Save as disclosed in this prospectus, no other payments had been made, or are payable, by any member of our Group to our Directors during the Track Record Period.

For additional information on our Directors' remuneration during the Track Record Period as well as information on the five highest paid individuals, please refer to Note 9 to the Accountants' Report set out in Appendix I to this prospectus.

DIRECTORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

Our Company has appointed Elstone Capital Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules.

The material terms of the compliance adviser's agreement entered into between our Company and our compliance adviser are as follows:

- (1) our compliance adviser shall provide our Company with services including guidance and advice as to compliance with the requirement of the Listing Rules and other applicable laws, rules, codes and guidelines, and accompany our Company to any meetings with the Stock Exchange;
- (2) our Company may terminate the appointment of our compliance adviser with immediate effect at any time by giving a written notice to the compliance adviser. Our Company will exercise such right in compliance with Rule 3A.26 of the Listing Rules. The compliance adviser will have the right to terminate its appointment as compliance adviser under certain specific circumstances and upon notification of the reason of its resignation to the Stock Exchange; and
- (3) during the period of appointment, our Company must consult with, and if necessary, seek advice from our compliance adviser on a timely basis 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 share issues and share repurchases;
 - (c) where we propose to use the proceeds of the initial public offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of our Company deviate from any forecast, estimate, or other information in this prospectus; and
 - (d) where the Stock Exchange makes an inquiry of our Company under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

CORPORATE GOVERNANCE

Our Directors recognise the importance of good corporate governance in management and internal procedures so as to achieve effective accountability. Our Group will comply with the Corporate Governance Code set out in Appendix 14 to the Listing Rules after the Listing.

DIRECTORS AND SENIOR MANAGEMENT

BOARD DIVERSITY POLICY

Our Company has adopted a board diversity policy (the “**Board Diversity Policy**”) which sets out its approach to achieve and maintain diversity on our Board in order to enhance the effectiveness of our Board. Our Company recognises and embraces the benefits of our Board diversity to enhance the quality of its performance and endeavours to ensure that our Board has appropriate balance and level of skills, experience and perspectives required to support the execution of its business strategies. Our Company seeks to achieve board diversity by selection of candidates for our Board through the consideration of a number of factors, including but not limited to gender, age, cultural and education background, professional experience, skills, knowledge and length of service. When identifying potential candidates to our Board, the Nomination Committee and our Board will, among others, (i) consider the current level of representation of women on our Board and the senior management when making recommendations for nominees as well as succession planning to our Board and senior management; (ii) consider the criteria that promotes diversity by making references to the code of practices on employment published by the Equal Opportunities Commission from time to time; and (iii) communicate the Board Diversity Policy to the Nomination Committee and encourage a cooperative approach to ensure diversity on our Board. Our Company will also take into consideration factors based on its own business model and specific needs from time to time in determining the optimum composition of our Board.

In recognition of the particular importance of gender diversity, our Company has taken, and will continue to take steps to promote gender diversity at all levels of our Company, including but without limitation at our Board and senior management levels. Further, our Company will take opportunities to consider increasing the proportion of female members over time when selecting and making recommendation on suitable candidates for appointments to our Board so as to ensure that appropriate gender diversity is achieved with reference to stakeholders’ expectation and international and local recommended best practices, where appropriate. We aim to achieve at least 20% female representation in our Board within five years of Listing.

Going forward, to develop a pipeline of potential successors to our Board that may meet the target gender diversity, our Company will (i) consider the possibility of nominating female senior management who has the necessary skills and experience to our Board; (ii) ensure that there is gender diversity when recruiting staff at mid to senior levels; and (iii) provide career development opportunities and more resources in training female staff with the aim of promoting them to the senior management or directorship of our Company.

All Board appointments will be based on meritocracy having due regard for the benefits of diversity on our Board. The ultimate decision will be based on merit and the contribution that the selected candidates will bring to our Board. Our Board will review such objectives from time to time to ensure their appropriateness and ascertain the progress made towards achieving those objectives. After Listing, the Nomination Committee will review the Board Diversity Policy and monitor its implementation. The Nomination Committee will report annually to Shareholders in the corporate governance section of the annual report of our Company on the process adopted in relation to our Board appointments and the consideration given to the diversity on our Board, including without limitation, on gender and race diversity.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the Capitalisation Issue and completion of the Global Offering, the following persons will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company:

Name of Shareholder	Nature of interest	Shares held as at the date of this prospectus		Shares held immediately following the Capitalisation Issue and completion of the Global Offering (assuming the Over-allotment Option and options which may be granted under the Share Option Scheme are not exercised) (Note 1)	
		Number	Approximate percentage	Number	Approximate percentage
Charming International (Note 2)	Beneficial owner	234	93.6%	1,404,000,000	70.2%
Mr. Barry Chan (Notes 2 and 3)	Interest in a controlled corporation; interest of spouse	234	93.6%	1,404,000,000	70.2%
Ms. Candy Law (Notes 2 and 3)	Interest in a controlled corporation; interest of spouse	234	93.6%	1,404,000,000	70.2%

Notes:

- (1) All interests stated are long positions.
- (2) Each of Mr. Barry Chan and Ms. Candy Law owns as to 51% and 49% of the issued share capital of Charming International, respectively and Charming International holds 1,404,000,000 Shares. Accordingly, Mr. Barry Chan and Ms. Candy Law are deemed to be interested in 1,404,000,000 Shares held by Charming International by virtue of the SFO.
- (3) Mr. Barry Chan is the spouse of Ms. Candy Law. Accordingly, Mr. Barry Chan and Ms. Candy Law are deemed to be interested in the Shares held by each other by virtue of the SFO.

Save as disclosed above and in the section headed “Statutory and general information — C. Disclosure of interests” in Appendix IV to this prospectus, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and completion of the Global Offering and assuming that the Over-allotment Option and options which may be granted under the Share Option Scheme are not exercised, have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO, or are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group.

We are not aware of any arrangement which may result in any change of control in our Company at any subsequent date.

SHARE CAPITAL

SHARE CAPITAL

The following is a description of the authorised and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately prior to and following the Capitalisation Issue and completion of the Global Offering:

<u>Authorised Share Capital</u>	<u>Aggregate par value</u>
5,000,000,000 Shares of par value HK\$0.01 each	HK\$50,000,000
<u>Issued and to be issued, fully paid or credited as fully paid:</u>	<u>HK\$</u>
250 Shares in issue as of the date of this prospectus	2.5
1,499,999,750 Shares to be issued pursuant to the Capitalisation Issue	14,999,997.5
<u>500,000,000</u> Shares to be issued pursuant to the Global Offering	<u>5,000,000</u>
<u>2,000,000,000</u> Total	<u>20,000,000</u>

ASSUMPTION

The above table assumes that the Global Offering has become unconditional. It takes no account of any Shares (a) which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme; or (b) which may be allotted and repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below or otherwise.

RANKING

The Shares are ordinary Shares in the share capital of our Company and rank pari passu in all respects with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid after the date of this prospectus (save for entitlements to the Capitalisation Issue).

CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED

Our Company has only one class of Shares, namely ordinary Shares, each of which ranks pari passu with the other Shares.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, our Company may from time to time by Shareholders' ordinary resolution (i) increase its share capital; (ii) consolidate and divide its share capital into Shares of larger amount; (iii) divide its Shares into classes; (iv) subdivide its Shares into Shares of smaller amount; and (v) cancel any Shares which have not been taken. In addition, our Company may subject to confirmation by the Cayman Islands courts reduce its share capital by Shareholders'

SHARE CAPITAL

special resolution. For more details, please see the section headed “Summary of the Constitution of the Company and Cayman Company Law — 2. Articles of Association — (iii) Alteration of capital” in Appendix III to this prospectus.

Pursuant to the Cayman Companies Law and the terms of the Memorandum of Association and the Articles of Association, all or any of the special rights attached to the Share or any class of Shares may 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. For more details, please see the section headed “Summary of the Constitution of our Company and Cayman Islands Company Law — 2. Articles of Association — (ii) Variation of rights of existing shares or classes of shares” in Appendix III to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares, securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities and to make or grant offers, agreements or options which might require such Shares, securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares or such convertible securities to be allotted and issued or dealt with at any time subject to the requirement that the aggregate nominal value of the Shares so allotted and issued or agreed conditionally or unconditionally to be allotted and issued, shall not exceed the sum of:

- (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 Capitalisation Issue (excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme); and
- (ii) the nominal amount of the share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as mentioned below).

This mandate does not cover Shares to be allotted, issued, or dealt with under a rights issue or scrip dividend scheme or similar arrangements or a specific authority granted by our Shareholders.

This mandate to issue Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting,

whichever is the earliest.

SHARE CAPITAL

For further details of this general mandate, please see the section headed “Statutory and general information — A. Further information about our company — 4. Resolutions in writing of our Shareholders passed on 21 February 2020” in Appendix IV to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal value of our share capital in issue immediately following the Global Offering and Capitalisation Issue.

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

This general mandate to repurchase Shares will remain in effect until:

- (i) at the conclusion of our next annual general meeting; or
- (ii) the expiration of the period within which the next annual general meeting of our Company is required to be held under any applicable laws or the Articles of Association; or
- (iii) it is varied or revoked by an ordinary resolution of our Shareholders at a general meeting, whichever is the earliest.

For further details of this general mandate, please see the section headed “Statutory and General Information — A. Further Information about Our Company — 4. Resolutions in writing of our Shareholders passed on 21 February 2020” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read this section in conjunction with our consolidated financial information, including the notes thereto, as set out in “Appendix I — Accountants’ Report” to this prospectus. The consolidated financial information has been prepared in accordance with HKFRSs. Historical results are not indicative of future performance.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include those discussed in “Risk Factors” and “Forward-looking Statements”.

OVERVIEW

We principally manufacture and sell apparel labels and trim products, which are largely accessories attached to apparel products, such as hang tags, woven labels, printed labels and heat transfer products. According to the F&S Report, we ranked fifth in the apparel labels and trim products manufacturing market in the PRC in 2018 in terms of revenue.

Our production facilities are located in the PRC, Bangladesh and Vietnam as well as a supporting production line in the U.S.. We mainly sell our products to apparel manufacturers which are the manufacturers for some U.S. and European apparel brands’ apparel products. In some cases, our products are directly sold to certain apparel brands and sourcing agents appointed by apparel brands or apparel manufacturers. During the Track Record Period, we mainly generated revenue from the PRC, Bangladesh, Turkey, Vietnam and the U.S..

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, our total revenue was approximately HK\$241.6 million, HK\$305.0 million, HK\$371.9 million, HK\$252.2 million and HK\$226.5 million, respectively. We recorded net profit of approximately HK\$19.6 million, HK\$25.7 million, HK\$33.7 million, HK\$25.7 million and HK\$12.5 million, for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively.

BASIS OF PRESENTATION

Our Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Cayman Companies Law on 25 January 2019. Before the completion of the Reorganisation, our Group was under the common control of Mr. Barry Chan and Ms. Candy Law. In preparation of the Listing, the companies comprising our Group underwent the Reorganisation, further details of which are set out in the section headed “History, reorganisation and group structure — The Reorganisation” in this prospectus.

FINANCIAL INFORMATION

Pursuant to the completion of the Reorganisation, our Company has become the holding company of the companies now comprising our Group. Our Group comprising our Company and our subsidiaries resulting from the Reorganisation is regarded as a continuing entity, accordingly, the consolidated financial statements have been prepared as if the Reorganisation had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of our Group for the Track Record Period include the results and cash flows of all companies now comprising our Group from the earliest date presented or since the date when the subsidiaries and/or business first came under the common control of the Controlling Shareholders, namely Mr. Barry Chan and Ms. Candy Law, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2016, 2017 and 2018, and 31 August 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or existing book values from our Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation.

BASIS OF PREPARATION

The Historical Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been consistently applied by our Group in the preparation of the Historical Financial Information throughout the Track Record Period and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

Application of HKFRS 9, HKFRS 15 and HKFRS 16

HKFRS 9

Our Group has adopted HKFRS 9 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 9 had no significant impact on our Group's financial position and performance as compared with the requirements of HKAS 39.

HKFRS 15

Our Group has adopted HKFRS 15 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 15 had no significant impact on our Group's revenue, overall financial position and profits throughout the Track Record Period as compared to the requirements of HKAS 18.

FINANCIAL INFORMATION

HKFRS 16

Our Group has adopted HKFRS 16 on a consistent basis throughout the Track Record Period. The adoption of HKFRS 16 had no significant impact on our Group's financial position and performance as compared with the requirements of HKAS 17. Except for the increase in Gearing ratio and net debt to equity ratio due to the increase in lease liabilities upon adoption of HKFRS 16, the adoption of HKFRS 16 had no significant impact on our Group's financial ratios including current ratio and quick ratio, nor on our Group's financial position including net assets and performance such as net profit as compared to that of HKAS 17.

The tables set forth below summarised the impacts of the adoption of HKFRS 16 on certain financial ratios:

	Gearing ratio as at			
	31 December			31 August
	2016	2017	2018	2019
	%	%	%	%
As if reported under HKAS 17	11.9	48.2	23.0	26.2
Currently reported under HKFRS 16	37.8	69.2	57.7	53.1
	Net debt to equity ratio as at			
	31 December			31 August
	2016	2017	2018	2019
	%	%	%	%
As if reported under HKAS 17	N/A ^(Note)	7.0	3.2	7.7
Currently reported under HKFRS 16	7.5	28.4	38.0	34.7

Note: The ratio is not applicable as our Group had net cash as at 31 December 2016.

FINANCIAL INFORMATION

SIGNIFICANT ACCOUNTING POLICIES AND CRITICAL ESTIMATES AND JUDGEMENT

We have identified certain accounting policies that are significant to the preparation of our Group's financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgments relating to accounting items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing our financial statements, you should consider: (i) our selection of critical accounting policies; (ii) the judgments and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. Our significant accounting policies, estimates and judgments, which are important for an understanding of our financial condition and results of operations, are set out in detail in note 3 and note 4 to our consolidated financial statements included in Appendix I to this prospectus.

Property, plant and equipment and depreciation

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

Depreciation is 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 principal annual rates used for this purpose are as follows:

Leasehold improvements:	Over the lease terms
Plant and machinery:	10%
Furniture and fixtures:	20%
Motor vehicles:	20%

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour 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.

FINANCIAL INFORMATION

Employee benefits

Pension schemes

Our Group operates defined contribution retirement benefit schemes in Hong Kong and overseas for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of our Group in an independently administered fund. Our Group's employer contributions vest fully with the employees when contributed into the schemes, except for our Group's employer voluntary contributions, which are refunded to our Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The employees of our Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Leases

At inception of a contract, our Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, our Group assesses whether:

- (a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- (b) our Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (c) our Group has the right to direct the use of the asset. Our Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, our Group has the right to direct the use of the asset if either:
 - (i) our Group has the right to operate the asset; or
 - (ii) our Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, our Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, our Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

FINANCIAL INFORMATION

As a lessee

Our Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, our Group's incremental borrowing rate. Generally, our Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- (a) fixed payments, including in-substance fixed payments;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable under a residual value guarantee; and
- (d) the exercise price under a purchase option that our Group is reasonably certain to exercise, lease payments in an optional renewal period if our Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless our Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in our Group's estimate of the amount expected to be payable under a residual value guarantee, or if our Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

FINANCIAL INFORMATION

Short-term leases

Our Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. Our Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Foreign currencies

The Historical Financial Information is presented in Hong Kong dollars, which is our Company's functional currency. Each entity in our 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 our 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.

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which our 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, our Group determines the transaction date for each payment or receipt of the advance consideration.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including those set out below:

Reliance on customers

Our Directors anticipate that the demand for our products sourced by our customers for ultimate use on apparel products of apparel brands will continue to represent a significant portion of our revenue in the near future. The demand from our customers will be affected by our Company's reputation, service and quality, the fast changing fashion trend and consumer preference and purchasing power.

If there is any adverse change in the political, economic or social conditions, foreign trade or monetary policies, or legal or regulatory requirements or taxation or tariff regime in the U.S. or Europe or any other jurisdictions in which these apparel brands operate, or these apparel brands do not place purchase orders with our customers at the same level or on similar terms which they have historically done so, or at all, in the future, or our products are no longer used by these apparel brands for their products, our business, financial condition and results of operations may be materially and adversely affected.

FINANCIAL INFORMATION

Changes of raw materials consumed and direct labour

Our costs of raw materials consumed and costs of direct labour represent a significant portion of our cost of sales. During the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, our costs of raw materials consumed amounted to approximately HK\$69.1 million, HK\$96.8 million, HK\$102.4 million, HK\$69.3 million and HK\$56.1 million, respectively, of our total cost of sales, representing approximately 51.3%, 55.5%, 48.9%, 48.3% and 47.8% of our total cost of sales, respectively. Our costs of direct labour amounted to approximately HK\$29.2 million, HK\$36.6 million, HK\$47.7 million, HK\$34.7 million and HK\$28.3 million, respectively, of our total cost of sales, representing approximately 21.7%, 21.0%, 22.8%, 24.1% and 24.2% of our total cost of sales, respectively.

Our ability to control and manage such direct costs affects our profitability. If such direct costs substantially increase, we may incur additional costs. We may not be able to pass these additional costs to our customers and our profitability may be materially and adversely affected.

The sensitivity analysis below illustrates the impact of hypothetical fluctuations in the costs of (i) raw materials consumed; and (ii) direct labour on our profit before tax for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, assuming all other factors remain unchanged:

- (i) Change in raw materials consumed:

	+/-5%	+/-10%
Hypothetical fluctuations	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Increase/decrease in raw materials consumed		
Year ended 31 December 2016	+/-3,453	+/-6,906
Year ended 31 December 2017	+/-4,840	+/-9,679
Year ended 31 December 2018	+/-5,122	+/-10,243
Eight months ended 31 August 2018	+/-3,467	+/-6,935
Eight months ended 31 August 2019	+/-2,804	+/-5,607
Increase/decrease in profit before tax		
Year ended 31 December 2016	-/+3,453	-/+6,906
Year ended 31 December 2017	-/+4,840	-/+9,679
Year ended 31 December 2018	-/+5,122	-/+10,243
Eight months ended 31 August 2018	-/+3,467	-/+6,935
Eight months ended 31 August 2019	-/+2,804	-/+5,607

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(ii) Change in direct labour costs:

	+/-5%	+/-10%
Hypothetical fluctuations	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Increase/decrease in costs of direct labour		
Year ended 31 December 2016	+/-1,461	+/-2,922
Year ended 31 December 2017	+/-1,830	+/-3,661
Year ended 31 December 2018	+/-2,384	+/-4,768
Eight months ended 31 August 2018	+/-1,733	+/-3,466
Eight months ended 31 August 2019	+/-1,416	+/-2,832
Increase/decrease in profit before tax		
Year ended 31 December 2016	-/+1,461	-/+2,922
Year ended 31 December 2017	-/+1,830	-/+3,661
Year ended 31 December 2018	-/+2,384	-/+4,768
Eight months ended 31 August 2018	-/+1,733	-/+3,466
Eight months ended 31 August 2019	-/+1,416	-/+2,832

Prospective investors should note that the above analysis on the historical financials is based on assumptions and is for reference only and should not be viewed as actual effect.

Fluctuations in foreign exchange rates

As our sales are primarily settled in U.S. dollars and Hong Kong dollars whereas our purchases of raw materials for the PRC Factories, the Bangladesh Factory and the Vietnam Factory and operating costs of our production plant and offices in the PRC are primarily settled in RMB, we are exposed to foreign exchange risk. During the Track Record Period, our Group had experienced no material exchange losses. Despite the fact that the operating costs of production plants and offices in Vietnam and Bangladesh were settled in local currencies, such costs were insignificant to our Group's cost of sales. In addition, we are exposed to risks associated with currency conversion and the exchange rate system in the PRC.

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The sensitivity analysis below illustrates the impact of hypothetical fluctuations in the exchange rate of RMB against HKD on our profit before tax for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, assuming all other factors remain unchanged:

Hypothetical fluctuations	+/-5% <i>(HK\$'000)</i>	+/-10% <i>(HK\$'000)</i>
Increase/decrease in of RMB against HKD		
Year ended 31 December 2016	-/+668	-/+1,336
Year ended 31 December 2017	-/+1,749	-/+3,498
Year ended 31 December 2018	-/+1,062	-/+2,124
Eight months ended 31 August 2018	-/+1,274	-/+2,549
Eight months ended 31 August 2019	-/+356	-/+711

Our profit margins will be negatively affected to the extent that we are unable to increase the selling prices of our products to our overseas customers to account for any appreciation of RMB against U.S. dollars. Further, any future significant fluctuations in the exchange rate will result in increases or decreases in our reported costs and earnings, which may have a material adverse affect on our business, financial condition and results of operations.

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 which enables 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 centralising our raw materials consumed and enhancing the effectiveness of our fixed overheads. For details of our production capacity, please refer to the section headed “Business — Production — Production capacity” in this prospectus.

Due to the increase in demand for our products from our customers in Bangladesh, India and Pakistan, our Group plans to expand our production capacity by building a new production plant in Bangladesh to serve our customers in India, Pakistan and Bangladesh. If we fail to successfully complete and implement our proposed expansion plan above, or such is adversely affected by delays and cost overruns, we may not be able to increase our production capacity, thereby limiting our ability to take on further production orders from these customers and restricting our revenue growth, which may have a material adverse effect on our business, financial condition, results of operations and development prospects.

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RESULTS OF OPERATIONS

The table below summarises the consolidated statements of profit or loss during the Track Record Period, details of which are set out in the Accountants' Report in Appendix I to this prospectus.

	Year Ended 31 December						Eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Percentage of our total revenue		Percentage of our total revenue		Percentage of our total revenue		Percentage of our total revenue		Percentage of our total revenue	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
	(Unaudited)									
Revenue	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0
Cost of sales	(134,520)	(55.7)	(174,497)	(57.2)	(209,473)	(56.3)	(143,595)	(56.9)	(117,295)	(51.8)
Gross profit	107,108	44.3	130,524	42.8	162,410	43.7	108,560	43.1	109,216	48.2
Other income and gains	722	0.3	1,783	0.6	3,642	1.0	2,012	0.8	5,213	2.3
Selling and distribution expenses	(27,445)	(11.4)	(32,606)	(10.7)	(40,343)	(10.8)	(28,055)	(11.1)	(28,666)	(12.6)
Administrative expenses	(52,849)	(21.8)	(64,107)	(21.0)	(76,849)	(20.7)	(49,374)	(19.6)	(53,615)	(23.7)
Other expenses	(123)	(0.1)	(164)	(0.1)	(305)	(0.1)	(100)	(0.0)	(953)	(0.4)
Finance costs	(1,496)	(0.6)	(1,662)	(0.6)	(2,770)	(0.7)	(1,854)	(0.7)	(1,828)	(0.8)
Listing expenses	-	-	-	-	(4,030)	(1.1)	-	-	(9,958)	(4.4)
Profit before tax	25,917	10.7	33,768	11.1	41,755	11.2	31,189	12.4	19,409	8.6
Income tax expense	(6,361)	(2.6)	(8,020)	(2.6)	(8,020)	(2.1)	(5,496)	(2.2)	(6,927)	(3.1)
Profit for the year/period	19,556	8.1	25,748	8.4	33,735	9.1	25,693	10.2	12,482	5.5

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NON-HKFRS FINANCIAL MEASURES

To supplement our consolidated financial statements which are presented in accordance with HKFRS, we also use adjusted profit for the year/period as additional financial measures. We present these financial measures as they are used by our Directors to evaluate our operating performance. Further, we believe that these financial measures provide useful information in understanding and evaluating our consolidated results of operations.

Adjusted profit

Adjusted profit for the year/period is calculated by adding back the Listing expenses to the profit for the year/period as presented in accordance with HKFRS, as set out in the following table:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Profit for the year/period	19,556	25,748	33,735	25,693	12,482
Add: Listing expenses	-	-	4,030	-	9,958
Adjusted profit for the year/period	<u>19,556</u>	<u>25,748</u>	<u>37,765</u>	<u>25,693</u>	<u>22,440</u>

In light of the foregoing limitations for non-HKFRS financial measures, when assessing our operating and financial performance, investors are reminded that they are analytical tools and should not be considered in isolation from, or as a substitute for, an analysis of our financial results or other operating performance measures calculated in accordance with HKFRS. In addition, these non-HKFRS financial measures may not be calculated in the same manner by all companies and therefore may not be comparable to similarly named measures used by other companies.

DESCRIPTION OF SELECTED ITEMS IN STATEMENTS OF COMPREHENSIVE INCOME

Revenue

Our revenue represents the sale of apparel labels and trim products, including hang tags, woven labels, printed labels and heat transfer products that are largely attached to apparel products. Our revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and rebate expenses to customers. Our revenue increased by 26.2% between the years ended 31 December 2016 and 2017 and by 21.9% between the years ended 31 December 2017 and 2018. Our revenue decreased by 10.2% between the eight months ended 31 August 2018 and 2019.

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The table below sets out the breakdown of our revenue, sales volume and average sales price by product types during the Track Record Period:

Product	For the year ended 31 December						For the eight months ended 31 August												
	2016		2017		2018		2018		2019										
	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)	Percentage of our total revenue	Sales volume (Note 4) (million)	Average sales price (Note 4) (HK\$)	Revenue (HK\$'000)							
Hang tags (Note 1)	58.6	490.2	0.29	168,793	55.3	546.9	0.31	196,749	52.9	626.6	0.31	130,402	51.7	413.5	0.32	122,209	54.0	441.7	0.28
Woven labels (Note 1)	15.0	141.8	0.26	46,343	15.3	181.3	0.26	67,670	18.2	255.6	0.26	46,390	18.4	169.5	0.27	38,333	16.9	141.4	0.27
Printed labels (Note 1)	8.0	94.7	0.20	28,887	9.5	133.8	0.22	38,206	10.3	170.1	0.22	23,699	9.4	112.8	0.21	24,338	10.7	110.8	0.22
Heat transfer products	10.1	109.5	0.22	26,760	8.8	107.9	0.25	24,432	6.6	99.8	0.25	16,715	6.6	68.2	0.25	12,675	5.6	50.6	0.25
Stickers	4.7	86.8	0.13	8,749	2.9	68.1	0.13	10,453	2.8	86.2	0.12	6,949	2.8	54.0	0.13	8,766	3.9	79.1	0.11
Strings and seals	2.1	40.3	0.12	7,055	2.3	54.2	0.13	9,504	2.6	74.3	0.13	6,265	2.5	47.6	0.13	5,420	2.4	49.4	0.11
Other products (Note 2)	5.6	32.9	N/A	28,418	9.2	106.7	N/A	32,136	8.6	38.0	N/A	27,118	10.7	24.0	N/A	18,137	8.0	21.4	N/A
Rebate expenses (Note 3)	(4.1)	N/A	N/A	(10,184)	(3.3)	N/A	N/A	(7,287)	(2.0)	N/A	N/A	(5,383)	(2.1)	N/A	N/A	(3,367)	(1.5)	N/A	N/A
Total	100.0	996.2	0.24	305,021	100.0	1,198.9	0.25	371,883	100.0	1,350.6	0.28	253,155	100.0	889.6	0.28	226,511	100.0	894.4	0.25

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Notes:

- (1) The revenues generated by the sale of our RFID products are included in the revenues of hang tags and labels in which these products are embedded. The revenues generated by the sale of our RFID products were approximately HK\$0.6 million, HK\$4.7 million, HK\$4.4 million and HK\$2.1 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, which accounted for approximately 0.3%, 1.5%, 1.2% and 0.9% of our total revenue for the corresponding period, respectively.
- (2) Other products comprise packaging boxes, sequins, patches, bags and badges. Our Directors believe that it is not meaningful to produce an average sales price for this category because these products have a diverse price range.
- (3) Please refer to the section headed “Business — Sales, marketing and customers — Rebate arrangement” in this prospectus for details.
- (4) The sales prices of our products are affected by various factors such as costs of raw materials, the level of technical skills required in the production, quantity of purchase orders and labour costs. The sales volumes and the average sales prices of our RFID and NFC products are included in the sales volumes and the average sales prices of hang tags and labels in which these products are embedded.

As illustrated above, for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, our Group’s revenue derived from (i) hang tags accounted for approximately 58.6%, 55.3%, 52.9%, 51.7% and 54.0% of our total revenue, respectively; (ii) woven labels accounted for approximately 15.0%, 15.3%, 18.2%, 18.4% and 16.9% of our total revenue, respectively; and (iii) printed labels accounted for approximately 8.0%, 9.5%, 10.3%, 9.4% and 10.7% of our total revenue, respectively. Our revenue composition remained relatively stable during the Track Record Period.

Our average sales price decreased from HK\$0.28 per piece for the eight months ended 31 August 2018 to HK\$0.25 per piece for the eight months ended 31 August 2019 mainly due to the decrease in average sales price of hang tags from HK\$0.32 per piece for the eight months ended 31 August 2018 to HK\$0.28 per piece for the eight months ended 31 August 2019. Such decrease was mainly attributed by the decrease in average sales price of hang tags attributable to Apparel Brand B and that purchased in larger volume attributable to Apparel Brand D and another brand for the eight months ended 31 August 2019 as their ordered products were generally of simpler design which were less costly to manufacture.

The sales volume of woven labels decreased from approximately 169.5 million for the eight months ended 31 August 2018 to approximately 141.4 million for the eight months ended 31 August 2019 mainly due to the decrease in demand of woven labels from apparel brands, such as Apparel Brand B and Apparel Brand F, during the period. Our revenue generated from other products decreased from approximately HK\$27.1 million for the eight months ended 31 August 2018 to HK\$18.1 million for the eight months ended 31 August 2019 mainly due to (i) the decrease in sales of badges by approximately HK\$3.3 million during the period as compared to the corresponding period in 2018; (ii) no sales of sequins during the period as compared to the sales of sequins of approximately HK\$2.9 million for the eight months ended 31 August 2018; and (iii) the general decrease in the aggregated sales of bags, packaging boxes and patches by approximately HK\$2.8 million during the period as compared to the corresponding period in 2018.

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The table below sets out a breakdown of revenue according to geographical locations of the customers during the Track Record Period:

Countries/region	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue	Revenue	Percentage of our total revenue
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Hong Kong	86,841	35.9	104,344	34.2	112,996	30.4	76,959	30.5	62,075	27.4
The PRC	64,890	26.9	84,152	27.6	92,602	24.9	65,120	25.8	58,104	25.7
Bangladesh	16,177	6.7	25,673	8.4	37,350	10.0	24,695	9.8	22,018	9.7
Vietnam	9,495	3.9	11,758	3.9	19,382	5.2	11,296	4.5	12,342	5.5
United States	13,692	5.7	15,485	5.1	19,074	5.1	14,467	5.7	12,205	5.4
Turkey	9,841	4.1	13,049	4.3	15,112	4.1	8,457	3.4	10,525	4.6
India	5,551	2.3	8,139	2.7	14,131	3.8	8,157	3.2	7,467	3.3
Pakistan	4,638	1.9	6,963	2.3	8,822	2.4	5,417	2.1	5,637	2.5
Others ^(Note)	40,439	16.7	45,642	14.8	59,701	16.1	42,970	17.1	39,505	17.4
Rebate expenses	(9,936)	(4.1)	(10,184)	(3.3)	(7,287)	(2.0)	(5,383)	(2.1)	(3,367)	(1.5)
Total	241,628	100.0	305,021	100.0	371,883	100.0	252,155	100.0	226,511	100.0

Note: Others mainly include our revenue generated from over 40 countries, including Tunisia and Germany, and none of them generated more than 5% of our revenue during the Track Record Period.

During the three years ended 31 December 2018, despite the increase in revenues from Hong Kong and the PRC, the relevant percentages of their combined revenue decreased due to the relatively higher increase in revenues from Bangladesh, Vietnam and other countries. For the eight months ended 31 August 2019, the decrease in revenues (i) from Hong Kong was mainly due to the decrease in aggregated revenue of approximately HK\$8.9 million generated from Customer A, Customer B and Customer F during the period which were in turn caused mainly by decrease in demand from Apparel Brand B and a number of apparel brands generally sourced by Customer A; (ii) from the PRC was mainly due to the decrease in aggregated revenue of approximately HK\$1.5 million generated from Customer A and Customer C which were in turn caused mainly by decrease in demand from Apparel Brand B and a number of apparel brands generally sourced by Customer A and the decrease in total number of customers in the PRC during the period which our Directors

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consider that may due to the general economic downturn and the trade war between China and the U.S.; (iii) from Bangladesh was mainly due to the decrease in revenue of approximately HK\$2.2 million generated from Customer B during the period which were in turn caused mainly by decrease in demand from Apparel Brand B and Apparel Brand D; (iv) from the United States was mainly due to the decrease in aggregated revenue of approximately HK\$2.3 million generated from two of our apparel brands during the period which our Directors consider that may due to the general economic downturn; and (v) from India was mainly due to the decrease in revenue of approximately HK\$0.8 million generated from one of our customers during the period which were in turn caused mainly by decrease in demand from Apparel Brand B.

Cost of sales

Our cost of sales comprise (i) raw materials consumed, (ii) direct labour, (iii) depreciation, (iv) unallocated overheads, (v) subcontracting fee, (vi) utilities, (vii) trading, and (viii) repair and maintenance.

The table below sets out a breakdown of our cost of sales by nature:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Raw materials consumed										
– Papers	26,267	19.5	36,173	20.7	39,359	18.8	28,928	20.1	20,371	17.4
– Chemical products	9,682	7.2	12,376	7.1	13,572	6.5	9,113	6.3	7,607	6.5
– Strings and seals	10,932	8.1	9,120	5.2	9,429	4.5	6,695	4.7	4,611	3.9
– Yarns	3,073	2.3	3,498	2.0	7,699	3.7	5,411	3.8	3,218	2.7
– Other raw materials	19,110	14.2	35,624	20.5	32,372	15.4	19,202	13.4	20,263	17.3
Subtotal	69,064	51.3	96,791	55.5	102,431	48.9	69,349	48.3	56,070	47.8
Direct labour	29,219	21.7	36,607	21.0	47,676	22.8	34,664	24.1	28,323	24.2
Depreciation	8,894	6.6	10,381	5.9	16,326	7.8	11,179	7.8	12,017	10.3
Unallocated overheads	6,364	4.8	8,934	5.1	10,501	5.0	3,410	2.4	4,348	3.7
Subcontracting fee	15,501	11.5	16,204	9.3	22,427	10.7	17,398	12.1	10,593	9.0
Utilities	3,534	2.6	3,492	2.0	4,765	2.3	3,466	2.4	3,200	2.7
Trading	10	0.0	275	0.1	3,452	1.6	2,700	1.9	1,899	1.6
Repair and maintenance	1,934	1.5	1,813	1.1	1,895	0.9	1,429	1.0	845	0.7
Total	134,520	100.0	174,497	100.0	209,473	100.0	143,595	100.0	117,295	100.0

Raw materials consumed mainly represent papers, chemical products, strings and seals, and yarns used to produce our end products. Direct labour represents salaries, insurance, staff messing and welfare of our manufacturing operations. Depreciation is primarily related to leasehold improvements, plant and machinery, furniture and fixtures, motor vehicles and right of use assets.

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Gross profit and gross profit margin

For the years ended 31 December 2016, 2017 and 2018, our gross profit amounted to approximately HK\$107.1 million, HK\$130.5 million and HK\$162.4 million, respectively, and the rise was in line with our growth in revenue. The respective gross profit margin was approximately 44.3%, 42.8% and 43.7%, respectively. The gross profit margin had remained relatively stable during the Track Record Period.

For the eight months ended 31 August 2018 and 2019, our gross profit amounted to approximately HK\$108.6 million and HK\$109.2 million, respectively, and our gross profit margin was approximately 43.1% and 48.2%, respectively. The increase in gross profit and gross profit margin was due to the decrease in our cost of sales as a result of the depreciation of RMB against HKD which led to lower cost of raw materials consumed and direct labour in terms of HKD during the period.

For illustrative purpose, the table below sets out a breakdown of gross profit and gross profit margin by product types during the Track Record Period based on the best estimation of our Directors:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Hang tags	62,775	44.4	75,386	44.7	87,575	44.5	57,805	44.3	59,697	48.8
Woven labels	18,517	51.2	22,823	49.0	33,153	49.0	22,664	48.9	21,600	56.3
Printed labels	10,331	53.3	14,998	51.9	19,708	51.6	12,495	52.7	13,183	54.2
Heat transfers products	14,887	61.1	16,148	60.3	14,116	57.7	9,679	57.9	7,118	56.2
Stickers	6,809	60.3	5,004	57.2	5,735	54.9	3,770	54.3	4,714	53.8
Strings and seals	2,026	40.8	2,851	40.4	3,889	40.9	2,547	40.7	2,150	39.7
Other products*	1,699	N/A	3,498	N/A	5,521	N/A	4,983	N/A	4,121	N/A
Sub-total	117,044	N/A	140,708	N/A	169,697	N/A	113,943	N/A	112,583	N/A
Rebate	(9,936)	N/A	(10,184)	N/A	(7,287)	N/A	(5,383)	N/A	(3,367)	N/A
Total	107,108	N/A	130,524	N/A	162,410	N/A	108,560	N/A	109,216	N/A

*Note: Other products comprise packaging boxes, sequins, patches, bags and badges. Our Directors believe that it is not meaningful to produce a gross profit margin for this category because those products have a diverse gross profit margin range.

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Other income and gains

Our other income and gains mainly represents income from net foreign exchange gains, write-back of trade payables, sales of scrap materials, government grant, freight and transportation income and others. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, our other income and gains amounted to approximately HK\$0.7 million, HK\$1.8 million, HK\$3.6 million, HK\$2.0 million and HK\$5.2 million, respectively.

Selling and distribution expenses

Our selling and distribution expenses primarily comprise (i) staff costs which include salaries, MPF contributions, staff welfares and other related expenses; (ii) consultancy and commission expenses, which related to selling and marketing and commission expenses for the marketing services consultants engaged by our Group; (iii) travel and entertainment; (iv) freight and delivery; (v) marketing and advertising; and (vi) others which mainly include depreciation of right-of-use assets and building management fee, telephone fee and other miscellaneous expenses.

The table below sets out a breakdown of our selling and distribution expenses for the periods indicated:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Staff costs	13,149	47.9	16,446	50.4	18,362	45.5	14,500	51.7	16,002	55.9
Consultancy and commission expenses	5,800	21.1	6,510	20.0	9,266	23.0	6,999	24.9	5,627	19.6
Travel and entertainment	3,785	13.8	3,932	12.1	5,293	13.1	2,899	10.3	2,704	9.4
Freight and delivery	2,409	8.8	3,240	9.9	3,508	8.7	1,415	5.0	2,142	7.5
Marketing and advertising	1,010	3.7	856	2.6	1,710	4.2	816	2.9	1,294	4.5
Others	1,292	4.7	1,622	5.0	2,204	5.5	1,426	5.2	897	3.1
Total	27,445	100.0	32,606	100.0	40,343	100.0	28,055	100.0	28,666	100.0

Our selling and distribution expenses amounted to approximately HK\$27.4 million, HK\$32.6 million, HK\$40.3 million, HK\$28.1 million and HK\$28.7 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively, which represented approximately 11.4%, 10.7%, 10.8%, 11.1% and 12.6% of our total revenue, respectively.

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Administrative expenses

Our administrative expenses primarily comprise (i) staff costs which include entertainment, festival bonus, insurance, meals, medical expenses and other related expenses; (ii) depreciation; (iii) legal and professional fees; (iv) utilities, telephone and internet; (v) building management and site security which include building management fee, cleaning expenses, repair and maintenance expenses and other related expenses; (vi) travel and site visits; and (vii) others which mainly include declaration fee, membership fee, motor car expenses, office expenses, printing and stationery expenses and other miscellaneous expenses.

The table below sets out a breakdown of our administrative expenses for the periods indicated:

	For the year ended 31 December						For the eight months ended 31 August			
	2016		2017		2018		2018		2019	
	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)	(HK\$'000)	(%)
Staff costs	36,442	69.0	44,519	69.4	52,642	68.5	34,132	69.2	36,908	68.9
Depreciation	6,120	11.6	6,693	10.4	8,056	10.5	3,775	7.6	4,781	8.9
Legal and professional fees	344	0.7	1,090	1.7	2,919	3.8	2,444	4.9	2,598	4.8
Utilities, telephone and internet	2,009	3.8	2,475	3.9	2,852	3.7	1,880	3.8	1,815	3.4
Building management and site security	1,258	2.4	1,763	2.8	1,667	2.2	929	1.9	968	1.8
Travel and site visits	1,555	2.9	1,512	2.4	2,087	2.7	1,284	2.6	1,584	3.0
Others	5,121	9.6	6,055	9.4	6,626	8.6	4,930	10.0	4,961	9.2
Total	52,849	100.0	64,107	100.0	76,849	100.0	49,374	100.0	53,615	100.0

Our administrative expenses amounted to approximately HK\$52.8 million, HK\$64.1 million, HK\$76.8 million, HK\$49.4 million and HK\$53.6 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively, which represented approximately 21.8%, 21.0%, 20.7%, 19.6% and 23.7% of our total revenue, respectively.

Other expenses

Our other expenses primarily comprise (i) net foreign exchange losses; (ii) net recognition/(reversal) of impairment losses on trade receivables; (iii) loss on disposal of items of property, plant and equipment; and (iv) others.

Net recognition/(reversal) of impairment losses on trade receivables amounted to approximately HK\$32,000, HK\$(11,000), HK\$9,000, HK\$9,000 and HK\$0.8 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively.

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Our other expenses amounted to approximately HK\$0.1 million, HK\$0.2 million, HK\$0.3 million, HK\$0.1 million and HK\$1.0 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively.

Finance costs

Our finance costs comprise interest on bank loans and interest on lease liabilities. Finance costs amounted to approximately HK\$1.5 million, HK\$1.7 million, HK\$2.8 million, HK\$1.9 million and HK\$1.8 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively.

Listing expenses

Our Listing expenses comprise professional and other expenses in relation to our Listing. Listing expenses amounted to approximately HK\$4.0 million for the year ended 31 December 2018 and HK\$10.0 million for the eight months ended 31 August 2019. During the Track Record Period, the aggregated Listing expenses of approximately HK\$14.0 million were recorded to the statement of profit or loss and other comprehensive income of our Group, representing approximately 10.4% of the gross proceeds from the Global Offering based on the mid-point of the proposed Offer Price range.

Income tax expense

Our Group is subject to income tax on an individual legal entity basis on profits arising in or derived from the tax jurisdictions in which companies comprising our Group domicile or operate.

(i) Cayman Islands/BVI profits tax

Our Group has not been subject to any taxation in the Cayman Islands/BVI save for those which hold interests in land in the Cayman Islands/BVI.

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the Track Record Period.

(iii) PRC enterprise income tax

PRC enterprise income tax has been generally provided at the applicable enterprise income tax rate of 25% on the estimated assessable profits of the companies in our Group during the Track Record Period.

(iv) PRC withholding income tax

Dividends declared by the PRC subsidiaries to parent companies incorporated outside PRC are subject to withholding tax of 10%. Withholding tax of our Group has been provided at a rate of 10% during the Track Record Period.

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(v) *Bangladesh corporate income tax*

Our Bangladesh subsidiaries were subject to a corporate income tax rate of 35% during the Track Record Period.

(vi) *Vietnam, U.S. and others*

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which our Group operates for each reporting period during the Track Record Period.

Our income tax expenses were approximately HK\$6.4 million, HK\$8.0 million, HK\$8.0 million, HK\$5.5 million and HK\$6.9 million for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2018 and 2019, respectively; the effective tax rate for the same period was approximately 24.5%, 23.8%, 19.2%, 17.6% and 35.7%, respectively. The decrease in effective tax rate for FY2018 was due to the relatively higher tax expenses in Hong Kong than other jurisdictions with higher tax rates, thereby reducing the effective tax rate in general. The increase in effective tax rate for the eight months ended 31 August 2019 was due to the non-deductible listing expenses of HK\$10.0 million.

During the Track Record Period, expenses not deductible for tax mainly represented Listing expenses, non-deductible professional fees and losses incurred by subsidiaries operating in Bangladesh during the tax holiday period which cannot be used to offset against future taxable profits.

During the Track Record Period and up to the Latest Practicable Date, our Directors confirm that we have fulfilled all our income tax obligations and have not had any unresolved income tax issues or disputes with the relevant tax authorities.

REVIEW OF HISTORICAL RESULTS OF OPERATION

The eight months ended 31 August 2019 compared to the eight months ended 31 August 2018

Revenue

Our revenue decreased by approximately HK\$25.7 million or 10.2% to approximately HK\$226.5 million for the eight months ended 31 August 2019 from approximately HK\$252.2 million for the eight months ended 31 August 2018 mainly as a result of the decrease in sales to (i) Customer A of approximately HK\$6.7 million; (ii) five customers (including Customer B, Customer C and Customer F) of approximately HK\$10.0 million, which mainly produced for Apparel Brand A and Apparel Brand B; and (iii) the decrease in average sales price of hang tags to approximately HK\$0.28 per piece for the eight months ended 31 August 2019 from approximately HK\$0.32 per piece for the corresponding period in 2018, which was partially offset by the increase in sales volume by approximately 6.8% for the eight months ended 31 August 2019 as compare to the corresponding period in 2018 as a result of the general increase in both the number of purchase orders from our customers as well as the size of the purchase orders.

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Cost of sales

Our cost of sales decreased by approximately HK\$26.3 million or 18.3% to approximately HK\$117.3 million for the eight months ended 31 August 2019 from approximately HK\$143.6 million for the eight months ended 31 August 2018. Such decrease was in line with our revenue trend and also mainly due to (i) the depreciation of RMB against HKD during the period which led to lower cost of raw materials consumed and direct labour in terms of HKD; and (ii) decrease in subcontracting fee.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit slightly increased by approximately HK\$0.6 million or 0.6% to approximately HK\$109.2 million for the eight months ended 31 August 2019 from approximately HK\$108.6 million for the eight months ended 31 August 2018. Our gross profit margin increased from approximately 43.1% for the eight months ended 31 August 2018 to approximately 48.2% for the eight months ended 31 August 2019 mainly due to (i) lower cost of sales as a result of the depreciation of RMB against HKD during the period; and (ii) the decrease in subcontracting fee in relation to the production of woven labels.

Other income and gains

Our other income and gains increased by approximately HK\$3.2 million or 159.1% to approximately HK\$5.2 million for the eight months ended 31 August 2019 from approximately HK\$2.0 million for the eight months ended 31 August 2018. The increase in other income and gains was mainly due to (i) an increase in sale of scrap materials of approximately HK\$1.2 million; and (ii) an increase in foreign exchange gains by approximately HK\$0.6 million.

Selling and distribution expenses

Our selling and distribution expenses remained relatively stable at approximately HK\$28.7 million for the eight months ended 31 August 2019 as compared to approximately HK\$28.1 million for the eight months ended 31 August 2018.

Administrative expenses

Our administrative expenses increased by approximately HK\$4.2 million or 8.6% to approximately HK\$53.6 million for the eight months ended 31 August 2019 from approximately HK\$49.4 million for the eight months ended 31 August 2018. The increase in administrative expenses was mainly due to (i) an increase in staff cost of HK\$2.8 million mainly because of an increase in headcount in Accounting and Finance, and product development teams in Hong Kong and larger pension scheme contributions for the period; and (ii) an increase in depreciation of approximately HK\$1.0 million mainly related to an increase in monthly rental of our new Hong Kong office in April 2018.

Finance costs

Our finance costs remained stable at approximately HK\$1.8 million for the eight months ended 31 August 2019 as compared to approximately HK\$1.9 million for the eight months ended 31 August 2018.

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Income tax expense

Our income tax expenses increased by approximately HK\$1.4 million or 26.0% to approximately HK\$6.9 million for the eight months ended 31 August 2019 from approximately HK\$5.5 million for the eight months ended 31 August 2018. The increase in income tax expenses was mainly due to higher estimated assessable profits of one of our PRC companies.

Profit for the period

As a result of the foregoing and the incurrence of the Listing expenses of approximately HK\$10.0 million as we commenced our proposed Listing process in the second half of 2018, profit for the period decreased by approximately HK\$13.2 million or 51.4% to approximately HK\$12.5 million for the eight months ended 31 August 2019 from approximately HK\$25.7 million for the eight months ended 31 August 2018. Our net profit margin decreased from approximately 10.2% for the eight months ended 31 August 2018 to approximately 5.5% for the eight months ended 31 August 2019.

The year ended 31 December 2018 compared to the year ended 31 December 2017

Revenue

Our revenue increased by approximately HK\$66.9 million or 21.9% to approximately HK\$371.9 million for the year ended 31 December 2018 from approximately HK\$305.0 million for the year ended 31 December 2017 as a result of (i) an increase of approximately HK\$21.1 million attributable to the increase in the sales of woven labels due to the contribution by the additional production capacity from newly purchased weaving machines in early 2018; (ii) an increase of approximately HK\$37.3 million attributable to sales of hang tags and printed labels due to the contribution by the additional production capacity from newly purchased offset printing machines in mid 2017; (iii) the amount of approximately HK\$2.9 million attributable to the sales of sequins which were new products for the year ended 31 December 2018. The above increase in sales was mainly attributable to an increase in sales to the apparel manufacturers produced for our major apparel brands which led to a general increase in purchases from us by these apparel manufacturers.

Cost of sales

Our cost of sales increased by approximately HK\$35.0 million or 20.0% to approximately HK\$209.5 million for the year ended 31 December 2018 from approximately HK\$174.5 million for the year ended 31 December 2017. Such increase was in line with our revenue growth and also due to (i) an increase in the number and average salary of our direct labour staff in 2018, and (ii) additional depreciation expenses for new machinery.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by approximately HK\$31.9 million or 24.4% from approximately HK\$130.5 million for the year ended 31 December 2017 to approximately HK\$162.4 million for the year ended 31 December 2018. Our gross profit margin remained relatively stable at approximately 42.8% for the year ended 31 December 2017 and approximately 43.7% for the year ended 31 December 2018.

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Other income and gains

Our other income and gains increased by approximately HK\$1.9 million or 104.3% to approximately HK\$3.6 million for the year ended 31 December 2018 from approximately HK\$1.8 million for the year ended 31 December 2017. The increase in other income and gains was mainly due to an increase of approximately HK\$0.5 million of write-back of trade payables to a raw material supplier which had been liquidated, an increase in sales of scrap materials of approximately HK\$0.4 million and an increase of approximately HK\$0.8 million in net gain on foreign exchange differences.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$7.7 million or 23.7% to approximately HK\$40.3 million for the year ended 31 December 2018 from approximately HK\$32.6 million for the year ended 31 December 2017. The increase was mainly due to (i) an increase in staff costs of approximately HK\$1.9 million resulting from the increase in the headcount in our customer service team to support our growth, (ii) an increase in consultancy and commission expenses of approximately HK\$2.8 million resulting from the provision of promotion and marketing services by our marketing services consultants, and (iii) an increase in travel and entertainment expenses of approximately HK\$1.4 million mainly incurred in the sale and marketing activities of our Group in Europe.

Administrative expenses

Our administrative expenses increased by approximately HK\$12.7 million or 19.9% to approximately HK\$76.8 million for the year ended 31 December 2018 from approximately HK\$64.1 million for the year ended 31 December 2017. The increase was mainly due to (i) an increase in staff cost of approximately HK\$8.1 million resulting from the increase in the headcount of our administrative and finance departments to support our growth, (ii) an increase in legal and professional fees of approximately HK\$1.8 million resulting from the fees we paid to external consultants for their provision of financial reporting and internal control advisory services, and (iii) an increase in depreciation of approximately HK\$1.4 million mainly related to an increase in monthly rental of our new Hong Kong office in April 2018.

Finance costs

Our finance costs increased from approximately HK\$1.7 million for the year ended 31 December 2017 to approximately HK\$2.8 million for the year ended 31 December 2018. The increase was due to the draw down of two new loans in the second half of 2017.

Income tax expense

Our income tax expense maintained stable at approximately HK\$8.0 million for the years ended 31 December 2017 and 2018. Our effective tax rate decreased from approximately 23.8% for the year ended 31 December 2017 to approximately 19.2% for the year ended 31 December 2018 due to the relatively higher tax expenses in Hong Kong than other jurisdictions with higher tax rates, thereby reducing the effective tax rate in general.

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Profit for the year

As a result of the foregoing, profit for the year increased by approximately HK\$8.0 million or 31.0% to approximately HK\$33.7 million for the year ended 31 December 2018 from approximately HK\$25.7 million for the year ended 31 December 2017. Our net profit margin increased from approximately 8.4% for the year ended 31 December 2017 to approximately 9.1% for the year ended 31 December 2018.

The year ended 31 December 2017 compared to the year ended 31 December 2016

Revenue

Our revenue increased by approximately HK\$63.4 million or 26.2% to approximately HK\$305.0 million for the year ended 31 December 2017 from approximately HK\$241.6 million for the year ended 31 December 2016 as a result of (i) an increase of approximately HK\$36.8 million attributable to the increase in the sales of hang tags and printed labels due to the contribution of production capacity from newly purchased offset printing machines in mid 2017; (ii) an increase in sales attributable to packaging boxes, badges and patches by approximately HK\$4.2 million, HK\$2.8 million and HK\$2.8 million, respectively. The above increase in sales was mainly attributable to an increase in sales to the apparel manufacturers produced for our major apparel brands which led to a general increase in purchases from us by these apparel manufacturers.

Cost of sales

Our cost of sales increased by approximately HK\$40.0 million or 29.7% to approximately HK\$174.5 million for the year ended 31 December 2017 from approximately HK\$134.5 million for the year ended 31 December 2016. Such increase was mainly due to an increase in the number and average salary of our direct labour staff in 2017.

Gross profit and gross profit margin

As a result of the foregoing, our gross profit rose by approximately HK\$23.4 million or 21.9% from approximately HK\$107.1 million for the year ended 31 December 2016 to approximately HK\$130.5 million for the year ended 31 December 2017. Our gross profit margin decreased from approximately 44.3% for the year ended 31 December 2016 to approximately 42.8% for the year ended 31 December 2017. The gross profit margin had remained relatively stable.

Other income and gains

Our other income and gains increased by approximately HK\$1.1 million or 147.0% to approximately HK\$1.8 million for the year ended 31 December 2017 from approximately HK\$0.7 million for the year ended 31 December 2016. The increase in other income and gains was mainly due to the gain on net foreign exchange differences of approximately HK\$0.6 million for the year ended 31 December 2017.

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Selling and distribution expenses

Our selling and distribution expenses increased by approximately HK\$5.2 million or 18.8% to approximately HK\$32.6 million for the year ended 31 December 2017 from approximately HK\$27.4 million for the year ended 31 December 2016. The increase was primarily due to (i) an increase in staff costs of approximately HK\$3.3 million resulting from the increase in the headcount in our customer service team to support our growth, and (ii) an increase in consultancy and commission expenses of approximately HK\$0.7 million resulting from the provision of promotion and marketing services provided by our marketing services consultants.

Administrative expenses

Our administrative expenses increased by approximately HK\$11.3 million or 21.3% to approximately HK\$64.1 million for the year ended 31 December 2017 from approximately HK\$52.8 million for the year ended 31 December 2016. The increase was primarily due to an increase in staff cost of approximately HK\$8.1 million resulting from the increase in the headcount of our administrative and finance department to support our rapid growth as evidenced by the increase in our revenue.

Finance costs

Our finance costs increased from approximately HK\$1.5 million for the year ended 31 December 2016 to approximately HK\$1.7 million for the year ended 31 December 2017. The increase was mainly due to the drawdown of two new loans in the second half of 2017.

Income tax expense

Our income tax expense increased by approximately HK\$1.7 million or 26.1% to approximately HK\$8.0 million for the year ended 31 December 2017 from approximately HK\$6.4 million for the year ended 31 December 2016. The increase was in proportion to our growth in revenue. Our effective tax rate decreased from approximately 24.5% for the year ended 31 December 2016 to approximately 23.8% for the year ended 31 December 2017 due to the relatively higher tax expenses in Hong Kong than other jurisdictions with higher tax rates, thereby reducing the effective tax rate in general.

Profit for the year

As a result of the foregoing, profit for the year increased by approximately HK\$6.2 million or 31.7% to approximately HK\$25.7 million for the year ended 31 December 2017 from approximately HK\$19.6 million for the year ended 31 December 2016. Our net profit margin increased from approximately 8.1% for the year ended 31 December 2016 to approximately 8.4% for the year ended 31 December 2017.

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LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

Our primary uses of cash are for the payment of procurement of raw materials, staff costs, various operating expenses and capital expenditure and have been funded through a combination of cash generated from our operations, bank borrowings and advance from directors. Upon completion of the Global Offering, we currently expect that there will not be any material change in the sources and uses of cash of our Group in the future, except that we would have additional funds from proceeds of the Global Offering for implementing our future plans as detailed under the section headed “Future plans and use of proceeds” in this prospectus.

The table below summarises our consolidated statements of cash flows for the periods indicated:

	For the year ended 31 December			For the eight months ended 31 August	
	2016	2017	2018	2018	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
				(unaudited)	
Net cash generated from					
operating activities	34,140	43,609	56,081	57,649	27,965
Net cash used in investing activities	(3,606)	(18,092)	(41,104)	(41,361)	(9,180)
Net cash used in financing activities	(20,510)	(13,558)	(26,009)	(19,908)	(18,028)
Net increase/(decrease) in cash and cash equivalents	10,024	11,959	(11,032)	(3,620)	757
Cash and cash equivalents at beginning of year/period	12,245	22,157	34,209	34,209	22,958
Exchange gains/(loss) on cash and cash equivalents	(112)	93	(219)	(112)	(95)
Cash and cash equivalents at end of year/period	<u>22,157</u>	<u>34,209</u>	<u>22,958</u>	<u>30,477</u>	<u>23,620</u>

Operating activities

During our Track Record Period, our cash inflow from operating activities was principally from cash inflow from our operation. Our cash outflow used in operating activities was principally for purchase of raw materials, salaries, income tax paid and other operating expenses.

For the eight months ended 31 August 2019, our Group had net cash generated from operating activities of approximately HK\$28.0 million. Our net cash inflow was attributable to cash generated from operations of approximately HK\$29.1 million and partially offset by the total tax paid of approximately HK\$1.1 million. Our cash flow generated from operations primarily

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consisted of profit before income tax of approximately HK\$19.4 million, adjusted by reconciliation of certain non-cash items of approximately HK\$21.1 million and negative changes in working capital, which mainly included (a) an increase in prepayments, deposits and other receivables of approximately HK\$6.0 million; (b) a decrease in trade payable of approximately HK\$1.8 million; (c) an increase in inventories of approximately HK\$1.4 million; and (d) an increase in other payables and accruals of HK\$1.7 million.

For the year ended 31 December 2018, our Group had net cash generated from operating activities of approximately HK\$56.1 million. Our net cash inflow was attributable to cash generated from operations of approximately HK\$66.1 million and partially offset by the total tax paid of approximately HK\$10.0 million. Our cash flow generated from operations primarily consisted of profit before income tax of approximately HK\$41.8 million, adjusted by reconciliation of certain non-cash items of approximately HK\$29.5 million and negative changes in working capital, which mainly included an increase in inventories of approximately HK\$4.8 million, partially offset by (i) an increase in other payables and accruals of approximately HK\$1.8 million, and (ii) an increase in trade payables of approximately HK\$0.7 million.

For the year ended 31 December 2017, our Group had net cash generated from operating activities of approximately HK\$43.6 million. Our net cash inflow was attributable to cash generated from operations of approximately HK\$55.3 million and partially offset by the total tax paid of approximately HK\$11.7 million. Our cash flow generated from operations primarily consisted of profit before income tax of approximately HK\$33.8 million, adjusted by reconciliation of certain non-cash items of approximately HK\$20.4 million and positive changes in working capital, which mainly included (i) an increase in trade receivables of approximately HK\$11.3 million; and (ii) an increase in prepayments, deposits and other receivables of approximately HK\$1.4 million, partially offset by (a) an increase in trade payables of approximately HK\$7.0 million; and (b) an increase in other payables and accruals of approximately HK\$7.2 million.

For the year ended 31 December 2016, our Group had net cash generated from operating activities of approximately HK\$34.1 million. Our net cash inflow was attributable to cash generated from operations of approximately HK\$34.6 million and partially offset by the total tax paid of approximately HK\$0.4 million. Our cash flow generated from operations primarily consisted of profit before income tax of approximately HK\$25.9 million, adjusted by reconciliation of certain non-cash items of approximately HK\$17.9 million and negative changes in working capital, which mainly included (i) an increase in trade receivables of approximately HK\$7.1 million; (ii) an increase in prepayments, deposits and other receivables of approximately HK\$4.0 million; and (iii) an increase in inventories of approximately HK\$4.7 million, partially offset by (a) an increase in trade payables of approximately HK\$6.4 million; and (b) an increase in other payables and accruals of approximately HK\$0.1 million.

Investing activities

During the Track Record Period, our cash inflow from investing activities was primarily from the disposal of items of plant, property and equipment. Our cash outflow used in investing activities was primarily for the acquisition of items of plant, property and equipment.

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For the eight months ended 31 August 2019, our Group had net cash used in investing activities of approximately HK\$9.2 million primarily attributable to the acquisition of items of plant, property and equipment.

For the year ended 31 December 2018, our Group had net cash used in investing activities of approximately HK\$41.1 million, primarily attributable to the acquisition of items of plant, property and equipment.

For the year ended 31 December 2017, our Group had net cash used in investing activities of approximately HK\$18.1 million, primarily attributable to the acquisition of items of plant, property and equipment.

For the year ended 31 December 2016, our Group had net cash used in investing activities of approximately HK\$3.6 million, primarily attributable to the acquisition of items of plant, property and equipment.

Financing activities

During the Track Record Period, our cash inflow from financing activities was primarily from new bank loans. Our cash outflow used in financing activities was primarily for the repayment of bank loans, dividends paid and repayment of lease payments.

For the eight months ended 31 August 2019, our Group had net cash used in financing activities of approximately HK\$18.0 million, primarily attributable to (i) dividends paid of approximately HK\$10.5 million; (ii) the repayment of the principal portion of lease payments of approximately HK\$9.4 million; (iii) repayment of bank loans of approximately HK\$8.3 million; and (iv) the repayment to directors of approximately HK\$8.3 million, partially offset by the new bank loans of approximately HK\$20.3 million.

For the year ended 31 December 2018, our Group had net cash used in financing activities of approximately HK\$26.0 million, primarily attributable to (i) the repayment of bank loans of approximately HK\$14.1 million; (ii) the repayment of lease payments of approximately HK\$14.0 million; and (iii) the dividend paid of approximately HK\$4.5 million, partially offset by the new bank loans of approximately HK\$8.5 million.

For the year ended 31 December 2017, our Group had net cash used in financing activities of approximately HK\$13.6 million, primarily attributable to (i) the dividend paid of approximately HK\$10.0 million; (ii) the repayment of bank loans of approximately HK\$6.7 million; and (iii) the repayment of lease payments of approximately HK\$13.8 million, partially offset by the new bank loans of approximately HK\$16.9 million.

For the year ended 31 December 2016, our Group had net cash used in financing activities of approximately HK\$20.5 million, primarily attributable to (i) the repayment of lease payments of approximately HK\$7.8 million; (ii) the repayment of bank loans of approximately HK\$6.4 million; (iii) dividends paid of approximately HK\$5.0 million; and (iv) the negative movement in the balance with directors of approximately HK\$1.8 million, partially offset by the new bank loans of approximately HK\$2.0 million.

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Net Current Assets

We recorded net current assets of approximately HK\$12.9 million, HK\$0.3 million, HK\$4.0 million, HK\$22.2 million and HK\$41.7 million as at 31 December 2016, 2017 and 2018, 31 August 2019 and 31 December 2019, respectively. The table below sets out selected information for our current assets and current liabilities as at the dates indicated, respectively:

	As at 31 December			As at 31 August	As at 31 December
	2016	2017	2018	2019	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i> (Unaudited)
Current assets					
Inventories	35,479	37,631	41,468	42,040	44,074
Trade receivables	29,987	41,432	41,668	41,097	55,555
Prepayments, deposits and other receivables	6,962	8,505	10,189	16,212	12,270
Due from the ultimate holding company	–	–	–	22	22
Due from a director	1,092	740	1,088	282	191
Cash and cash equivalents	22,157	34,209	22,958	23,620	43,779
Tax recoverable	–	3	51	27	27
	95,677	122,520	117,422	123,300	155,918
Current liabilities					
Trade payables	22,214	32,071	30,495	26,939	35,154
Other payables and accruals	26,654	35,529	34,723	31,620	38,687
Interest bearing bank borrowings	8,280	18,417	12,737	21,711	18,257
Dividend payable	10,000	15,000	10,500	–	–
Due to directors	5,952	7,744	8,655	218	218
Lease liabilities	4,110	11,567	15,195	13,589	10,083
Tax payable	5,527	1,848	1,146	7,011	11,785
	82,737	122,176	113,451	101,088	114,184
Net current assets	12,940	344	3,971	22,212	41,734

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Our Group's net current assets decreased from approximately HK\$12.9 million as at 31 December 2016 to approximately HK\$0.3 million as at 31 December 2017. The decrease was primarily due to (i) an increase in interest bearing bank borrowings of approximately HK\$10.1 million; (ii) an increase in trade payables of approximately HK\$9.9 million; (iii) an increase in other payables and accruals of approximately HK\$8.9 million; and (iv) an increase in lease liabilities of approximately HK\$7.5 million; which was partially offset by (a) an increase in cash and cash equivalents of approximately HK\$12.1 million; and (b) an increase in trade receivables of approximately HK\$11.4 million.

Our Group's net current assets increased to approximately HK\$4.0 million as at 31 December 2018. The increase was primarily due to (i) a decrease in interest bearing bank borrowings of approximately HK\$5.7 million; (ii) a decrease in dividend payable of approximately HK\$4.5 million; (iii) an increase in prepayments, deposits and other receivables of approximately HK\$1.7 million; and (iv) an increase in inventories of approximately HK\$3.8 million, which was partially offset by a decrease in cash and cash equivalent of approximately HK\$11.3 million.

Our Group's net current assets increased to approximately HK\$22.2 million as at 31 August 2019. The increase was primarily due to (i) the settlement of dividend payable of approximately HK\$10.5 million and the amount due to directors of approximately HK\$8.4 million; (ii) an increase in prepayments, deposits and other receivables of approximately HK\$6.0 million; (iii) a decrease in trade payables of approximately HK\$3.6 million; and (iv) a decrease in other payables and accruals of approximately HK\$3.1 million; which was partially offset by (a) an increase in interest bearing bank borrowings of approximately HK\$9.0 million; and (b) an increase in tax payable of approximately HK\$5.9 million.

Our Group's net current assets increased to approximately HK\$41.7 million as at 31 December 2019. The increase was primarily due to (i) an increase in cash and cash equivalents of approximately HK\$20.2 million; and (ii) an increase in trade receivables of approximately HK\$14.4 million partially offset by an increase in trade payables of approximately HK\$8.2 million and an increase in other payables and accruals of approximately HK\$7.1 million.

Working capital

Our Directors confirm that, taking into consideration the financial resources presently available to us, including banking facilities and other 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.

Save as disclosed in 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 the section headed "Future plans and use of proceeds" in this prospectus.

FINANCIAL INFORMATION

DESCRIPTION OF CERTAIN ITEMS OF CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Property, plant and equipment

Our property, plant and equipment consist of leasehold improvements, plant and machinery, furniture and fixtures and motor vehicles. We had property, plant and equipment of approximately HK\$53.0 million, HK\$58.1 million, HK\$83.7 million and HK\$81.2 million as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively.

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 table below sets out the breakdown of our property, plant and equipment as at the respective dates indicated:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Leasehold improvements	612	309	7,282	7,398
Plant and machinery	51,933	55,471	74,519	71,142
Furniture and fixtures	451	1,496	1,065	1,306
Motor vehicles	24	818	809	1,378
	<u>53,020</u>	<u>58,094</u>	<u>83,675</u>	<u>81,224</u>

Our property, plant and equipment increased from approximately HK\$53.0 million as at 31 December 2016 to approximately HK\$58.1 million as at 31 December 2017 primarily due to the addition of plant and machinery of approximately HK\$14.4 million, partially offset by depreciation of plant and machinery of approximately HK\$11.2 million.

Our property, plant and equipment increased from approximately HK\$58.1 million as at 31 December 2017 to approximately HK\$83.7 million as at 31 December 2018 primarily due to the addition of plant and machinery of approximately HK\$35.6 million, partially offset by depreciation of plant and machinery of approximately HK\$13.5 million.

Our property, plant and equipment decreased from approximately HK\$83.7 million as at 31 December 2018 to approximately HK\$81.2 million as at 31 August 2019 primarily due to the depreciation of plant and machinery of approximately HK\$11.0 million partially offset by the addition of plant and machinery of approximately HK\$8.0 million.

For details of our property, plant and equipment, please refer to note 14 in Appendix 1 to this prospectus.

FINANCIAL INFORMATION

Right-of-use assets

Our right-of-use assets increased from approximately HK\$21.0 million as at 31 December 2016 to approximately HK\$48.4 million as at 31 December 2017 primarily due to addition of plant and machinery under lease of approximately HK\$29.0 million, partially offset by a depreciation of approximately HK\$6.9 million.

Our right-of-use assets increased from approximately HK\$48.4 million as at 31 December 2017 to approximately HK\$67.9 million as at 31 December 2018 primarily due to the increase in our right to control obtained by our Group to the use of various buildings of approximately HK\$32.6 million, partially offset by a depreciation of approximately HK\$10.9 million.

Our right-of-use assets decreased from approximately HK\$67.9 million as at 31 December 2018 to approximately HK\$58.1 million as at 31 August 2019 primarily due to a depreciation of approximately HK\$7.5 million.

Inventories

Our inventories consist of raw materials, work in progress and finished goods. To minimise the risk of building up inventory, we review our inventory levels on a monthly basis. We believe that maintaining appropriate levels of inventories helps us deliver our products to meet the market demands in a timely manner without straining our liquidity. We had inventories of approximately HK\$35.5 million, HK\$37.6 million, HK\$41.5 million and HK\$42.0 million as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively.

The table below sets out the breakdown of our inventories as at the respective dates indicated:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Raw materials	10,905	13,506	14,384	16,962
Work in progress	10,169	10,579	12,157	11,951
Finished goods	14,405	13,546	14,927	13,127
	35,479	37,631	41,468	42,040

FINANCIAL INFORMATION

Our inventories gradually increased from approximately HK\$35.5 million as at 31 December 2016 to approximately HK\$37.6 million as at 31 December 2017 and to approximately HK\$41.5 million as at 31 December 2018. Such increase was in line with our growth in revenue and sales volume during the period. Our inventories remained relatively stable at approximately HK\$42.0 million as at 31 August 2019. Our major raw materials are papers, chemical products, strings and seals, and yarns.

The table below sets out the ageing analysis of the inventories as at the respective dates indicated:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Within 6 months	28,359	27,713	35,618	32,879
Over 6 months but within				
1 year	1,586	3,375	2,527	3,504
Over 1 year but within				
2 years	5,532	3,880	2,689	4,304
Over 2 years	2	2,663	634	1,353
Total	35,479	37,631	41,468	42,040

We also periodically review our inventory levels for slow-moving inventory, obsolescence or decline in market value. An allowance is made when the net realisable value of inventories falls below the cost or when any of the inventories is identified as obsolete. During the Track Record Period, no impairment or written off was made in our inventory.

The table below sets out the turnover days of our inventories for the periods indicated.

	For the year ended 31 December			For the
	2016	2017	2018	eight months ended 31 August 2019
Inventory turnover days ^(Note)	93.1	76.5	68.9	86.5

Note: Inventory turnover days were calculated based on the average of the opening and closing inventories divided by cost of sales for the respective years/period multiplied by 365/243 for the year/period.

FINANCIAL INFORMATION

Our inventory turnover days decreased from 93.1 days in 2016 to 76.5 days in 2017 and then further decreased to 68.9 days in 2018, mainly due to better inventory management, shortened lead time due to an increase in production capacity as a result of more machines, and the market trend of fast fashion. Following the acquisition of new machines, the time required for processing the same amounts of orders of the same types of products would be shortened. In particular, our Group would be in a better position to meet the seasonal orders.

Our inventory turnover days increased to 86.5 days for the eight months ended 31 August 2019 mainly due to the increase in raw materials.

As at the Latest Practicable Date, approximately HK\$31.4 million or 74.7% of our inventories as at 31 August 2019 had been sold or utilised.

Trade receivables

During the Track Record Period, trade receivables were non-interest bearing and the normal trade terms granted by our Group were mainly on credit, except for new customers, where payment in advance was normally required. The credit period is generally within 90 days from the date of monthly statements. Each customer has a maximum credit limit. As at 31 December 2016, 2017 and 2018, and 31 August 2019, we had trade receivables of approximately HK\$30.0 million, HK\$41.4 million, HK\$41.7 million and HK\$41.1 million, respectively.

The table below sets out the breakdown of our trade receivables as at the respective dates indicated:

	As at 31 December			As at 31 August
	2016	2017	2018	2019
	(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)
Trade receivables	30,029	41,463	41,708	41,961
Impairment	(42)	(31)	(40)	(864)
	29,987	41,432	41,668	41,097

Our trade receivables increased from approximately HK\$30.0 million as at 31 December 2016 to approximately HK\$41.4 million as at 31 December 2017 which was proportionate to the increase in revenue.

Our trade receivables remained relatively stable at approximately HK\$41.4 million as at 31 December 2017 and approximately HK\$41.7 million as at 31 December 2018 notwithstanding the growth in revenue due to better management in our trade receivables.

Our trade receivables remained stable at approximately HK\$41.1 million as at 31 August 2019.

FINANCIAL INFORMATION

Our Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. After fully considering the nature of trade receivables and their collectability on a case-by-case basis, we have made provisions for the impairment of certain long overdue trade receivables in order to ensure the quality of our assets. As at 31 December 2016, 2017 and 2018, and 31 August 2019, loss allowance for impairment of trade receivables was approximately HK\$42,000, HK\$31,000, HK\$40,000 and HK\$0.9 million, respectively. The increase in impairment and expected credit loss rate as at 31 August 2019 was mainly due to the increase in historical loss rates for trade receivables as our Group made an impairment of HK\$525,000 for a debtor during the eight months ended 31 August 2019, which the management considered the chance of recovery to be remote. In view of the above and the fact that our Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Our Group does not hold any collateral or other credit enhancements over its trade receivable balances.

The table below sets out the ageing analysis of our trade receivables, based on our invoice date and net of loss allowance, as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Within 1 month	15,013	20,880	24,393	24,796
1 to 2 months	11,319	15,314	10,794	10,955
2 to 3 months	2,784	3,799	2,937	1,800
Over 3 months	871	1,439	3,544	3,546
Total	29,987	41,432	41,668	41,097

The table below sets out the ageing analysis of our trade receivables by due date as at the dates indicated:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Neither past due nor impaired	16,715	14,992	22,934	24,849
Past due but not impaired:				
Less than 30 days	10,083	22,470	12,858	10,989
31 to 90 days	2,855	3,343	4,023	1,822
Over 90 days	376	658	1,893	4,301
	30,029	41,463	41,708	41,961

FINANCIAL INFORMATION

Our trade receivables due over 90 days but not impaired increased from approximately HK\$1.9 million to HK\$4.3 million primarily related to the overdue payments of a number of customers that have long business relationships with our Group, of which (i) approximately 66.3% of the amount of trade receivables due over 90 days has been subsequently settled up to the Latest Practicable Date; and (ii) approximately HK\$0.8 million has been identified as impaired balance as at 31 August 2019 and recorded as an impairment loss during the eight months ended 31 August 2019.

Details of impairment loss on gross trade receivables aged by due date are set out in note 18 in Appendix I to this prospectus.

The table below sets out a summary of average turnover days of trade receivables as at the dates indicated:

	For the year ended 31 December			For the eight months ended 31 August 2019
	2016	2017	2018	2019
Trade receivables turnover days ^(Note)	40.2	42.7	40.8	44.4

Note: Trade receivables turnover days were calculated based on the average of the opening and closing trade receivables divided by revenue for the respective years/period multiplied by 365/243 for the year/period.

Our trade receivables turnover days increased from 40.2 days in 2016 to 42.7 days in 2017 and then decreased to 40.8 days in 2018 which were slightly more than one month but within the credit period. Our trade receivables turnover days remained relatively stable as at 44.4 days as at 31 August 2019.

As at the Latest Practicable Date, approximately HK\$39.5 million or 96.1% of our trade receivables outstanding as at 31 August 2019 had been settled. Our Directors consider that there has not been a significant change in credit quality of the trade receivables and there was no recent history of default and the balances are considered fully recovered.

FINANCIAL INFORMATION

Prepayments, deposits and other receivables

The table below sets out the breakdown of our prepayments, deposits and other receivables as at the dates indicated.

	As at 31 December			As at
	2016	2017	2018	31 August
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Prepayments	6,290	10,245	6,096	10,906
Deposits and other receivables	3,617	4,897	5,985	6,671
	9,907	15,142	12,081	17,577
Less: Non-current prepayments and deposits	(2,945)	(6,637)	(1,892)	(1,365)
Total	6,962	8,505	10,189	16,212

Our prepayments mainly comprise prepayments for machines. Our prepayments increased from approximately HK\$6.3 million as at 31 December 2016 to approximately HK\$10.2 million as at 31 December 2017, mainly due to an increase in prepayments for machines of approximately HK\$3.5 million which was partially offset by the reduction in the prepayments for raw materials of approximately HK\$1.3 million. Our prepayments reduced to approximately HK\$6.1 million as at 31 December 2018, primarily due to a decrease in the prepayments for machines of approximately HK\$5.2 million which was partially offset by the deferred Listing expenses incurred in 2018 of approximately HK\$1.9 million. Our prepayments increased to approximately HK\$10.9 million as at 31 August 2019 primarily due to the increase in the deferred Listing expenses of approximately HK\$3.1 million.

Our deposits and other receivables mainly comprise deposits paid for leased properties, VAT receivables, deposits paid, and others. The balance increased from approximately HK\$3.6 million as at 31 December 2016 to approximately HK\$4.9 million as at 31 December 2017, mainly due to an increase of value-added tax receivables of approximately HK\$1.0 million. The balances increased to approximately HK\$6.0 million as at 31 December 2018, mainly attributable to the addition of deposits paid for leased properties of HK\$0.6 million. The balance increased to approximately HK\$6.7 million as at 31 August 2019 primarily due to an increase in deductible VAT on goods and services.

FINANCIAL INFORMATION

Trade payables

Our trade payables are non-interest bearing and are normally settled within 60 days. As at 31 December 2016, 2017 and 2018, and 31 August 2019, we had trade payables of approximately HK\$22.2 million, HK\$32.1 million, HK\$30.5 million and HK\$26.9 million, respectively.

The table below sets out, as at the end of reporting periods indicated, the ageing analysis of our trade payables:

	As at 31 December			As at
	2016	2017	2018	31 August
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Within 1 month	13,490	15,386	23,186	12,001
1 to 2 months	5,699	10,985	5,014	7,879
2 to 3 months	2,020	5,012	1,120	3,459
Over 3 months	1,005	688	1,175	3,600
	<u>22,214</u>	<u>32,071</u>	<u>30,495</u>	<u>26,939</u>

The table below sets out the average trade payables turnover days for the Track Record Period:

	For the year ended 31 December			For the
	2016	2017	2018	eight
				months
				ended
	2016	2017	2018	31 August
				2019
Trade payables turnover days ^(Note)	<u>52.0</u>	<u>56.7</u>	<u>54.5</u>	<u>59.5</u>

Note: Trade payables turnover days were calculated based on the average of the opening and closing trade payables divided by cost of sales for the respective years/period multiplied by 365/243 for the year/period.

Trade payables turnover days increased from 52.0 days in 2016 to 56.7 days in 2017 and then decreased to 54.5 days in 2018. The payables turnover days then increased to 59.5 days as at 31 August 2019. They were within the credit period of 60 days.

As at the Latest Practicable Date, approximately HK\$26.6 million or 98.6% of trade payables balance as at 31 August 2019 had been settled. Our Directors confirm that during the Track Record Period up to the Latest Practicable Date, there was no material default in payment of trade payables.

FINANCIAL INFORMATION

Other payables, accruals and provisions

Other payables, accruals and provisions mainly represent accruals for incurred payroll and welfare expenses, the provision for welfare in the PRC and the asset-related deferred government grant from the PRC which is amortised over the useful life of the related asset. Contract liabilities mainly represent the receipts received in advance from customers. As at 31 December 2016, 2017 and 2018, and 31 August 2019, our other payables, accruals and provisions were approximately HK\$26.7 million, HK\$35.5 million, HK\$34.7 million and HK\$31.6 million, respectively, of which a breakdown is set out below:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
Accruals				
– Accrued payroll and welfare expenses	10,494	11,644	12,598	10,549
– Provision for sales rebates	2,162	2,175	1,536	995
– Accrued audit fee	194	736	895	1,328
– Other tax payable	401	585	271	1,322
– Other accrued expenses	263	878	1,068	1,690
	13,514	16,018	16,368	15,884
Subtotal				
Other payables	1,777	4,569	2,727	2,674
Contract liabilities	7,797	9,518	8,416	5,968
Provisions	3,566	5,424	7,076	6,963
Deferred government grant	–	–	1,129	999
	26,654	35,529	35,716	32,488
Less: non-current portion	–	–	(993)	(868)
Current portion	26,654	35,529	34,723	31,620

FINANCIAL INFORMATION

Other payables, accruals and provisions increased from approximately HK\$26.7 million as at 31 December 2016 to approximately HK\$35.5 million as at 31 December 2017, mainly attributable to an increase in the accrual for incurred payroll and welfare of approximately HK\$1.2 million. Other payables, accruals and provisions increased to approximately HK\$35.7 million as at 31 December 2018, mainly attributable to an increase in the accrual for incurred payroll and welfare of approximately HK\$1.0 million and the provision for welfare in the PRC of approximately HK\$1.4 million.

Other payables, accruals and provisions decreased to approximately HK\$32.5 million as at 31 August 2019, mainly attributable to the decrease in contract liabilities of HK\$2.4 million.

Amounts due from a director and the ultimate holding company/Amount due to directors

The amounts due from a director was approximately HK\$1.1 million, HK\$0.7 million, HK\$1.1 million and HK\$0.3 million as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively. The amount due from the ultimate holding company was nil, nil, nil and approximately HK\$22,000 as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively. The amounts due to directors was approximately HK\$6.0 million, HK\$7.7 million, HK\$8.7 million and HK\$0.2 million as at 31 December 2016, 2017 and 2018, and 31 August 2019, respectively.

The amounts due from directors were unsecured, interest-free and repayable on demand. Our Directors confirm that all the amounts due from/to directors and from the ultimate holding company, which are non-trade in nature, will be settled before Listing. For further details of related party transactions and balances, please refer to note 31 in Appendix I to this prospectus.

CAPITAL EXPENDITURES

Our Group's capital expenditures have principally consisted of expenditures on purchase of items of property, plant and equipment in our operations. For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, our Group incurred capital expenditures of approximately HK\$0.6 million, HK\$16.6 million, HK\$43.9 million and HK\$10.3 million, respectively, a majority of which came from the acquisition of plant and machinery for our expansion. The significant increase in our capital expenditure for plant and machinery in 2017 and 2018 was a result of our Directors' commercial judgement that additional plant and machinery were required having considered the potential growth in the business of our Company. Between 1 September 2019 and the Latest Practicable Date, we incurred capital expenditures of approximately HK\$0.4 million.

FINANCIAL INFORMATION

For the year ended 31 December 2019, we estimate that the capital expenditures would amount to approximately HK\$10.7 million primarily for the purchase of machineries.

Our Group's projected capital expenditures are subject to revision based upon any future changes in our business plan, market conditions, and economic and regulatory environment. Please refer to the section headed "Future plans and use of proceeds" in this prospectus for further information.

We expect to fund our contractual commitments and capital expenditures principally through the net proceeds we receive from the Global Offering, cash generated from our operating activities and proceeds from borrowings. We believe that these sources of funding will be sufficient to finance our contractual commitments and capital expenditure needs for the next 12 months.

PROPERTY INTERESTS

Our Directors confirm that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 5.01 to 5.10 of the Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

Capital commitments

We had the following capital commitments, which were not provided for in our consolidated financial statements:

	As at 31 December			As at
	2016	2017	2018	31 August
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2019
				(HK\$'000)
Contracted, but not provided for:				
Plant and machinery	4,697	4,455	333	28

FINANCIAL INFORMATION

INDEBTEDNESS

The table below sets out the range of interest rates and maturity for our borrowings as at 31 December 2016, 2017 and 2018, 31 August 2019 and 31 December 2019:

	As at 31 December 2016			As at 31 December 2017			2018			As at 31 August 2019			As at 31 December 2019		
	Effective interest rate per annum	Maturity	(HK\$'000)	Effective interest rate per annum	Maturity	(HK\$'000)	Effective interest rate per annum	Maturity	(HK\$'000)	Effective interest rate per annum	Maturity	(HK\$'000)	Effective interest rate per annum	Maturity	(HK\$'000) (unaudited)
Current															
Bank loans — unsecured	3.5%	On demand	5,401	2.5%	On demand	18,417	2.4%	On demand	12,737	2.4%	On demand	20,002	2.4%	On demand	16,516
				-3.5%			-3.6%			-3.6%			-3.6%		
Bank loans — secured	3.4%	On demand	2,879			-	5.4%	2020		5.4%	2020	1,709	5.4%	2020	1,741
			8,280			18,417			12,737			21,711			18,257
Non-current															
Bank loan — secured			-			-	5.4%	2022		5.4%	2022	3,061	5.4%	2022	2,469
			8,280			18,417			12,737			24,772			20,726

As at 31 December 2016, 2017, 2018, 31 August 2019 and 31 December 2019, our Group's unsecured bank loans were guaranteed by personal guarantees given by Mr. Barry Chan and Ms. Candy Law and corporate guarantees given by a subsidiary of our Group. Our Group's secured bank loan was secured by a trade receivable of approximately HK\$3.6 million as at 31 December 2016 and plant and machinery with net book value of approximately HK\$6.0 million as at 31 August 2019. All bank loans were denominated in Hong Kong dollars. All personal guarantees will be replaced by corporate guarantees given by our Company upon Listing.

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Ignoring the effect of any repayment on demand clause and based on the maturity terms of the bank loans, the amounts repayable in respect of our Group's interest-bearing bank borrowings were analysed as follows:

	As at 31 December			As at	As at
	2016	2017	2018	31 August	31 December
	(HK\$'000)	(HK\$'000)	(HK\$'000)	2019	2019
				(HK\$'000)	(HK\$'000)
					(Unaudited)
Bank loans repayable:					
Within one year	5,071	13,033	9,823	7,902	5,831
In the second year	1,924	2,472	1,223	5,972	6,050
In the third to fifth years, inclusive	1,285	2,912	1,691	10,898	8,845
	8,280	18,417	12,737	24,772	20,726
	8,280	18,417	12,737	24,772	20,726

As at 31 December 2019, being the latest practicable date for the purposes of the indebtedness statement, we had aggregate banking facilities of approximately HK\$24.6 million, of which approximately HK\$20.7 million was utilised and approximately HK\$3.9 million was unutilised. We are not committed to draw down the unutilised amount.

Our Directors confirm that during the Track Record Period, we did not experience any delay or default in our repayment of bank borrowings nor did we experience any difficulty in obtaining banking facilities with terms that were commercially acceptable to us. As at the date of this prospectus, we did not have any plans for material external debt financing.

Lease liabilities

Our Group leases various land and buildings, plant and machinery and motor vehicles for a period of time through lease arrangements with remaining lease terms ranging from 1 to 30 years. These liabilities were measured at the net present value of the lease payments during the lease terms that have not been paid.

FINANCIAL INFORMATION

At 31 December 2016, 2017 and 2018 and 31 August 2019, the total future minimum lease liabilities under lease arrangements and their present values were as follows:

	Minimum lease payments				Present value of minimum lease payments			
	As at 31 December			As at 31 August	As at 31 December			As at 31 August
	2016	2017	2018	2019	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable:								
Within one year	4,955	12,855	17,303	15,370	4,110	11,567	15,195	13,589
In the second to fifth years, inclusive	12,220	26,733	34,663	26,338	10,166	24,591	30,202	25,186
After five years	5,523	3,662	11,504	9,380	5,069	3,466	9,158	4,755
 Total minimum lease payments	<u>22,698</u>	<u>43,250</u>	<u>63,470</u>	<u>51,088</u>	<u>19,345</u>	<u>39,624</u>	<u>54,555</u>	<u>43,530</u>
 Future interest expense	<u>(3,353)</u>	<u>(3,626)</u>	<u>(8,915)</u>	<u>(7,558)</u>				
 Total net lease liabilities	<u>19,345</u>	<u>39,624</u>	<u>54,555</u>	<u>43,530</u>				
 Portion classified as current liabilities	<u>(4,110)</u>	<u>(11,567)</u>	<u>(15,195)</u>	<u>(13,589)</u>				
 Non-current liabilities	<u>15,235</u>	<u>28,057</u>	<u>39,360</u>	<u>29,941</u>				

Certain of our Group's lease liabilities are guaranteed by personal guarantee provided by our Controlling Shareholders amounted to nil as at 31 December 2016 and up to HK\$28.1 million as at 31 December 2017 and 2018 and 31 August 2019. Such personal guarantee will be replaced by corporate guarantees upon Listing.

Amounts due to directors

As at 31 December 2016, 2017 and 2018, 31 August 2019 and 31 December 2019, our amounts due to directors, being Mr. Barry Chan and Mr. James Chan, amounted to approximately HK\$6.0 million, HK\$7.7 million, HK\$8.7 million, HK\$0.2 million and HK\$0.2 million, respectively. All our amounts due to directors were unsecured, interest-free, repayable on demand. We expect to settle such amount upon Listing.

FINANCIAL INFORMATION

Contingent liabilities

As at 31 December 2019, being the latest practicable date for the purposes of the indebtedness statement, we did not have any material contingent liabilities or guarantees.

Save for the above or as otherwise disclosed herein, and apart from intra-group liabilities as at Latest Practicable Date, our Group did not have any outstanding indebtedness or any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees, material covenants, or other material contingent liabilities.

OFF-BALANCE SHEET ARRANGEMENT

As at the Latest Practicable Date, we had not entered into any off-balance sheet transaction.

TRANSACTIONS WITH RELATED PARTIES

With respect to the related party transactions set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms or such terms that were no less favourable to our Group than those available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

KEY FINANCIAL RATIOS

The table below sets out our key financial ratios as at each of the dates indicated:

	For the year ended 31 December			For the eight months ended 31 August
	2016	2017	2018	2019
Gross profit margin (%) ^(Note 1)	44.3	42.8	43.7	48.2
Net profit margin (%) ^(Note 2)	8.1	8.4	9.1	5.5
Return on equity (%) ^(Note 3)	26.7	30.7	28.9	N/A
Return on total assets (%) ^(Note 4)	11.3	10.9	12.5	N/A
	As at 31 December			As at 31 August
	2016	2017	2018	2019
Current ratio (times) ^(Note 5)	1.2	1.0	1.0	1.2
Quick ratio (times) ^(Note 6)	0.7	0.7	0.7	0.8
Gearing ratio (%) ^(Note 7)	37.8	69.2	57.7	53.1
Net debt to equity ratio (%) ^(Note 8)	7.5	28.4	38.0	34.7

FINANCIAL INFORMATION

Notes:

- (1) Gross profit margin was calculated on gross profit for the year/period divided by revenue for the respective years/period and multiplied by 100%. Please refer to the section headed “Review of historical results of operation” in this prospectus for more details on our gross profit margins.
- (2) Net profit margin was calculated on profit for the year/period divided by revenue for the respective years/period and multiplied by 100%. Please refer to the section headed “Review of historical results of operation” in this prospectus for more details on our net profit margins.
- (3) Return on equity was calculated based on the profit for the year divided by the total equity as at the respective dates and multiplied by 100%. The ratio for the eight months ended 31 August 2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (4) Return on total assets was calculated based on the profit for the year divided by the total assets as at the respective dates and multiplied by 100%. The ratio for the eight months ended 31 August 2019 is not applicable as it is not comparable to the ratio of a full financial year.
- (5) Current ratio was calculated based on the total current assets divided by the total current liabilities as at the respective dates.
- (6) Quick ratio was calculated based on the total current assets less inventories and divided by total current liabilities as at the respective dates.
- (7) Gearing ratio was calculated based on the total debt (comprised interest bearing bank borrowings and lease liabilities) divided by total equity as at the respective years/period and multiplied by 100%.
- (8) Net debt to equity ratio was calculated based on net debts (being total borrowings which include interest bearing bank borrowings and lease liabilities and net of cash and cash equivalents) as at the respective dates divided by total equity as at the respective years/period and multiplied by 100%.

Return on equity

Our return on equity was 26.7%, 30.7% and 28.9% for the three years ended 2016, 2017 and 2018, respectively. The increase of return on equity for the year ended 2017 was mainly due to a decrease in equity as a result of an increase in liability and dividend payable. The decrease of return on equity for the year ended 2018 was due to an increase in equity as a result of a decrease in liability and dividend payable.

Return on total assets

Our return on total assets was 11.3%, 10.9% and 12.5% for the three years ended 2016, 2017 and 2018, respectively. The return on total assets remained relatively stable for the two years ended 2016 and 2017. The increase for the year ended 2018 was mainly due to the increase in net profit.

Current ratio

Our current ratio was 1.2, 1.0, 1.0 and 1.2 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, which remained relatively stable.

Quick ratio

Our quick ratio was 0.7, 0.7, 0.7 and 0.8 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, which remained relatively stable.

FINANCIAL INFORMATION

Gearing ratio

The Gearing ratio was 37.8%, 69.2% and 57.7% as at 31 December 2016, 2017 and 2018, respectively. The increase in the Gearing ratio in 2017 was mainly due to the drawdown of the two new loans in the second half of 2017 and increase of new lease liabilities. The Gearing ratio in 2018 decreased due to the repayment of loans offset by increase in lease liabilities.

The Gearing ratio decreased to 53.1% as at 31 August 2019 primarily due to increase in equity resulting from profit for the period and decrease in lease liabilities.

Net debt to equity ratio

As at 31 December 2016, 2017 and 2018, we had net debt to equity ratio of 7.5%, 28.4% and 38.0%, respectively. The increase in net debt to equity ratio in 2017 and 2018 was mainly due to increase in new lease liabilities.

The net debt to equity ratio decreased to 34.7% as at 31 August 2019 mainly due to increase in equity resulting from profit for the period and decrease in lease liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to financial risks including credit risk and liquidity risk. Details of the risks to which we are exposed are set out in note 35 to the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as at the Latest Practicable Date, there were no circumstances that would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules.

LISTING EXPENSES

Based on the mid-point of the proposed Offer Price range, the total expenses for the Listing are estimated to be approximately HK\$51.4 million, of which approximately HK\$25.7 million is directly attributable to the issue of Offer Shares under the Global Offering and we expect to account for it as a deduction from equity. Listing expenses of approximately HK\$4.0 million and HK\$10.0 million were recorded to the statement of profit or loss and other comprehensive income of our Group for the year ended 31 December 2018 and the eight months ended 31 August 2019, respectively, and we expect to charge the remaining Listing expenses of approximately HK\$11.7 million in aggregate to the statement of profit or loss and other comprehensive income of our Group for the years ending 31 December 2019 and 2020. The total expenses for the Listing represented approximately 38.1% of the gross proceeds from the Global Offering based on the mid-point of the proposed Offer Price range and the above estimated total expenses for the Listing.

FINANCIAL INFORMATION

DIVIDEND POLICY

The dividends declared by our Company were HK\$10.0 million, HK\$15.0 million, nil and nil for the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, respectively, and the dividends payable had been fully settled as at the Latest Practicable Date. For the year ended 31 December 2019, dividends of HK\$10.0 million were declared by our Company and the same have been settled in February 2020. We do not have a fixed dividend payout ratio. The declaration of dividends is subject to the discretion of our Board, and any declaration of final dividend for the year will be subject to the approval of our Shareholders after the Listing. Our Directors may recommend a payment of dividend in the future after taking into account, among other things, our operations and earnings, capital requirements and surplus, general financial condition, contractual or any restrictions on payment of dividends that our lenders may impose, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant at such time. Any declaration and payment as well as the amount of the dividends will be subject to our constitutional documents and the Cayman Companies Law, including the approval of our Shareholders (except for interim dividends which can be approved by our Directors). Any historical declarations of dividends may or may not reflect our future declarations of dividends and will be at the absolute discretion of our Directors. No tax is payable or withheld on (if any) dividends or other distributions declared and paid by our Company.

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.

DISTRIBUTABLE RESERVES

Our Company was incorporated on 25 January 2019 and is an investment holding company. There were no reserves available for distribution to the Shareholders as at the Latest Practicable Date.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

Please see the section "Unaudited Pro Forma Financial Information" in Appendix IIA to this prospectus for our unaudited pro forma adjusted consolidated net tangible assets.

RECENT DEVELOPMENTS

Outbreak of COVID-19

Subsequent to the Track Record Period and since around December 2019, there has been an outbreak of COVID-19 in the PRC, Hong Kong and other countries. As a result of this outbreak, factories in the Guangdong Province of the PRC, including the PRC Factories, which are located in Boluo County, Huizhou, Guangdong Province, were required by the relevant PRC authority to postpone their resumption of operations following the Chinese New Year holidays until 10 February 2020. Our Directors confirm that the PRC Factories have gradually resumed operation since 10 February 2020. Subject to the instruction from the relevant PRC authority, the PRC Factories may be required to suspend its operation after the resumption of operations. Also, up to the Latest Practicable Date, certain cities in the PRC have been subject to lockdown by the relevant PRC authority to contain COVID-19.

FINANCIAL INFORMATION

Our Directors expect that there may be slight delays of seven to 10 days in meeting the delivery schedule in February 2020 for some of the purchase orders, which, as at the Latest Practicable Date, are expected to be in the aggregate amount of approximately HK\$2.1 million with a sales volume of approximately 5.3 million, from our customers. As the subject purchase orders do not contain any compensation clause for delay in delivery of products, the expected delay in delivery will not result in any penalty or compensation to be paid by our Group. Our Directors also confirm that there was no cancellation of the subject purchase orders and there was no other actual and/or expected loss of sales orders as at the Latest Practicable Date. Based on the current situation of COVID-19 as at the Latest Practicable Date, our Directors expect that the delivery of our products will resume to normal in seven to 10 days after the full resumption of operations of the PRC Factories. Based on the above, our Directors consider that our ability in meeting upcoming purchase orders will not be materially affected by the outbreak of COVID-19. We maintain active and continuous dialogues with our customers and if the situation of delay in delivery of our products to our customers continues, we will negotiate with our customers as to a practical delivery schedule. Save for the expected delay in the delivery schedule and assuming the impact of COVID-19 will gradually fade out, our Directors consider that the postponement in resumption of operations of the PRC Factories as a result of the outbreak of COVID-19 would have no material adverse impact on our business, including our Group's financial performance for the year ending 31 December 2020.

While some countries have implemented travel restrictions on, among others, travellers coming from the PRC and Hong Kong as a result of the outbreak of COVID-19, given that such restrictions apply only to travellers but not goods, including the raw materials from our suppliers and our products, our Directors consider that such restrictions did not have any adverse impact on the operation of our Group up to the Latest Practicable Date. Our Directors also confirm that there was no actual or foreseeable disruption on the supply of amount raw materials from our suppliers up to the Latest Practicable Date. Our Directors expect that our inventory of raw materials and work in progress as at the Latest Practicable Date may produce products of approximately 371.7 million in terms of sales volume. Given the nature of the raw materials (mainly being papers, chemical products, strings and seals, and yarns) required for our production, we consider that it is not difficult to replace majority of our current suppliers with other suppliers of comparable quality and price in the market. In case if the operation of our current suppliers is disrupted, suspended or locked down due to the outbreak, we will be able to find suitable replacements with comparable quality and if, in extreme circumstances, no supplier in the PRC is available, we will be able to source from suppliers in Hong Kong. Our Directors consider that sourcing raw materials from suppliers in Hong Kong will not materially increase our production cost. We will also prioritise the use of raw materials to more urgent purchase orders.

As at the Latest Practicable Date, as none of our major customers and major suppliers operate in cities that are subject to lockdown, such as Wuhan (武漢), our Directors consider that the operations of our major customers and major suppliers are not subject to material disruptions up to the Latest Practicable Date. Also, given that majority of our employees in the PRC Factories were neither from nor currently located in the Hubei Province and the period following the Chinese New Year in February had been historically a low season for our Group in the PRC, our Directors consider that the outbreak of COVID-19 did not have a material adverse impact on our Group's operations in the PRC and our Group as a whole up to the Latest Practicable Date.

FINANCIAL INFORMATION

Our Group has implemented measures aiming at preventing the spread of COVID-19 at the PRC Factories such as providing face masks and sanitiser to our employees and requiring them to undergo mandatory temperature checks. Our Group has also taken precautionary measures by imposing a 14 days' quarantine on all employees who returned from the Hubei Province, the PRC, which accounted for a very small number of our workforce in the PRC Factories. In case if any of our employees contracted or is suspected to have contracted with COVID-19, we are required to report to the relevant PRC authority and such employee would be taken to hospital for treatment. Up to the Latest Practicable Date, no direction has been given by the relevant PRC authority to the PRC Factories requiring the suspension of operations in case if employees are contracted with COVID-19.

In case if COVID-19 continues to spread and the situation prolongs which may affect or lead to a suspension of the operation of the PRC Factories, our Directors consider that we may engage more external subcontractors to produce some of our products, and certain of the purchase orders could be reallocated from the PRC Factories to the production facilities in Bangladesh and Vietnam. Our Directors consider that production of approximately HK\$0.5 million of the above subject purchase orders could be reallocated to the production facilities in Bangladesh and Vietnam. Following such reallocation, the production lead time may increase as we need to transport raw materials to Bangladesh and Vietnam and our cost of our raw materials may increase by approximately 15% given the additional urgent freight and transportation cost for importing raw materials into Bangladesh and Vietnam, which would result in an increase in production cost by approximately 7.5% but the reallocated production would still be profitable to our Group.

Please refer to the section headed "Risk Factors — Risks relating to Our Business" in this prospectus for further details of the risks relating to the continuing spread and prolonged occurrence of COVID-19.

Other recent developments

Subsequent to the Track Record Period and up to the Latest Practicable Date, our Group continued to focus on developing its business. Subsequent to the Track Record Period and during the four months ended 31 December 2019, our Group had explored business opportunities and secured not less than 350 new customers which are mainly apparel manufacturers. Our Group recorded an aggregate sales amount of not less than HK\$3.9 million from these new customers for the four months ended 31 December 2019.

Based on the unaudited financial information, our Group recorded an increase in revenue for the four months ended 31 December 2019 as compared to the corresponding period in 2018. The increase in revenue was mainly due to the increase in sales volume during the four months ended 31 December 2019 as the Chinese New Year holidays in 2020 arrived earlier in late January 2020 (as compared to that in 2019, which was in early February 2019), which led to the earlier placement of orders by our customers in the end of 2019 in anticipation of the Chinese New Year holidays in 2020. In addition, our Directors confirm that our gross profit and gross profit margin continued to improve during the four months ended 31 December 2019 as compared to the corresponding period in 2018, primarily due to (i) the decrease in cost of sales as a result of the depreciation of RMB against HKD which led to lower cost of raw materials consumed and direct labour in terms of HKD; and (ii) the decrease in subcontracting fee in relation to the production of woven labels.

FINANCIAL INFORMATION

Our Directors estimate that our Group's revenue for the year ended 31 December 2019 would be lower than that of the corresponding period in 2018 mainly due to the decrease in revenue of hang tags and woven labels as a result of the decrease in average sales price of hang tags and sales volume of woven labels during the period and the general impact of the global economic downturn which led to lower demand of apparel related products; and our Group's net profit would also be lower due to the non-recurring amount of Listing expenses. Our Directors estimate that our Group's gross profit and gross profit margin for the year ended 31 December 2019 would be higher than that of the corresponding period 2018 given the depreciation of RMB against HKD which would led to a lower cost of raw materials consumed and direct labour in terms of HKD as well as the estimated decrease in subcontracting fee attributable to higher percentage of woven label being produced in-house in 2019. Compared to the year ended 31 December 2019, our Directors expect our Group's financial performance for the year ending 31 December 2020 would decline significantly mainly due to the additional administrative expenses including (i) a moderate increase in staff costs for general salary increment for administrative staff and additional headcounts for our administrative and finance department in the PRC and Bangladesh; (ii) a significant increase in depreciation expenses as a result of purchase of new computer equipment, software and motor vehicles in Hong Kong and Bangladesh; and (iii) an increase in Director's emoluments and a significant increase in professional fees after Listing. Overall, there was no material change in our business, revenue model and cost structure subsequent to the Track Record Period and up to the Latest Practicable Date.

Save for the Listing expenses, our Group did not have any significant non-recurring items in its consolidated statements of profit or loss and other comprehensive income subsequent to the Track Record Period.

Our Directors confirm that there has been no material adverse change in our financial, operational, trading positions or prospects since 31 August 2019, which is the end of the period covered by the Accountants' Report as set out in Appendix I to this prospectus and up to the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm, save for the adverse impact from Listing expenses, that there have been no material adverse changes in our financial or trading position or prospects subsequent to the Track Record Period and up to the date of this prospectus. As far as we are aware, there was no material change in the general market conditions that affected or would affect our business operations or financial condition materially and adversely.

FINANCIAL INFORMATION

PROFIT ESTIMATE FOR THE YEAR ENDED 31 DECEMBER 2019

Our Directors estimate that, in the absence of unforeseeable circumstances and on the bases set out in “Appendix IIB — Profit Estimate” to this prospectus, the estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 is as follows:

Estimated consolidated profit attributable to owners of our Company <i>(Notes 1 and 2)</i>	Not less than HK\$25 million
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Unaudited pro forma estimated earnings per Share <i>(Note 3)</i>	Not less than HK\$0.0125
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Notes:

1. The bases on which the above profit estimate for the year ended 31 December 2019 has been prepared are summarised in “Appendix IIB — Profit Estimate” to this prospectus. The estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019 has been prepared by our Directors based on (i) the audited consolidated results of our Group for the eight months ended 31 August 2019 as set out in the Accountants’ Report in Appendix I to this prospectus; and (ii) the unaudited consolidated results of our Group for the four months ended 31 December 2019 based on the management accounts of our Group. The estimate has been prepared on a basis consistent in all material respects with the accounting policies currently adopted by our Group as set out in note 2 to the Accountants’ Report as set out in Appendix I to this prospectus.
2. The estimated consolidated profit attributable to owners of our Company has taken into account the incurred Listing expenses of approximately HK\$11.1 million for the year ended 31 December 2019 based on the unaudited consolidated results of our Group.
3. The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated unaudited consolidated profit attributable to owners of our Company for the year ended 31 December 2019 and on the assumption that the Global Offering and the Capitalisation Issue had been completed on 1 January 2019 and a total of 2,000,000,000 Shares had been issued during the entire year. The calculation of the unaudited pro forma estimated earnings per Share does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the sections headed “Business — Business strategies” and “Business — Production” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds from the Global Offering of approximately HK\$83.6 million (assuming an Offer Price of HK\$0.27 per Share, being the mid-point of the indicative Offer Price range), after deducting the underwriting fees and expenses payable by us in the Global Offering and assuming no exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme.

We currently intend to apply these net proceeds in the following manner:

- approximately HK\$68.8 million or 82.3% of our total estimated net proceeds for increasing our production capacity in Bangladesh by (i) the construction of the New Bangladesh Factory; and (ii) purchasing machinery for the New Bangladesh Factory, of which:
 - (a) approximately HK\$4.0 million or 4.8% will be used for the payment of construction costs, including cast-in-situ piling works with layout costs;
 - (b) approximately HK\$9.5 million or 11.4% will be used for the payment of construction costs, including earth excavation pile cap breaking and cap casting works, grade beam and floor casting costs;
 - (c) approximately HK\$31.3 million or 37.4% will be used for the payment of construction costs and interior renovation fees for the 3-storey building; and
 - (d) approximately HK\$24.0 million or 28.7% will be used for the purchase of two five-colour offset press machines and one die cutter machine for the New Bangladesh Factory;
- approximately HK\$7.0 million or 8.4% of our total estimated net proceeds for the purchase of one hot foil stamping machine and one die cutter machine for the PRC Factories; and
- approximately HK\$7.8 million or 9.3% of our total estimated net proceeds for our Group’s working capital and general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

If the Offer Price is fixed at HK\$0.29 per Offer Share, being the high end of the indicative Offer Price range, the net proceeds will be increased to approximately HK\$92.3 million. The additional net proceeds will be used for acquiring new machines, such as weaving machines, flexographic printing machines and post-production machines. If the Offer Price is fixed at HK\$0.25 per Offer Share, being the low end of the indicative Offer Price range, the net proceeds will be reduced to approximately HK\$74.9 million. This reduction in net proceeds will be deducted from the net proceeds intended to be applied for our Group's purchase of one hot foil stamping machine and one die cutter machine for the PRC Factories and our Group's working capital and general corporate purposes and, where required, our Group will purchase these new machines for use in the PRC Factories with our internal funding.

The additional net proceeds that we would receive if the Over-allotment Option is exercised in full, which is currently estimated to be approximately HK\$16.3 million, HK\$17.6 million and HK\$18.9 million (assuming the lowest, middle and highest points of the indicative Offer Price range, respectively), will be used for the purchase of machineries and/or working capital and general corporate purposes.

If any part of our development plan does not proceed as planned for reasons such as changes in government policies that would render the development of any of our projects not commercially viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate proceeds to other uses.

To the extent that the net proceeds of the Global Offering are not immediately used for the purposes described above, they will be placed in short-term demand deposits with licenced banks or financial institutions.

REASONS FOR THE LISTING

Our Directors are of the view that the commercial rationale of the Listing and the Global Offering is important and beneficial to our Group and our Shareholders as a whole for the following reasons:

- **Potential market growth and implementation of strategies:** The net proceeds from the Listing provide us with financial resources to implement our business strategies which, in turn, would drive the growth of our business. According to the F&S Report, the market size of the apparel labels and trim products in terms of revenue in (i) the PRC has increased from RMB9.3 billion in 2014 to RMB14.1 billion in 2018, representing a CAGR of 11.0%, and such growth is forecasted to grow at a CAGR of 8.6% from 2019 to 2023, and (ii) Bangladesh has grown from US\$214.3 million in 2014 to US\$291.3 million in 2018, representing a CAGR of 8.0%, and is forecasted to grow at a CAGR of 7.0% from 2019 to 2023. In view of the above, our Directors consider that it is important for us to capture such market growth and more business opportunities by the Listing. For this purpose, we intend to implement the business strategies as set out in the sections headed "Business — Business strategies" and "Business — Production" in this prospectus through the use of the proceeds from the Global Offering in the manners as set out in the section headed "Future plans and use of proceeds" in this prospectus.

FUTURE PLANS AND USE OF PROCEEDS

- **Our funding needs and access to the capital markets:** We have historically financed our business operation through internally generated funds and bank borrowings. Due to the expansion of our business operation, our total debt (including bank borrowing and lease liabilities) balance increased from approximately HK\$27.6 million as at 31 December 2016 to approximately HK\$68.3 million as at 31 August 2019. The cash and cash equivalent balance and the Gearing ratio of our Group as at 31 August 2019 were approximately HK\$23.6 million and 53.1%, respectively.

Taking into account the amounts of approximately HK\$68.8 million and HK\$7.0 million which are required to finance our expansion plan in Bangladesh and the PRC, respectively, our cash on hand is not sufficient to finance our expansion plan and the purchase of new machines. Accordingly, our Directors consider that equity financing could help and accelerate our Group's expansion plan.

Further, our Directors consider that our Group may not be able to implement its expansion plan, which primarily includes long term capital expenditure investments, by solely relying on debt financing as our Group's available long-term assets are unlikely to be sufficient or acceptable to provide the loan security required for financing its future plans. Our Directors consider that the net proceeds from the Listing can provide us with the necessary additional financial resources without exposing us to a high Gearing ratio which would subject us to the inherent risks of higher interest rate and finance costs. Our Group's financial performance and liquidity may be negatively affected due to repayments of principal and interest payments if we were to fund our business expansion through debt financing. Our Directors believe that a listing status with an enlarged capital provides an additional platform for us to access the capital markets while putting us in a better position to negotiate with banks and financial institutions for future secondary fund-raising. In addition, our Directors consider that it would be difficult for our Group, without a listing status, to obtain bank borrowings at a more commercially favourable terms without personal guarantees, corporate guarantees or other collaterals to be provided by our Controlling Shareholders.

As a result, our Directors believe that a combination of equity financing and debt financing will be more beneficial to our Group to fund our expansion plan as opposed to relying solely on debt financing. In the event that the Listing is delayed or otherwise not proceeded with, we may have to seek for further banking facilities, if available; and/or slow down our business development and expansion plan, which we may not have sufficient resources to pursue, and this will not be beneficial to our future growth.

FUTURE PLANS AND USE OF PROCEEDS

- **Enhance our Group's corporate profile and creditability:** We will benefit from the Listing through (i) an enhanced corporate image; (ii) the profile of the public listing status; and (iii) an enhanced internal control and corporate governance practices which, in turn, would provide higher confidence to new and existing customers, suppliers and banks.
- **Recruitment of experienced personnel:** We believe that the business growth of our Group generated by the funds raised from the Global Offering and our listing status would enhance our reputation and could help us attract more experienced personnel to our Group in Hong Kong and overseas.
- **Diversify shareholder base and enhancing liquidity in trading of our Shares:** Our Directors believe that the high liquidity stock market in Hong Kong will enable us to expand and diversify our capital base and shareholders base as retail investors and institutional funds will be able to participate in the equity of our Company where the true value of our Group can be reflected.

UNDERWRITING

HONG KONG UNDERWRITERS

Elstone Securities Limited

I Win Securities Limited

BOCOM International Securities Limited

CMBC Securities Company Limited

Essence International Securities (Hong Kong) Limited

Great Roc Capital Securities Limited

Haitong International Securities Company Limited

ChaoShang Securities Limited

Conrad Investment Services Limited

Head & Shoulders Securities Limited

Maxa Capital Limited

All EverGreen Securities Limited

Alpha Financial Group Limited

Orient Securities Limited

Sinomax Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 50,000,000 Hong Kong Offer Shares (subject to reallocation) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including the additional Shares to be issued pursuant to the exercise of the Over-allotment Option) and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally, but not jointly, agreed to subscribe or procure subscribers for, their respective applicable proportions of the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

UNDERWRITING

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms or otherwise, prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscriptions for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination. The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall have the absolute right by notice in writing to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date (the “**Termination Time**”) if any of the following events shall occur prior to the Termination Time:

- (a) there develops, occurs, exists or comes into force:
 - (i) any change or development involving a prospective change or development, or any event or series of events resulting or likely to result in or representing a change or development, or any prospective change or development in, local, national, regional or international financial, political, military, industrial, legal, economic, currency market, credit, fiscal or regulatory or market matters or conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets, credit markets, and inter-bank markets, a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies) in or affecting Hong Kong, the PRC, the U.S., Bangladesh, Vietnam, Pakistan, the Cayman Islands and the BVI (collectively, the “**Relevant Jurisdictions**”, each a “**Relevant Jurisdiction**”); or
 - (ii) any new law or regulation or any change or development involving a prospective change in any existing law or regulation, or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any Relevant Jurisdiction; or
 - (iii) any event or series of events in the nature of force majeure (including, without limitation, acts of government, labour disputes, strikes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, declaration of a national or international emergency, acts of war, acts of terrorism (whether or not responsibility has been claimed), acts of God, epidemic, pandemic, outbreak of infectious disease (including but not limited to H5N1, SARS, Coronavirus or such related or mutated forms), economic sanctions, in or affecting any Relevant Jurisdiction; or
 - (iv) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or affecting any Relevant Jurisdiction; or

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- (v) (A) any moratorium, suspension, restriction or limitation on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the American Stock Exchange, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange and the Shenzhen Stock Exchange, or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services procedures or matters in or affecting any Relevant Jurisdiction; or
- (vi) any change or development or event involving a prospective change in taxation or exchange controls (or the implementation of exchange controls), currency exchange rates or foreign investment regulations in any Relevant Jurisdiction; or
- (vii) any imposition of economic sanction or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdiction; or
- (viii) any change or development or event involving a prospective change in our Group's assets, liabilities, profit, losses, performance, condition, business, financial, earnings, trading position or prospects; or
- (ix) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (x) an executive Director being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company; or
- (xi) the chairman or chief executive officer of our Company vacating his office; or
- (xii) an authority or a political body or organisation in a jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any executive Director; or
- (xiii) an order or petition is presented for the winding up or liquidation of our Company or any of our subsidiaries, or our Company or any of our subsidiaries make any compromise or arrangement with our creditors or enter into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any of our subsidiaries or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any of our subsidiaries or anything analogous thereto occurs in respect of our Company or any of our subsidiaries; or

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- (xiv) a demand by any creditor for repayment or payment of any of our Company's indebtednesses or those of any of our subsidiaries or in respect of which our Company or any of our subsidiaries is liable to its stated maturity; or
- (xv) any loss or damage sustained by our Company or any of our subsidiaries as a result of a breach of our respective obligations or non-compliance with the applicable laws and regulations (however caused and whether or not the subject of any insurance or claim against any person); or
- (xvi) any litigation or claim being threatened or instigated against our Company or any of our subsidiaries or the covenantors as defined in the Hong Kong Underwriting Agreement (the "**Covenantors**"); or
- (xvii) a prohibition on our Company for whatever reason from allotting or selling the Offer Shares (including our Shares to be issued pursuant to the exercise of the Over-allotment Option) pursuant to the terms of the Global Offering; or
- (xviii) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of our Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xix) a contravention by any members of our Group of the Listing Rules or applicable laws and regulations; or
- (xx) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of our Shares) pursuant to the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xxi) any event which give rise or would give rise to liability on the part of our Company pursuant to the indemnity provisions in the Hong Kong Underwriting Agreement; or
- (xxii) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed "Risk factors" in this prospectus,

and which, individually or in aggregate, in the sole opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters),

- (A) has or may have or will have or is likely to have a materially adverse effect, whether directly or indirectly, on the business, financial or prospect of our Company or our subsidiaries as a whole; or

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- (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of indications of interest under the International Placing; or
 - (C) makes, may make or will or is likely to make it impracticable, inadvisable or inexpedient for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to proceed or to be performed or implemented as envisaged or to market the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
- (i) that any statement contained in the Offering Documents (as defined in the Hong Kong Underwriting Agreement), the formal notice or any announcements in the agreed form issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become untrue or incorrect or misleading in a material respect, or that any forecast, expression of opinion, intention or expectation contained therein is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (ii) that any matter has arisen or has been discovered which, had it arisen or been discovered immediately before the date of this prospectus which would or might constitute a material omission from this prospectus or the Application Forms and/or in any notices or announcements issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or
 - (iii) that any of the warranties given by our Company or the Covenantors as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement is (or would when repeated be) untrue, inaccurate or misleading in any material respect or having been breached; or
 - (iv) that any matter, event, act or omission which gives or is likely to give rise to any liability of our Company or the Covenantors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties in any material respect as set out in the Hong Kong Underwriting Agreement or the International Underwriting Agreement and/or pursuant to the indemnities given by our Company, the Covenantors or any of them under the Hong Kong Underwriting Agreement; or

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- (v) that any material breach of any of the obligations or undertakings of any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than the Hong Kong Underwriters or the International Underwriters); or
- (vi) that any material adverse change or prospective material adverse change in the business, financial position or prospects of our Company and/or our subsidiaries as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their sole and absolute discretion; or
- (vii) that our Company withdraws this prospectus and/or the Application Forms; or
- (viii) that approval by the Listing Committee of the listing of, and permission to deal in, our Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option and options that may be granted under the Share Option Scheme) under the Global Offering is refused or not granted, other than subject to customary conditions, on or before the date of approval of the Listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (ix) that any of the experts described in the section headed “Appendix IV — Statutory and general information — F. Other information — 7. Consents” in this prospectus, has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears.

Undertakings 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 Capitalisation Issue, the Global Offering, the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme; or (b) under any of the circumstances provided under Rule 10.08 of the Listing Rules.

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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 Capitalisation 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/she/it will not and will procure that the registered holder(s) of the Shares controlled by him/her/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 authorised institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) for a bona fide commercial loan) in respect of, any of the securities of our Company in respect of which he/she/it is shown by this prospectus to be the beneficial owner (“**Relevant Securities**”); or
- (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 authorised institution (as defined in the Banking Ordinance (Chapter 155 of the laws of Hong Kong)) for a bona fide commercial loan) in respect of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, that he/she/it would cease to be the controlling shareholder or a member of the group of controlling shareholders 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/she/it shall:

- (a) when he/she/it pledges or charges any Shares or securities of our Company beneficially owned by him/her/it in favour of an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the laws of Hong Kong), pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he/she/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.

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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

Undertakings by our Company

Our Company has undertaken to each of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters), *inter alia*, pursuant to the Hong Kong Underwriting Agreement, that, and our Controlling Shareholders further undertake to procure that, except 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 Capitalisation Issue, and upon the exercise of the options which may be granted under the Share Option Scheme, we will not, and will procure that our subsidiaries will not, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the Listing Rules, at any time during the period commencing from the date of the Hong Kong Underwriting Agreement and ending on the expiry of the six months immediately following the Listing Date (the “**First Six-Month Period**”):

- (i) 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 other 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 depositary in connection with the issue of depositary 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 any Shares or any other securities of our Company, 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 other securities of our Company or any shares of such members of our Group, as applicable); or

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- (iii) enter into any transaction with the same economic effect as any forgoing transaction described in (i) or (ii) above; or
- (iv) offer to or agree to or announce any intention to effect any forgoing transaction described in (i), (ii) or (iii) above;

in each case whether any of the foregoing transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or share 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 six-month period immediately following the First Six-Month Period (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, we will take all reasonable steps to ensure that we will not create a disorderly or false market in the securities of our Company.

Undertakings by our Controlling Shareholders

Each of our Controlling Shareholders has jointly and severally undertaken to each of our Company, the Sole Sponsor and the Joint Global Coordinators and the Hong Kong Underwriters that except pursuant to the Global Offering (including the exercise of the Over-allotment Option) and the arrangement pursuant to the Stock Borrowing Agreement, without the prior written consent of the Sole Sponsor and the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) (such consent not to be unreasonably withheld or delayed) and unless in compliance with the requirements of the Listing Rules:

- (i) he/she/it will not, and will procure that his/her/its close associates will not, at any time during 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 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,

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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/she/it will not, and will procure that his/her/its close associates will not, at any time during the Second Six-Month Period, enter into any of the transactions specified in (a), (b) or (c) in (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/she/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/her/it and/or any of his/her/its close associate which owns such Shares or interests as aforesaid; and
- (iii) in the event that he/she/it or any of his/her/its close associates enters into any of the transactions specified in (ii) above or offers to or agrees to or announces any intention to effect any such transaction, he/she/it will take all reasonable steps to ensure that he/she/it will not create a disorderly or false market in the Shares or other securities of our Company.

Indemnity

Our Company and each of our Controlling Shareholders have agreed to indemnify, among others, the Sole Sponsor, the Joint Global Coordinators and the Hong Kong Underwriters against certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any material breach by our Company, or our Controlling Shareholders of the Hong Kong Underwriting Agreement.

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International Placing

International Underwriting Agreement

In connection with the International Placing, our Company expects to enter into the International Underwriting Agreement with, among others, our Controlling Shareholders and the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally, but not jointly, agree to purchase the International Placing Shares or procure purchasers for the International Placing Shares. The International Underwriting Agreement is expected to provide that it may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed. It is expected that pursuant to the International Underwriting Agreement, our Company will give undertakings similar to as those given pursuant to the Hong Kong Underwriting Agreement as described in the paragraphs headed “Undertakings to the Stock Exchange pursuant to the Listing Rules — Undertakings by our Company” and “Undertakings pursuant to the Hong Kong Underwriting Agreement — Undertakings by our Company” in this section.

Under the International Underwriting Agreement, our Company expects to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at any time from the Listing Date up to (and including) the date which is the 30th day after the last date for the lodging of Application Forms under the Hong Kong Public Offering, being 3 April 2020, to require our Company to issue and allot up to an aggregate of 75,000,000 additional Shares, representing in aggregate not more than 15% of the number of Offer Shares initially available under the Global Offering. These additional Shares will be issued or sold at the Offer Price and used to cover over-allocation, if any, in the International Placing.

It is expected that each of our Controlling Shareholders will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement, which is described in the paragraphs headed “Undertakings to the Stock Exchange pursuant to the Listing Rules — Undertakings by our Controlling Shareholders” and “Undertakings pursuant to the Hong Kong Underwriting Agreement — Undertakings by our Controlling Shareholders” in this section.

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Underwriting commissions and expenses

The Hong Kong Underwriters will receive an underwriting commission of 13% of the aggregate Offer Price payable for our Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the International Underwriters and not the Hong Kong Underwriters. Our Company may also, in sole discretion, pay to the Joint Global Coordinators an additional incentive fee.

The aggregate commissions and fees (excluding any discretionary incentive fee) together with listing fees, SFC transaction levy and Stock Exchange trading fee in respect of the new Shares offered by us, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated amount to HK\$51.4 million (assuming an Offer Price of HK\$0.27, which is the midpoint of the indicative range of the Offer Price and that the Over-allotment Option is not exercised) in total and are payable by us.

The commission and expenses were determined after arm's length negotiations between our Company and the Hong Kong Underwriters.

RESTRICTIONS ON 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/her/its acquisition of the Hong Kong Offer Shares to, confirm that he/she/it is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit a Hong Kong Public Offering of the Offer Shares, other than in Hong Kong, 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 authorised or to any person to whom it is unlawful to make such an offer or invitation.

INDEPENDENCE OF THE SOLE SPONSOR

Elstone Capital Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

MINIMUM PUBLIC FLOAT

Our Directors will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. Elstone Capital Limited is the Sole Sponsor for the listing of the Shares on the Stock Exchange. Elstone Securities Limited and I Win Securities Limited are the Joint Global Coordinators of the Global Offering.

The Global Offering comprises (subject to reallocation and the Over-allotment Option):

- the Hong Kong Public Offering of 50,000,000 Shares, subject to reallocation as mentioned below, for subscription by the public in Hong Kong as described in the paragraph headed “Hong Kong Public Offering” in this section below; and
- the International Placing of 450,000,000 Shares, subject to reallocation and the Over-allotment Option as mentioned below, outside the United States in reliance on Regulation S of the U.S. Securities Act as described in the paragraph headed “International Placing” in this section below.

Up to 75,000,000 additional Shares may be offered pursuant to the exercise of the Over-allotment Option as set out in the paragraph headed “Over-allotment Option and Stock Borrowing Agreement” in this section below.

Investors may apply for our Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for our International Placing 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 Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional, professional and other investors in Hong Kong. The International Placing will involve selective marketing of our International Placing Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the U.S. Securities Act. The International Underwriters are soliciting from prospective investors indications of interest in acquiring our International Placing Shares in the International Placing. 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.

The number of Offer Shares to be offered under the Global Offering respectively may be subject to reallocation and, in the case of the International Placing only, the Over-allotment Option as set out in the paragraph headed “Over-allotment Option and Stock Borrowing Agreement” in this section below. References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate only to the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PRICING AND ALLOCATION

Offer Price

The Offer Price will be not more than HK\$0.29 per Offer Share and is expected to be not less than HK\$0.25 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below.

Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.

Price payable on application

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum indicative Offer Price of HK\$0.29 per Hong Kong Offer Share plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$2,929.23 for one board lot of 10,000 Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK\$0.29, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. For further details, please refer to the section headed “How to apply for our Hong Kong Offer Shares — 13. Refund of application monies” in this prospectus.

Determining the Offer Price

The International Underwriters are soliciting from prospective investors indications of interest in acquiring our Shares in the International 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 Offer Price is expected to be fixed by agreement between the Joint Global Coordinators (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or about Wednesday, 4 March 2020 and in any event, no later than Monday, 9 March 2020.

If, for any reason, our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on Monday, 9 March 2020, the Global Offering will not proceed and will lapse.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation

The Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

Allocation of the Offer Shares pursuant to the International Placing will be determined by the Joint Global Coordinators and will be based on a number of factors including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell Shares after Listing. Such allocation may be made to professional, institutional, corporate and other investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and our Shareholders as a whole.

Allocation of our Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Announcement of final Offer Price and basis of allocations

The applicable final Offer Price, the level of indications of interest in the International Placing, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares are expected to be announced on Wednesday, 11 March 2020 on the website of our Company (www.cirtek.com) and the website of the Stock Exchange (www.hkexnews.hk).

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms or by giving **electronic application instructions** to HKSCC or by applying online through the **HK eIPO White Form** Service Provider under the **HK eIPO White Form** service, will be made available through a variety of channels as described in the section headed "How to apply for our Hong Kong Offer Shares — 11. Publication of results" in this prospectus.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional upon, among other things:

- (a) the Listing Committee granting the listing of, and permission to deal in, the Shares in issue, the Offer Shares to be issued pursuant to the Capitalisation Issue and the Global Offering and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Share Option Scheme, and such listing and permission not subsequently having been revoked prior to the commencement of dealing in the Shares on the Stock Exchange;
- (b) the Offer Price having been duly agreed on or around the Price Determination Date;
- (c) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and
- (d) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Global Coordinators (for themselves and on behalf of the Underwriters)) and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event no later than 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will publish a notice of the lapse of the Hong Kong Public Offering 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.cirtek.com. In the event of such lapse, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for our Hong Kong Offer Shares" in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended, supplemented or otherwise modified from time to time).

Share certificates for the Offer Shares are expected to be issued on Wednesday, 11 March 2020 but will only become valid certificates of title at 8:00 a.m. on Thursday, 12 March 2020 provided that: (a) the Global Offering has become unconditional in all respects; and (b) the right of termination as described in "Underwriting — Underwriting arrangements and expenses — Hong Kong Public Offering — Grounds for termination" of this prospectus has not been exercised. Investors who trade Shares prior to the receipt of shares certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

HONG KONG PUBLIC OFFERING

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a several basis under the terms of the Hong Kong Underwriting Agreement and is subject to our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) agreeing on the Offer Price. The Hong Kong Public Offering and the International Placing are subject to the conditions set out in the paragraph headed “Conditions of the Global Offering” in this section. The Hong Kong Underwriting Agreement and the International Underwriting Agreement shall be conditional upon each other.

Number of Offer Shares initially offered

Our Company is initially offering 50,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the 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 Capitalisation Issue and the Global Offering, assuming 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 Global Offering” in this section above. 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.

Allocation

Allocation of Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

For allocation purposes only, the Hong Kong Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Placing) will be divided into two pools (subject to adjustment of odd lot size): pool A and pool B.

Pool A will comprise 25,000,000 Hong Kong Offer Shares and pool B will comprise 25,000,000 Hong Kong Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee 0.005%) of HK\$5 million or below will fall into pool A and all valid applications that have been received for Hong Kong Offer Shares with a total amount (excluding brokerage of 1.0%, the SFC transaction levy of 0.0027% and the Stock Exchange trading fee 0.005%) of over HK\$5 million and up to the total value of pool B will fall into pool B.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one (but not both) of the pools are undersubscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only apply for Hong Kong Offer Shares from either pool A or pool B but not from both pools and can only receive Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools will be rejected.

No application will be accepted from applicants for more than 25,000,000 Hong Kong Offer Shares (being 50% of the initial number of Hong Kong Offer Shares).

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to reallocation. Assuming that the Over-allotment Option is not exercised, the allocation of the Offer Shares shall be subject to reallocation on the following basis:

- (a) where the International Placing Shares are fully subscribed or oversubscribed and:
 - (i) if the Hong Kong Offer Shares are undersubscribed, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) have the authority (but not the obligation) in their absolute discretion to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Placing, in such proportions as the Joint Global Coordinators 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 50,000,000 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 100,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);
 - (iii) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 100,000,000 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 increased to 150,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option);

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (iv) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 150,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 200,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option); and
 - (v) if the number of Offer Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of the Offer Shares initially available for subscription under the Hong Kong Public Offering, then 200,000,000 Offer Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the number of the Offer Shares available under the Hong Kong Public Offering will be increased to 250,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).
- (b) where the International Placing Shares are undersubscribed:
- (i) if the Hong Kong Offer Shares are undersubscribed, the Global Offering will not proceed unless the Underwriters would subscribe or procure subscribers for their respective applicable proportions of the Offer Shares being offered which are not taken up under the Global Offering on the terms and conditions of this prospectus, the Application Forms and the Underwriting Agreements; and
 - (ii) if the Hong Kong Offer Shares are 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 50,000,000 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 100,000,000 Offer Shares, representing 20% of the number of the Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option).

In addition, the Joint Global Coordinators (for themselves and on behalf of the Underwriters) may reallocate the Offer Shares from the International 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 Practise 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. 100,000,000 Offer Shares).

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

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.

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\$0.25 per Offer Share) stated in this prospectus in accordance with Guidance Letter HKEx-GL91-18.

Applications

The Joint Global Coordinators (for themselves 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 Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated (including conditionally and/or provisionally) Offer Shares under the International Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$0.29 per Offer Share in addition to any brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% payable on each Offer Share, amounting to a total of HK\$2,929.23 for one board lot of 10,000 Shares. If the Offer Price, as finally determined in the manner described in "Price determination of the Global Offering" in this section below, is less than the maximum price of HK\$0.29 per Share, appropriate refund payments (including the brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to the section headed "How to apply for our Hong Kong Offer Shares" in this prospectus for further details.

References in this prospectus to applications, Application Forms, application or subscription monies or the procedure for application relate solely to the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

INTERNATIONAL PLACING

The International Placing is expected to be fully underwritten by the International Underwriters on a several basis. Our Company expects to enter into the International Underwriting Agreement relating to the International Placing on or about the Price Determination Date.

Number of Offer Shares offered

The number of Offer Shares to be initially offered for subscription by our Company under the International Placing will be 450,000,000 Shares, representing 90% of the total number of the Offer Shares initially available under the Global Offering (subject to reallocation and assuming that the Over-allotment Option is not exercised). Subject to any reallocation of Offer Shares between the International 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 Capitalisation 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 Global Offering" in this section above.

Allocation

The International Placing will include selective marketing of Offer Shares to professional, institutional, corporate and other investors anticipated to have a sizeable demand for such Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S of the U.S. Securities Act. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The International Placing Shares will be allocated in accordance with the book-building process described in the paragraph headed "Pricing and allocation" in this section above, and is based on several factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing of the Offer Shares on the Stock Exchange. Such allocation is intended to achieve a distribution of the Shares that would allow for the establishment of a solid professional, institutional and corporate shareholder base which will be beneficial to our Company and our Shareholders as a whole.

The Joint Global Coordinators (for themselves and on behalf of the Underwriters) may require any investor who has been offered Shares under the International Placing, and who has made an application under the Hong Kong Public Offering, to provide sufficient information to the Joint Global Coordinators so as to allow them to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOTMENT OPTION AND STOCK BORROWING AGREEMENT

In connection with the Global Offering, our Company is expected to grant the Over-allotment Option to the International Underwriters exercisable at the sole discretion of the Joint Global Coordinators (for themselves and on behalf of the International Underwriters). Pursuant to the Over-allotment Option, the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) has the right, exercisable at anytime for up to 30 days after the last day of lodging application under the Hong Kong Public Offering, being 3 April 2020, to require our Company to issue and allot up to 75,000,000 additional Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Offer Share under the International Placing to cover over-allocation in the International Placing, if any, on the same terms and conditions as the Offer Shares that are subject to the Global Offering. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.75% of our Company's enlarged issued share capital immediately following the completion of the Capitalisation Issue and the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made in accordance with the requirements of the Listing Rules.

In order to facilitate the settlement of over-allocations under the International Placing, the Stabilising Manager (or any person acting for it) may, at its option, cover such over-allocations by borrowing Shares from Charming International under the stock borrowing arrangements, or acquire Shares from other sources, including the exercise of the Over-allotment Option.

The Stabilising Manager will enter into the Stock Borrowing Agreement with Charming International, our Controlling Shareholder, whereby the Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules provided that the requirements set out in Rule 10.07(3) of the Listing Rules are to be complied with as follows:

- (a) such stock borrowing arrangement with Charming International will only be effected by the Stabilising Manager for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Placing;
- (b) the maximum number of Shares to be borrowed from Charming International under the Stock Borrowing Agreement will be limited to 75,000,000 Shares, being the maximum number of Shares which may be allotted and issued by our Company upon full exercise of the Over-allotment Option;
- (c) the same number of Shares borrowed from Charming International must be returned to it or its nominees (as the case may be) no later than the third business day following the earlier of:
 - (i) the last day on which the Over-allotment Option may be exercised;
 - (ii) the date on which the Over-allotment Option is exercised in full and the Shares to be allotted and issued upon exercise of the Over-allotment Option have been issued and allotted; or
 - (iii) such earlier time as may be agreed in writing between Charming International and the Stabilising Manager;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (d) the stock borrowing arrangement will be carried out in compliance with all applicable listing rules, laws and other regulatory requirements; and
- (e) no payments will be made to Charming International by the Stabilising Manager or its authorised agents in relation to such stock borrowing arrangement.

STABILISATION ACTION

Stabilisation is a practise used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market, during a specified period of time, to minimise and, if possible, prevent any decline in the market price of the securities below the Offer Price in Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is carried out is not permitted to exceed the Offer Price.

We have appointed Elstone Securities Limited as the Stabilising Manager for the purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) under the SFO, as amended, supplemented or otherwise modified from time to time. In connection with the Global Offering, the Stabilising Manager, its affiliates or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or carry out transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period commencing on the Listing Date and expected to end on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering, being 3 April 2020.

Any market purchases of the Shares will carried out in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any person acting for it to conduct any such stabilising action, which if commenced, will be conducted at the sole and absolute discretion of the Stabilising Manager, its affiliates or any person acting for it and may be discontinued at any time. Any such stabilising activity must cease within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering, being 3 April 2020. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued by our Company under the Over-allotment Option, namely 75,000,000 Shares in aggregate, which represents 15% of the Shares initially available under the Global Offering.

The types of stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) under the SFO include:

- (a) over-allocation for the purpose of preventing or minimising any reduction in the market price of the Shares;
- (b) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (c) purchasing, or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (a) or (b) above;
- (d) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares;
- (e) selling, or agreeing to sell, the Shares in order to liquidate any position established as a result of those purchases; and
- (f) offering or attempting to do anything described in (b), (c), (d) or (e) above.

The Stabilising Manager, its affiliates or any person acting for it, may take all or any of the above stabilising actions in Hong Kong during the stabilisation period. Specifically, prospective applicants for and investors in the Offer Shares should note that:

- (a) the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- (b) there is no certainty regarding the extent to which and the time period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a position. Investors should be warned of the possible impact of any liquidation of such long position by the Stabilising Manager, its affiliates or any other person acting for them, may have an adverse impact on the market price of the Shares;
- (c) stabilising action cannot be used to support the price of the Shares for longer than the stabilising period, which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the last date for lodging applications under the Hong Kong Public Offering, being 3 April 2020. After this date, no further stabilising action may be taken and therefore the demand for the Shares as well as the price of the Shares may fall;
- (d) there is no assurance that the price of the Shares will stay at or above the Offer Price either during or after the stabilising period by taking any stabilising action; and
- (e) stabilising bids may be made or transactions carried out in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions carried out at a price below the price paid by applicants or investors for the Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

OVER-ALLOCATION

In connection with the Global Offering, the Joint Global Coordinators may over-allocate up to and not more than an aggregate of 75,000,000 additional Shares and cover such over-allocations by, among other methods, exercising the Over-allotment Option, which will be exercisable by the Joint Global Coordinators (for themselves and on behalf of the International Underwriters) at its sole discretion, or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of settlement of over-allocations with the International Placing, the Stabilising Manager may borrow up to 75,000,000 Shares from Charming International, equivalent to the maximum number of Shares to be issued on the full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposits, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between Stock Exchange Participants 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. Investors should seek the advice of their stockbroker or other professional advice for details of these settlement arrangement and how such arrangements will affect their rights and interests.

DEALINGS

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Thursday, 12 March 2020, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Thursday, 12 March 2020. The Shares will be traded in board lots of 10,000 Shares each. The stock code of the Shares is 1433.

HOW TO APPLY FOR OUR 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 **HK eIPO White Form** service at www.hkeipo.hk or the **IPO App**;
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Global Coordinators, **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, our Company and the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for our Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of Shares in our company and/or any of its subsidiaries;
- a Director or chief executive officer of our company and/or any of its subsidiaries;
- 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;
- an associate (as defined in the Listing Rules) of any of the above; 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 www.hkeipo.hk or the **IPO App**.

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, 28 February 2020 until 12:00 noon on Wednesday, 4 March 2020 from:

- (i) the following offices of the Joint Global Coordinators:

<u>Name</u>	<u>Address</u>
Elstone Securities Limited	Suite 1601-04, 16/F West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
I Win Securities Limited	Room 1916, Hong Kong Plaza 188 Connaught Road West Hong Kong

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- (ii) any of the following branches of the receiving bank for the Hong Kong Public Offering:

Bank of China (Hong Kong) Limited

<u>District</u>	<u>Branch name</u>	<u>Address</u>
Hong Kong Island	Wan Chai (Wu Chung House) Branch	213 Queen's Road East Wan Chai, Hong Kong
Kowloon	Mei Foo Mount Sterling Mall Branch	Shop N47-49, G/F Mount Sterling Mall Mei Foo Sun Chuen Kowloon
	Mong Kok Branch	589 Nathan Road Mong Kok, Kowloon

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 28 February 2020 until 12:00 noon on Wednesday, 4 March 2020 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**BANK OF CHINA (HONG KONG) NOMINEES LIMITED — CIRTEK HOLDINGS LIMITED PUBLIC OFFER**" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times.

Friday, 28 February 2020	— 9:00 a.m. to 5:00 p.m.
Saturday, 29 February 2020	— 9:00 a.m. to 1:00 p.m.
Monday, 2 March 2020	— 9:00 a.m. to 5:00 p.m.
Tuesday, 3 March 2020	— 9:00 a.m. to 5:00 p.m.
Wednesday, 4 March 2020	— 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, 4 March 2020, the last application day or such later time as set out in the paragraph headed "— 10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists" in this section.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By completing and submitting an Application Form or applying through **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies (WUMP) Ordinance, the Companies Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, agents, employees, advisers, representatives and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to our Company, our Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or their respective directors, officers, agents, employees, advisers and representatives any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters nor any of their respective directors, officers, agents, employees, advisers and representatives will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (a) you understand that our Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (b) you and any person for whose benefit you are applying for our 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 our Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have fulfilled the criteria mentioned in "— personal collection" section in this prospectus to collect share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of our Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (xix) (if you are making the application as an agent for the benefit of another person) warrant that (a) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC; and (b) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **YELLOW** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “— 2. Who can apply” in this section, may apply through the **HK eIPO White Form** service for our Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk or the **IPO App**.

Detailed instructions for application through **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to **HK eIPO White Form** service at www.hkeipo.hk or the **IPO App** (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 28 February 2020 until 11:30 a.m. on Wednesday, 4 March 2020 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, 4 March 2020 or such later time under the paragraph headed “— 10. Effect of bad weather and/or Extreme Conditions on the opening of the application lists” in this section.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

No Multiple Applications

If you apply by means of **HK eIPO White Form** service, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving a payment application instruction under **HK eIPO White Form** service more than once and obtaining different payment reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give **electronic application instructions** to apply for our Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a **CCASS Investor Participant**, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place
Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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 our Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters and our Hong Kong Branch Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for our Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that our 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 our 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;
 - (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that our Company, our Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of our Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of our 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 Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Branch Share Registrar, receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- 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 (WUMP) Ordinance, the Companies Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for our Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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 10,000 Hong Kong Offer Shares. Instructions for more than 10,000 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, 28 February 2020	— 9:00 a.m. to 8:30 p.m.
Saturday, 29 February 2020	— 8:00 a.m. to 1:00 p.m.
Monday, 2 March 2020	— 8:00 a.m. to 8:30 p.m.
Tuesday, 3 March 2020	— 8:00 a.m. to 8:30 p.m.
Wednesday, 4 March 2020	— 8:00 a.m. to 12:00 noon

Note (1): The times in this paragraph are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants and/or CCASS Investor Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 28 February 2020 until 12:00 noon on Wednesday, 4 March 2020 (24 hours daily, except on Wednesday, 4 March 2020, the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Wednesday, 4 March 2020, the last application day or such later time as set out in the paragraph headed “— 10. Effect of bad weather and/or Extreme Conditions 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 our 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 (WUMP) 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 (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

Personal Data

The section of the Application Form headed “— Personal data” applies to any personal data held by our Company, the Hong Kong Branch Share Registrar, the receiving bank, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers, the Underwriters and any of their respective directors, officers, agents, employees, advisers and representatives 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 our Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Sole Sponsor, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Co-Lead Managers and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 4 March 2020.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for our 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.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- *control the composition of the board of directors of the company;*
- *control more than half of the voting power of the company; or*
- *hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).*

9. HOW MUCH ARE OUR HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 10,000 Hong Kong Offer Shares. Each application or **electronic application instruction** in respect of more than 10,000 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.hkeipo.hk or the **IPO App**.

If your application is successful, brokerage will be paid to the Stock 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 and conditions of the Global Offering — Pricing and allocation” in this prospectus.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

10. EFFECT OF BAD WEATHER AND/OR EXTREME CONDITIONS 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;
- a “black” rainstorm warning; or
- Extreme Conditions,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 4 March 2020. 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, 4 March 2020 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal or “Extreme Conditions” in force in Hong Kong that may affect the dates mentioned in the section headed “Expected timetable” in this prospectus, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of our Hong Kong Offer Shares on Wednesday, 11 March 2020 on our company’s website at www.cirtek.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.cirtek.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Wednesday, 11 March 2020;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result (alternatively: <https://www.hkeipo.hk/IPOResult>) or “Allotment Result” function in the **IPO App** with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Wednesday, 11 March 2020 to 12:00 midnight on Tuesday, 17 March 2020;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Wednesday, 11 March 2020 to Monday, 16 March 2020 (excluding Saturday and Sunday);

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- in the special allocation results booklets which will be available for inspection during opening hours from Wednesday, 11 March 2020 to Friday, 13 March 2020 at all the receiving bank's 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 our 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 and conditions of the Global Offering" in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which our Hong Kong Offer Shares will not be allotted to you:

(i) **If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

(ii) If our Company or its agents exercise their discretion to reject your application:

Our Company, the Joint Global Coordinators, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list our Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

(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 **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of our Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

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 Offer Price of HK\$0.29 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 and conditions of the Global Offering — Conditions of the Global Offering” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on or before Wednesday, 11 March 2020.

14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the Share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of our Shares. No receipt will be issued for application monies received. If you apply by **WHITE** or **YELLOW** Application Form, subject to collection in person 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 our Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, Share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for our 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).

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

Subject to arrangement on despatch/collection of Share certificates and refund monies as mentioned below, any refund cheques and Share certificates are expected to be posted on or before Wednesday, 11 March 2020. 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 certificates of title at 8:00 a.m. on Thursday, 12 March 2020 provided that the Global Offering has become unconditional in all respects 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 Hong Kong Branch Share Registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2020 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for collection in person, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for collection in person, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Branch Share Registrar.

If you do not collect your refund cheque(s) and/or Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or Share certificate(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 March 2020, 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 for collection of your refund cheque(s). If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Wednesday, 11 March 2020, by ordinary post and at your own risk.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Wednesday, 11 March 2020, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- If you apply through a designated CCASS participant (other than a CCASS investor participant)

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

- If you apply as a CCASS investor participant

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— 11. Publication of Results" above.

You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 March 2020 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of our Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

*(iii) If you apply through the **HK eIPO White Form** service*

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Wednesday, 11 March 2020, or such other date as notified by our Company in the newspapers as the date of despatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Wednesday, 11 March 2020 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

(iv) *If you apply via **Electronic Application Instructions** to HKSCC*

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Wednesday, 11 March 2020, 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 “— 11. Publication of Results” above on Wednesday, 11 March 2020. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Wednesday, 11 March 2020 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 11 March 2020. Immediately following the credit of our 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.

HOW TO APPLY FOR OUR HONG KONG OFFER SHARES

- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Wednesday, 11 March 2020.

15. ADMISSION OF THE SHARES INTO CCASS

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

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

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

The following is the text of a report received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Cirtex Holdings Limited

Elstone Capital Limited

Dear Sirs,

We report on the historical financial information of Cirtex Holdings Limited (the “**Company**”) and its subsidiaries (together, the “**Group**”) set out on pages I-4 to I-59, which comprises the consolidated statements of profit or loss, statements of 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 and the eight months ended 31 August 2019 (the “**Track Record Period**”), and the consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019, and the statement of financial position of the Company as at 31 August 2019 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-59 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 28 February 2020 (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 (the “**Directors**”) 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 31 August 2019, and the Company as at 31 August 2019, and of the financial performance and cash flows of the Group for each of the Track Record Period 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.

Review of interim comparative financial information

We have reviewed the interim comparative financial information of the Group which comprises the consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the eight months ended 31 August 2018 and other explanatory information (the "**Interim Comparative Financial Information**"). The Directors are responsible for the preparation and presentation of the Interim Comparative Financial Information 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. Our responsibility is to express a conclusion on the Interim Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Interim Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, 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 of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance*Adjustments*

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page I-4 have been made.

Dividends

We refer to note 12 to the Historical Financial Information which contains information about the dividends paid by the Group in respect of the Track Record Period.

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

28 February 2020

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 Track Record Period, on which the Historical Financial Information is based, were audited by Ernst & Young in accordance with Hong Kong Standards on Auditing issued by the HKICPA (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars ("**HK\$**") and all values are rounded to the nearest thousand ("**HK\$'000**") except when otherwise indicated.

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

	Notes	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
REVENUE	6	241,628	305,021	371,883	252,155	226,511
Cost of sales		(134,520)	(174,497)	(209,473)	(143,595)	(117,295)
Gross profit		107,108	130,524	162,410	108,560	109,216
Other income and gains	6	722	1,783	3,642	2,012	5,213
Selling and distribution expenses		(27,445)	(32,606)	(40,343)	(28,055)	(28,666)
Administrative expenses		(52,849)	(64,107)	(76,849)	(49,374)	(53,615)
Other expenses		(123)	(164)	(305)	(100)	(953)
Finance costs	8	(1,496)	(1,662)	(2,770)	(1,854)	(1,828)
Listing expenses	7	–	–	(4,030)	–	(9,958)
PROFIT BEFORE TAX	7	25,917	33,768	41,755	31,189	19,409
Income tax expenses	11	(6,361)	(8,020)	(8,020)	(5,496)	(6,927)
PROFIT FOR THE YEAR/PERIOD		<u>19,556</u>	<u>25,748</u>	<u>33,735</u>	<u>25,693</u>	<u>12,482</u>
Attributable to:						
Owners of the Company		19,229	24,208	31,940	24,497	11,331
Non-controlling interests		327	1,540	1,795	1,196	1,151
		<u>19,556</u>	<u>25,748</u>	<u>33,735</u>	<u>25,693</u>	<u>12,482</u>

(B) CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
PROFIT FOR THE YEAR/PERIOD	19,556	25,748	33,735	25,693	12,482
OTHER COMPREHENSIVE INCOME/(LOSS)					
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:					
Exchange differences:					
Exchange differences on translation of foreign operations	23	35	(932)	154	(489)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR/PERIOD	19,579	25,783	32,803	25,847	11,993
Attributable to:					
Owners of the Company	19,254	24,122	31,056	24,643	10,917
Non-controlling interests	325	1,661	1,747	1,204	1,076
	19,579	25,783	32,803	25,847	11,993

(C) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December			As at
		2016	2017	2018	31 August 2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	53,020	58,094	83,675	81,224
Prepayments and deposits	19	2,945	6,637	1,892	1,365
Right-of-use assets	15	20,997	48,432	67,857	58,132
Total non-current assets		76,962	113,163	153,424	140,721
CURRENT ASSETS					
Inventories	17	35,479	37,631	41,468	42,040
Trade receivables	18	29,987	41,432	41,668	41,097
Prepayments, deposits and other receivables	19	6,962	8,505	10,189	16,212
Due from the ultimate holding company	20	–	–	–	22
Due from a director	21	1,092	740	1,088	282
Cash and cash equivalents	22	22,157	34,209	22,958	23,620
Tax recoverable		–	3	51	27
Total current assets		95,677	122,520	117,422	123,300
CURRENT LIABILITIES					
Trade payables	23	22,214	32,071	30,495	26,939
Other payables and accruals	24	26,654	35,529	34,723	31,620
Interest bearing bank borrowings	25	8,280	18,417	12,737	21,711
Dividend payable	12	10,000	15,000	10,500	–
Due to directors	21	5,952	7,744	8,655	218
Lease liabilities	26	4,110	11,567	15,195	13,589
Tax payable		5,527	1,848	1,146	7,011
Total current liabilities		82,737	122,176	113,451	101,088
NET CURRENT ASSETS		12,940	344	3,971	22,212
TOTAL ASSETS LESS CURRENT LIABILITIES		89,902	113,507	157,395	162,933
NON-CURRENT LIABILITIES					
Other payables	24	–	–	993	868
Interest bearing bank borrowings	25	–	–	–	3,061
Lease liabilities	26	15,235	28,057	39,360	29,941
Deferred tax liabilities	27	1,537	1,537	326	354
Total non-current liabilities		16,772	29,594	40,679	34,224
Net assets		73,130	83,913	116,716	128,709

	<i>Notes</i>	As at 31 December			As at
		2016	2017	2018	31 August
		HK\$'000	HK\$'000	HK\$'000	2019
					HK\$'000
EQUITY					
Equity attributable to owners					
of the parent					
Share capital	28	–	–	–	–*
Reserves	29	71,834	81,706	112,762	128,709
		71,834	81,706	112,762	128,709
Non-controlling interests		1,296	2,207	3,954	–
Total equity		73,130	83,913	116,716	128,709

* Less than HK\$500.

(D) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Share capital	Merger reserve	Exchange fluctuation reserve	Retained profits	Total	Non- controlling interest	Total equity	
Note	HK\$'000 (note 28)	HK\$'000 (note 29(a))	HK\$'000 (note 29(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
		At 1 January 2016	-	2,920	(5,428)	64,588	62,080	1,471	63,551
		Profit for the year	-	-	-	19,229	19,229	327	19,556
		Other comprehensive income for the year							
		Exchange differences on translation of a foreign operation	-	-	25	-	25	(2)	23
		Total comprehensive income for the year	-	-	25	19,229	19,254	325	19,579
		Dividends to the then shareholders	-	-	-	(9,500)	(9,500)	(500)	(10,000)
	12								
		At 31 December 2016 and 1 January 2017	-	2,920*	(5,403)*	74,317*	71,834	1,296	73,130
		Profit for the year	-	-	-	24,208	24,208	1,540	25,748
		Other comprehensive loss for the year							
		Exchange differences on translation of a foreign operation	-	-	(86)	-	(86)	121	35
		Total comprehensive income for the year	-	-	(86)	24,208	24,122	1,661	25,783
		Dividends to the then shareholders	-	-	-	(14,250)	(14,250)	(750)	(15,000)
	12								
		At 31 December 2017	-	2,920*	(5,489)*	84,275*	81,706	2,207	83,913

	Share capital	Merger reserve	Exchange fluctuation reserve	Retained profits	Total	Non- controlling interest	Total equity
	HK\$'000 (note 28)	HK\$'000 (note 29(a))	HK\$'000 (note 29(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	-	2,920	(5,489)	84,275	81,706	2,207	83,913
Profit for the year	-	-	-	31,940	31,940	1,795	33,735
Other comprehensive loss for the year							
Exchange differences on translation of a foreign operation	-	-	(884)	-	(884)	(48)	(932)
Total comprehensive income for the year	-	-	(884)	31,940	31,056	1,747	32,803
At 31 December 2018	-	2,920*	(6,373)*	116,215*	112,762	3,954	116,716
At 1 January 2018	-	2,920	(5,489)	84,275	81,706	2,207	83,913
Profit for the period (Unaudited)	-	-	-	24,497	24,497	1,196	25,693
Other comprehensive income for the period							
Exchange differences on translation of a foreign operation (Unaudited)	-	-	146	-	146	8	154
Total comprehensive income for the period (Unaudited)	-	-	146	24,497	24,643	1,204	25,847
At 31 August 2018 (Unaudited)	-	2,920	(5,343)	108,772	106,349	3,411	109,760

	Share capital	Share premium	Merger reserve	Exchange fluctuation reserve	Retained profits	Total	Non- controlling interest	Total equity
	HK\$'000 (note 28)	HK\$'000 (note 29(c))	HK\$'000 (note 29(a))	HK\$'000 (note 29(b))	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	-	-	2,920	(6,373)	116,215	112,762	3,954	116,716
Profit for the period	-	-	-	-	11,331	11,331	1,151	12,482
Other comprehensive income for the period								
Exchange differences on translation of a foreign operation	-	-	-	(414)	-	(414)	(75)	(489)
Total comprehensive income for the period	-	-	-	(414)	11,331	10,917	1,076	11,993
Issue of a new share upon incorporation of the Company	-#	-	-	-	-	-#	-	-#
Acquisition of subsidiaries under common control pursuant to the Reorganisation	-	201,488	(196,458)	-	-	5,030	(5,030)	-
At 31 August 2019	-	201,488*	(193,538)*	(6,787)*	127,546*	128,709	-	128,709

* These reserve accounts comprise the consolidated reserves of HK\$71,834,000, HK\$81,706,000, HK\$112,762,000 and HK\$128,709,000 in the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively.

Less than HK\$500.

(E) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
						(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit before tax		25,917	33,768	41,755	31,189	19,409
Adjustments for:						
Finance costs	8	1,496	1,662	2,770	1,854	1,828
Interest income	6	(5)	(7)	(8)	(3)	(3)
Loss/(gain) on disposal of items of property, plant and equipment, net	7	13	(8)	248	51	–
Loss on disposal of items of right-of-use assets	7	–	–	77	–	58
Depreciation of property, plant and equipment	7	11,727	11,937	15,088	10,023	10,994
Depreciation of right-of-use assets	7	4,606	6,887	10,909	7,016	7,503
Recognition/(reversal) of impairment losses on trade receivables, net	7	32	(11)	9	9	824
Write back of trade payables	6	–	–	472	–	–
Amortisation of government grant		–	–	(95)	(48)	(95)
		43,786	54,228	71,225	50,091	40,518
Increase in inventories		(4,658)	(354)	(4,836)	(6,063)	(1,442)
Increase in trade receivables		(7,104)	(11,343)	(433)	(1,263)	(449)
(Increase)/decrease in prepayments, deposits and other receivables		(3,965)	(1,395)	(2,338)	3,061	(5,980)
Increase in an amount due from the ultimate holding company		–	–	–	–	(22)
Increase/(decrease) in trade payables		6,368	6,980	662	8,906	(1,805)
(Increase)/decrease in other payables and accruals		141	7,196	1,776	3,616	(1,711)
Cash generated from operations		34,568	55,312	66,056	58,348	29,109
Hong Kong profits tax paid		(428)	(11,146)	(8,458)	–	–
Overseas taxes paid		–	(557)	(1,517)	(699)	(1,144)
Net cash flows from operating activities		34,140	43,609	56,081	57,649	27,965

Note	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
CASH FLOWS FROM					
INVESTING ACTIVITIES					
Interest received	5	7	8	3	3
Purchases of items of property, plant and equipment including related prepayment	(2,555)	(19,919)	(39,052)	(39,486)	(10,059)
Proceeds from disposal of items of property, plant and equipment	36	1,468	166	–	–
Proceeds from disposal of items of right-of-use assets	–	–	–	–	72
Payment to acquire right-of-use assets	–	–	(1,878)	(1,878)	–
Repayment from a director	–	352	–	–	804
Advance to a director	(1,092)	–	(348)	–	–
Net cash flows used in investing activities	(3,606)	(18,092)	(41,104)	(41,361)	(9,180)
CASH FLOWS FROM					
FINANCING ACTIVITIES					
New bank loans	2,000	16,852	8,458	–	20,320
Repayment of bank loans	(6,407)	(6,715)	(14,138)	(9,489)	(8,285)
Interest paid	(1,496)	(1,662)	(2,770)	(1,854)	(1,828)
Principal portion of lease payments	(7,832)	(13,795)	(13,993)	(9,128)	(9,398)
Dividend paid	(5,000)	(10,000)	(4,500)	–	(10,500)
Repayment to directors	(1,775)	–	–	–	(8,337)
Advance from directors	–	1,762	934	563	–
Net cash flows used in financing activities	(20,510)	(13,558)	(26,009)	(19,908)	(18,028)
NET INCREASE/(DECREASE)					
IN CASH AND CASH					
EQUIVALENTS					
Cash and cash equivalents at beginning of year/period	12,245	22,157	34,209	34,209	22,958
Effect of foreign exchange rate changes, net	(112)	93	(219)	(112)	(95)
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	<u>22,157</u>	<u>34,209</u>	<u>22,958</u>	<u>30,477</u>	<u>23,620</u>
ANALYSIS OF BALANCES OF					
CASH AND CASH					
EQUIVALENTS					
Cash and bank balances	22	<u>22,157</u>	<u>34,209</u>	<u>22,958</u>	<u>23,620</u>

(F) STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<i>Notes</i>	<u>As at 31 August 2019</u> <i>HK\$'000</i>
NON-CURRENT ASSET		
Investment in subsidiaries	<i>16</i>	<u>201,488</u>
CURRENT LIABILITY		
Due to a subsidiary		<u>148</u>
NET CURRENT LIABILITY		<u>(148)</u>
NET ASSETS		<u>201,340</u>
EQUITY		
Share capital	<i>28</i>	_*
Share premium		201,488
Accumulated losses		<u>(148)</u>
Total equity		<u>201,340</u>

* *Less than HK\$500.*

II. NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is PO Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The principal place of business of the Company is located at 1/F, Wing Ming Industrial Centre, 15 Cheung Yue Street, Lai Chi Kok, Kowloon, Hong Kong.

The Company is an investment holding company. During the Track Record Period, the subsidiaries now comprising the Group were engaged in the manufacturing and sale of printing products.

Charming International Limited (“**Charming International**”), a company incorporated in the British Virgin Islands (the “**BVI**”) on 2 January 2019, is the immediate holding company of the Company, and in the opinion of the Directors, which is also the ultimate holding company of the Company.

The Company and its subsidiaries now comprising the Group underwent the Reorganisation as set out in the paragraph headed “Reorganisation” in the section headed “History, reorganisation and group structure” in the Prospectus. Apart from the Reorganisation, 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:

Company name	Place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Charming Printing Limited <i>(note (b))</i>	Hong Kong 29 October 1991	HK\$10,000	100 (2018: 95%; 2017: 95%; 2016: 95%)	–	Sale of printing products
Charming Printing (Boluo) Ltd. <i>(note (c))</i>	People's Republic of China (“ PRC ”) 11 August 2009	US\$6,234,178	–	100	Manufacturing of printing products
Charming Trim & Packaging (VN) Co., Ltd. <i>(note (e))</i>	Vietnam 15 January 2014	US\$3,500,000	–	100	Manufacturing of printing products
Charming Trim & Packaging Company Limited <i>(note (b))</i>	Hong Kong 20 November 2012	HK\$2	100	–	Sale of printing products
Charming Trim & Packaging (BD) Ltd <i>(note (g))</i>	Bangladesh 14 March 2013	BDT50,000,000	–	100	Manufacturing of printing products
Charming Trim (BD) Ltd. <i>(note (g))</i>	Bangladesh 22 May 2015	BDT5,000,000	–	100	Sale of printing products
Charming Trim India Private Limited <i>(note (h))</i>	India 23 September 2016	INR100,000	–	100	Sale of printing products
Charming Trim & Packaging (PVT.) Limited <i>(note (a))</i>	Pakistan 24 June 2016	PKR100,000	–	100	Sale of printing products

Company name	Place of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Charming Trim & Packaging, Inc (note (a))	California, United States of America 17 August 2011	US\$10,000	100 (2018: 80%; 2017: 80%; 2016: 80%)	–	Sale of printing products
Lowatag Limited* (note (f))	Hong Kong 25 May 2011	HK\$1	100	–	Investment holding
Charming Europe BVBA* (note (a))	Belgium 5 July 2011	EUR50	–	100 (2018: 75%; 2017: 75%; 2016: 75%)	Provision of customer services
Charming Printing (SZ) Ltd (note (d))	PRC 16 July 2014	RMB50,000	–	100	Provision of customer services
Cirtek Investment Limited (note (a))	BVI 5 March 2019	US\$1	100	–	Investment holding

Notes:

- (a) No statutory financial statements have been prepared for these entities since their incorporation as these entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdiction of incorporation.
- (b) The statutory financial statements of these entities for the year ended 31 December 2016 prepared under HKFRSs, were audited by Gary Cheng CPA Limited (certified public accountants registered in Hong Kong). The statutory financial statements of these entities for the year ended 31 December 2017 and 2018 prepared under HKFRSs were audited by Ernst & Young.
- (c) This entity is registered as wholly-foreign-owned enterprise under the laws of the PRC. The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 prepared under the PRC GAAP were audited by 惠州安眾會計師事務所 (certified public accountants registered in the PRC).
- (d) This entity is registered as a limited liability company under the laws of the PRC. The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 prepared under the PRC GAAP were audited by 深圳長江會計師事務所 (certified public accountants registered in the PRC).
- (e) The statutory financial statements of this entity for the years ended 31 December 2016, 2017 and 2018 prepared under the Vietnamese accounting standards, were audited by U&I Auditing Company Limited (certified public accountants registered in Vietnam).
- (f) The statutory financial statement of this entity for the period from 25 May 2011 (date of incorporation) to 31 December 2018 prepared under HKFRSs, was audited by Tony Kwok Tung Ng & Co., (certified public accountants registered in Hong Kong).
- (g) The statutory financial statements of these entities for the years ended 31 December 2016 and 2017 prepared under Bangladesh Financial Reporting Standards, were audited by Atik Khaled Chowdhury (certified public accountants registered in Bangladesh).
- (h) The statutory financial statements of this entity for the years ended 31 March 2017, 2018 and 2019 prepared under the accounting principles generally accepted in India, were audited by Bhupinder Shah & Co. (certified public accountants registered in India).
- * Mr. James Chan Tsz Fung, son of Mr. Barry Chan Sing Ming (“**Mr. Barry Chan**”) and Ms. Candy Law Miu Lan (“**Ms Candy Law**”), is the major shareholder of these entities and has been managing these entities under the direction, instruction and authority of Mr. Barry Chan and Ms. Candy Law. These entities contributed insignificant portion of profit or loss, and assets and liabilities to the Group during the Track Record Period.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganisation, as more fully explained in the paragraph headed “Reorganisation” in the section headed “History, Reorganisation and Group Structure” in the Prospectus, the Company became the holding company of the companies now comprising the Group on 28 May 2019. The companies now comprising the Group were under the common control of Mr. Barry Chan Sing Ming (“**Mr. Barry Chan**”) and Ms. Candy Law Miu Lan (“**Ms Candy Law**”) (collectively the “**Controlling Shareholders**”), who are spouses and have been acting in concert for control over the Group before and after the Reorganisation. Accordingly, for the purpose of this report, the Historical Financial Information has been prepared by applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the Track Record Period.

The consolidated statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Track Record Period include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2016, 2017 and 2018 and 31 August 2019 have been prepared to present the assets and liabilities of the subsidiaries and/or business using the existing book values from the Controlling Shareholders’ perspectives. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interests in subsidiaries and/or businesses held by parties other than the Controlling Shareholders prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

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 Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all HKFRSs, Hong Kong Accounting Standards (“**HKASs**”) and Interpretations) issued by the HKICPA and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 January 2019, together with the relevant transitional provisions, have been consistently applied by the Group in the preparation of the Historical Financial Information throughout the Track Record Period and in the period covered by the Interim Comparative Financial Information.

The Historical Financial Information has been prepared under the historical cost convention.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSS

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> 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> ³
HKFRS 17	<i>Insurance Contracts</i> ²
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2020

² Effective for annual periods beginning on or after 1 January 2021

³ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that 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.

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.

The management of the Group does not anticipate that the adoption of other revised HKFRSs will have a significant financial impact on the Group's financial statements.

3. 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 Company 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 Company 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 Company 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 Company's voting rights and potential voting rights.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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 reporting period 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.

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 a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) 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
 - (viii) 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.

Property, plant and equipment and depreciation

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

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 capitalised 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 principal annual rates used for this purpose are as follows:

Leasehold improvements	Over the lease terms
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%

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.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- (a) the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- (b) the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- (c) the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - (i) the Group has the right to operate the asset; or
 - (ii) the Group designed the asset in a way that predetermines how and for what purpose it will be used.

As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- (a) fixed payments, including in-substance fixed payments;
- (b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- (c) amounts expected to be payable under a residual value guarantee; and
- (d) the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Financial assets***Initial recognition and measurement***

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Derecognition of financial assets

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 statement 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

The Group recognises an allowance for expected credit losses (“ECLs”) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

- Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs
- Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs
- Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables, financial liabilities included in other payables and accruals, amounts due to directors, interest-bearing bank borrowings and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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 the statement of 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 the statement of profit or loss.

Derecognition of financial liabilities

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 the statement of profit or loss.

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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour 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 statements 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 statements 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.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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 the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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:

- when 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
- 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 liabilities are measured at the tax rates that are expected to apply to the period when the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition*Revenue from contracts with customers*

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) Sale of printing products

Revenue from the sale of printing products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the printing products.

Some contracts for the sale of printing products provide customers with rights of return. The rights of return give rise to variable consideration.

(i) Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the Group estimate the goods that will not be returned using the most likely amount method to predict the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) Freight and transportation income

Freight and transportation income is recognised when the services have been provided to customers.

Revenue from other sources

Other income

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.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Employee benefits*Pension schemes*

The Group operates defined contribution retirement benefit schemes in Hong Kong and overseas for those employees who are eligible and have elected to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the schemes, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

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 capitalised as part of the cost of those assets. The capitalisation 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 capitalised. 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.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the memorandum and bye-laws of the relevant companies grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

The Historical Financial Information is presented in Hong Kong dollars, which is the Company's functional currency. 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.

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 exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial 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 the advance consideration.

The functional currencies of overseas subsidiaries are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rate prevailing at the end of the reporting period and their statements of profit or loss is translated into Hong Kong dollars at the weighted average exchange rate 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.

For the purpose of the consolidated statements of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rate for the year.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's Historical Financial Information requires management to make 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.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Historical Financial Information.

Determining the method to estimate variable consideration and assessing the constraint for the sale of printing products

Certain contracts for the sale of printing products include a right of return that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled.

The Group determined that the most likely amount method is the appropriate method to use in estimating the variable consideration for the sale of printing products with rights of return, given the large number of customer contracts that have similar characteristics.

Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are not constrained based on its historical experience, business forecast and the current economic conditions. In addition, the uncertainty on the variable consideration will be resolved within a short time frame.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and its competitor actions. Management will increase the depreciation charge where useful lives are shorter than those previously estimated, or it will write off or write down technically obsolete assets that have been abandoned.

The carrying value of an item of property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of an item of property, plant and equipment is calculated as the higher of its fair value less costs of disposal and value in use, the calculations of which involve the use of estimates.

Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography and customer type).

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 (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the apparel product sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and 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 information about the ECLs on the Group's trade receivables is disclosed in note 18 to the Historical Financial Information.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group has only one reportable operating segment which is the manufacture and sale of printing products.

Geographical information*(a) Revenue from external customers*

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Hong Kong	86,841	104,344	112,996	76,959	62,075
Mainland China	64,890	84,152	92,602	65,120	58,104
Bangladesh	16,177	25,673	37,350	24,695	22,018
Vietnam	9,495	11,758	19,382	11,296	12,342
United States	13,692	15,485	19,074	14,467	12,205
Turkey	9,841	13,049	15,112	8,457	10,525
India	5,551	8,139	14,131	8,157	7,467
Pakistan	4,638	6,963	8,822	5,417	5,637
Others	30,503	35,458	52,414	37,587	36,138
	<u>241,628</u>	<u>305,021</u>	<u>371,883</u>	<u>252,155</u>	<u>226,511</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	6,409	11,059	11,028	9,680
Mainland China	52,720	76,351	104,393	95,655
Bangladesh	13,030	10,606	18,548	17,148
Other countries	4,259	14,461	18,340	17,305
	<u>76,418</u>	<u>112,477</u>	<u>152,309</u>	<u>139,788</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

Information about a major customer

Revenue from a major customer, including a group of entities which are known to be under common control with that customer, which accounted for 10% or more of the Group's revenue for each reporting period during the Track Record Period and the period covered by the Interim Comparatives Financial Information, is set out below:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Customer A	48,788	53,197	47,725	32,934	26,255

The revenue from the above major customer was all derived from the sale of printing products.

6. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and rebates.

An analysis of the Group's revenue and other income and gains is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Revenue from contract with customers					
<i>(i) Disaggregated revenue with information</i>					
Type of goods or services					
Sale of printing products	241,628	305,021	371,883	252,155	226,511
Geographical markets					
Hong Kong	86,841	104,344	112,996	76,959	62,075
Mainland China	64,890	84,152	92,602	65,120	58,104
Bangladesh	16,177	25,673	37,350	24,695	22,018
Vietnam	9,495	11,758	19,382	11,296	12,342
United States	13,692	15,485	19,074	14,467	12,205
Turkey	9,841	13,049	15,112	8,457	10,525
India	5,551	8,139	14,131	8,157	7,467
Pakistan	4,638	6,963	8,822	5,417	5,637
Others	30,503	35,458	52,414	37,587	36,138
	241,628	305,021	371,883	252,155	226,511
Timing of revenue recognition					
Goods transferred at a point in time	241,628	305,021	371,883	252,155	226,511

The following table shows the amounts of revenue recognised that were included in the contract liabilities at the beginning of the years/periods:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Sale of printing products	9,128	7,797	9,518	9,518	8,416

(ii) *Performance obligations*

Sale of printing products

The performance obligation is satisfied upon delivery of the printing products and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required. Some contracts provide customers with a right of return which give rise to variable consideration subject to constraint.

As the remaining performance obligations (unsatisfied or partially satisfied) as at 31 December 2016, 2017 and 2018 and 31 August 2019 are part of contracts that have an original expected duration of one year or less, the transaction price allocated to such is not disclosed, as permitted by the practical expedient in HKFRS 15.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Other income and gains					
Freight and transportation income	172	306	162	24	218
Interest income	5	7	8	3	3
Sale of scrap materials	5	8	421	155	1,312
Write-back of trade payables	–	–	472	–	–
Government grant*	49	63	308	144	408
Foreign exchange differences, net	–	581	1,418	1,264	1,845
Others	491	818	853	422	1,427
	722	1,783	3,642	2,012	5,213

* As at 31 December 2016, 2017 and 2018 and 31 August 2019, there were no unfulfilled conditions or other contingencies attaching to the government grant that had been recognised by the Group.

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December			Eight months ended 31 August	
		2016	2017	2018	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(Unaudited)	
Cost of inventories sold [#]		134,520	174,497	209,473	143,595	117,295
Depreciation of property, plant and equipment	14	11,727	11,937	15,088	10,023	10,994
Depreciation of right-of-use assets	15	4,606	6,887	10,909	7,016	7,503
Short-term lease expenses		265	189	–	–	–
Employee benefit expense (excluding directors' remuneration (note 9)):						
Wages and salaries		66,095	80,632	99,654	74,749	65,683
Pension scheme contributions		6,618	9,433	11,484	5,604	8,020
		<u>72,713</u>	<u>90,065</u>	<u>111,138</u>	<u>80,353</u>	<u>73,703</u>
Government grant**		(49)	(63)	(308)	(144)	(408)
Auditor's remuneration		183	832	736	532	606
Listing expenses		–	–	4,030	–	9,958
Foreign exchange differences, net		32	(581)	(1,418)	(1,264)	(1,845)
Recognition/(reversal) of impairment losses on trade receivables, net*	18	32	(11)	9	9	824
Loss/(gain) on disposal of items of property, plant and equipment*		13	(8)	248	51	–
Loss on disposal of items of right-of-use assets*		–	–	77	–	58
		<u>–</u>	<u>–</u>	<u>77</u>	<u>–</u>	<u>58</u>

* These items are included in "Other expenses" on the face of the consolidated statements of profit or loss.

** Government grant has been received from the local government. It mainly represented compensation of the unemployment insurance paid to local government and the acquisition of the Group's new machineries, which are transferred from deferred income to profit or loss over the useful lives of the relevant assets. There are no unfulfilled conditions or contingencies relating to these grants.

Cost of inventories sold includes HK\$38,112,000, HK\$46,987,000, HK\$64,003,000, HK\$45,842,000 and HK\$40,340,000 of employee benefits expense and depreciation of property, plant and equipment and right-of-use assets which are also included in the respective total amounts disclosed above for each of these types of expenses for the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 (unaudited) and 31 August 2019, respectively.

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interest on bank loans	506	347	441	271	348
Interest on leases liabilities	990	1,315	2,329	1,583	1,480
	1,496	1,662	2,770	1,854	1,828

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company was incorporated on 25 January 2019.

Mr. Barry Chan was appointed as the chairman and an executive director of the Company on 21 February 2020, Ms. Candy Law was appointed as the chief executive officer and an executive director of the Company on 21 February 2020 and Mr. Chan Tsz Fung James ("Mr. James Chan") was appointed as an executive director of the Company on 21 February 2020. Mr. Lam Chor Ki Dick, Mr. Lee Tak Cheong and Dr. Wong Chi Wing were appointed as independent non-executive directors of the Company on 21 February 2020.

(a) Independent non-executive directors

There were no fees or other emoluments payable to independent non-executive directors during the Track Record Period and the period covered by the Interim Comparative Financial Information.

(b) Executive directors

There were no fees or emoluments payable by the Company to the executive directors during the Track Record Period and the period covered by the Interim Comparative Financial Information. Certain of the directors received remuneration from the subsidiaries now comprising the Group for their appointment as directors or officers 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			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Fees	–	–	–	–	–
Other emoluments:					
Salaries, allowances and benefits in kind	1,724	1,978	2,393	1,593	1,183
Performance related bonuses	2,944	2,773	2,616	1,730	1,496
Pension scheme contributions	42	47	48	32	30
	4,710	4,798	5,057	3,355	2,709

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Year ended 31 December 2016					
Executive directors:					
Mr. Barry Chan	–	720	1,459	18	2,197
Ms. Candy Law	–	882	1,470	18	2,370
Mr. James Chan	–	122	15	6	143
	–	1,724	2,944	42	4,710
Year ended 31 December 2017					
Executive directors:					
Mr. Barry Chan	–	840	1,366	18	2,224
Ms. Candy Law	–	941	1,390	18	2,349
Mr. James Chan	–	197	17	11	225
	–	1,978	2,773	47	4,798
Year ended 31 December 2018					
Executive directors:					
Mr. Barry Chan	–	1,200	1,346	18	2,564
Ms. Candy Law	–	960	1,250	18	2,228
Mr. James Chan	–	233	20	12	265
	–	2,393	2,616	48	5,057

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Eight months ended 31 August 2018					
(Unaudited)					
Executive directors:					
Mr. Barry Chan	–	800	897	12	1,709
Ms. Candy Law	–	640	833	12	1,485
Mr. James Chan	–	153	–	8	161
	–	1,593	1,730	32	3,355
	–	1,593	1,730	32	3,355
Eight months ended 31 August 2019					
Executive directors:					
Mr. Barry Chan	–	560	748	11	1,319
Ms. Candy Law	–	460	748	11	1,219
Mr. James Chan	–	163	–	8	171
	–	1,183	1,496	30	2,709
	–	1,183	1,496	30	2,709

There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period and the period covered by the Interim Comparative Financial Information.

During the Track Record Period and the period covered by the Interim Comparative Financial Information, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the years ended 31 December 2016, 2017 and 2018 and the eight months ended 31 August 2018 (unaudited) and 31 August 2019 included two directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the three remaining non-director, highest paid employees for the Track Record Period and the period covered by the Interim Comparative Financial Information are as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Salaries, allowances and benefits in kind	4,508	4,851	5,885	3,923	4,425
Performance related bonuses	92	–	–	–	–
Pension scheme contributions	184	260	277	185	265
	<u>4,784</u>	<u>5,111</u>	<u>6,162</u>	<u>4,108</u>	<u>4,690</u>

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Nil to HK\$1,000,000	–	–	–	–	–
HK\$1,000,001 to HK\$1,500,000	2	2	–	2	2
HK\$1,500,001 to HK\$2,000,000	–	–	2	1	–
HK\$2,000,001 to HK\$2,500,000	1	1	1	–	1
	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

During the Track Record Period and the period covered by the Interim Comparative Financial Information, no emoluments were paid by the Group to any of the non-director, highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and the BVI, the Group is not subject to any income tax in the Cayman Islands and the BVI. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each reporting period during the Track Record Period and the period covered by the Interim Comparative Financial Information. PRC tax has been provided at the rates of 25% on the estimated assessable profits arising in the PRC for each reporting period during the Track Record Period and the period covered by the Interim Comparative Financial Information. Pursuant to the rules and regulations of the United States, a company which is treated as a corporation for the United States federal income tax purposes is subject to a tax rate of 35%, 35% and 21% at the federal level for the year ended 31 December 2016, 2017 and 2018, respectively, and 21% at the federal level for the eight months ended 31 August 2018 (unaudited) and 31 August 2019 and is also subject to the statutory corporate income tax in state and local tax jurisdictions. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates for each reporting period during the Track Record Period and the period covered by the Interim Comparative Financial Information.

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current – Hong Kong					
Charge for the year/period	6,439	7,110	7,725	4,787	3,492
Current – Elsewhere					
Charge for the year/period	68	910	1,506	709	3,407
Deferred (<i>note 27</i>)	(146)	–	(1,211)	–	28
Total tax charge for the year/period	<u>6,361</u>	<u>8,020</u>	<u>8,020</u>	<u>5,496</u>	<u>6,927</u>

A reconciliation of the tax expense applicable to profit before tax at the statutory rate to the tax charge at the effective tax rate is as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit before tax	<u>25,917</u>	<u>33,768</u>	<u>41,755</u>	<u>31,189</u>	<u>19,409</u>
Tax at the statutory tax rates at 16.5%	4,276	5,572	6,890	5,146	3,202
Effect of different tax rates for different jurisdictions	(1,046)	(672)	422	410	1,135
Income not subject to tax	(214)	(50)	(556)	(301)	(43)
Expenses not deductible for tax	1,979	2,561	1,896	861	2,123
Tax losses utilised from previous periods	–	–	(213)	(142)	(121)
Tax losses and temporary differences not recognised	1,363	737	558	372	622
Others	3	(128)	(977)	(850)	9
Tax charge at the Group's effective tax rate (Year ended 31 December 2016: 24.5%; 2017: 23.8%; 2018: 19.2% and the eight months ended 31 August 2018 (unaudited): 17.6%; 31 August 2019: 35.7%)	<u>6,361</u>	<u>8,020</u>	<u>8,020</u>	<u>5,496</u>	<u>6,927</u>

12. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

The dividends declared by the Company's subsidiary to the then shareholders during the Track Record Period and the period covered by the Interim Comparative Financial Information were as follows:

	Year ended 31 December			Eight months ended 31 August	
	2016	2017	2018	2018	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(Unaudited)	
Interim dividend	10,000	15,000	–	–	–

13. 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 this report, is not considered meaningful due to the Reorganisation.

14. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 December 2016					
At 31 December 2015 and 1 January 2016:					
Cost	5,776	126,976	4,904	855	138,511
Accumulated depreciation	(4,840)	(61,504)	(4,542)	(830)	(71,716)
Net carrying amount	936	65,472	362	25	66,795
At 1 January 2016, net of accumulated depreciation					
Additions	352	–	200	–	552
Disposal	–	(55)	–	–	(55)
Depreciation provided during the year (note 7)	(660)	(10,957)	(107)	(3)	(11,727)
Exchange realignment	(16)	(2,527)	(4)	2	(2,545)
At 31 December 2016, net of accumulated depreciation	612	51,933	451	24	53,020
At 31 December 2016:					
Cost	6,092	122,461	5,088	856	134,497
Accumulated depreciation	(5,480)	(70,528)	(4,637)	(832)	(81,477)
Net carrying amount	612	51,933	451	24	53,020

	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
31 December 2017					
At 31 December 2016 and 1 January 2017:					
Cost	6,092	122,461	5,088	856	134,497
Accumulated depreciation	(5,480)	(70,528)	(4,637)	(832)	(81,477)
Net carrying amount	<u>612</u>	<u>51,933</u>	<u>451</u>	<u>24</u>	<u>53,020</u>
At 1 January 2017, net of accumulated depreciation	612	51,933	451	24	53,020
Additions	31	14,354	1,391	813	16,589
Disposal	–	(1,458)	(2)	–	(1,460)
Depreciation provided during the year (<i>note 7</i>)	(353)	(11,224)	(345)	(15)	(11,937)
Exchange realignment	19	1,866	1	(4)	1,882
At 31 December 2017, net of accumulated depreciation	<u>309</u>	<u>55,471</u>	<u>1,496</u>	<u>818</u>	<u>58,094</u>
At 31 December 2017:					
Cost	6,124	138,453	6,481	1,667	152,725
Accumulated depreciation	(5,815)	(82,982)	(4,985)	(849)	(94,631)
Net carrying amount	<u>309</u>	<u>55,471</u>	<u>1,496</u>	<u>818</u>	<u>58,094</u>
31 December 2018					
At 31 December 2017 and 1 January 2018:					
Cost	6,124	138,453	6,481	1,667	152,725
Accumulated depreciation	(5,815)	(82,982)	(4,985)	(849)	(94,631)
Net carrying amount	<u>309</u>	<u>55,471</u>	<u>1,496</u>	<u>818</u>	<u>58,094</u>
At 1 January 2018, net of accumulated depreciation	309	55,471	1,496	818	58,094
Additions	7,626	35,571	464	214	43,875
Disposal	–	(335)	(53)	(26)	(414)
Depreciation provided during the year (<i>note 7</i>)	(573)	(13,531)	(811)	(173)	(15,088)
Exchange realignment	(80)	(2,657)	(31)	(24)	(2,792)
At 31 December 2018, net of accumulated depreciation	<u>7,282</u>	<u>74,519</u>	<u>1,065</u>	<u>809</u>	<u>83,675</u>
At 31 December 2018:					
Cost	13,634	166,616	6,837	1,736	188,823
Accumulated depreciation	(6,352)	(92,097)	(5,772)	(927)	(105,148)
Net carrying amount	<u>7,282</u>	<u>74,519</u>	<u>1,065</u>	<u>809</u>	<u>83,675</u>

	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
31 August 2019					
At 31 December 2018 and 1 January 2019:					
Cost	13,634	166,616	6,837	1,736	188,823
Accumulated depreciation	(6,352)	(92,097)	(5,772)	(927)	(105,148)
Net carrying amount	<u>7,282</u>	<u>74,519</u>	<u>1,065</u>	<u>809</u>	<u>83,675</u>
At 1 January 2019, net of accumulated depreciation	7,282	74,519	1,065	809	83,675
Additions	974	7,954	546	814	10,288
Depreciation provided during the period (note 7)	(769)	(9,698)	(294)	(233)	(10,994)
Exchange realignment	(89)	(1,633)	(11)	(12)	(1,745)
At 31 August 2019, net of accumulated depreciation	<u>7,398</u>	<u>71,142</u>	<u>1,306</u>	<u>1,378</u>	<u>81,224</u>
At 31 August 2019:					
Cost	14,490	171,540	7,364	2,596	195,990
Accumulated depreciation	(7,092)	(100,398)	(6,058)	(1,218)	(114,766)
Net carrying amount	<u>7,398</u>	<u>71,142</u>	<u>1,306</u>	<u>1,378</u>	<u>81,224</u>

15. RIGHT-OF-USE ASSETS

	Buildings	Plant and machinery	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	22,902	744	224	23,870
Additions	1,163	1,426	194	2,783
Depreciation charged during the year	(4,521)	(26)	(59)	(4,606)
Exchange realignment	(1,092)	55	(13)	(1,050)
At 31 December 2016 and 1 January 2017	<u>18,452</u>	<u>2,199</u>	<u>346</u>	<u>20,997</u>
Additions	2,778	28,995	–	31,773
Depreciation charged during the year	(4,911)	(1,921)	(55)	(6,887)
Exchange realignment	1,368	1,142	39	2,549
At 31 December 2017 and 1 January 2018	<u>17,687</u>	<u>30,415</u>	<u>330</u>	<u>48,432</u>
Additions	32,629	–	–	32,629
Disposal	–	–	(77)	(77)
Depreciation charged during the year	(7,772)	(3,052)	(85)	(10,909)
Exchange realignment	(744)	(1,456)	(18)	(2,218)
At 31 December 2018 and 1 January 2019	<u>41,800</u>	<u>25,907</u>	<u>150</u>	<u>67,857</u>
Additions	414	–	–	414
Disposal	–	–	(130)	(130)
Depreciation charged during the period	(5,526)	(1,962)	(15)	(7,503)
Exchange realignment	(1,626)	(878)	(2)	(2,506)
At 31 August 2019	<u>35,062</u>	<u>23,067</u>	<u>3</u>	<u>58,132</u>

The Group obtains the right to control the use of various buildings, plant and machinery and motor vehicles for a period of time through lease arrangements. Lease arrangements are negotiated on an individual basis and contain a wide range of different terms and conditions including lease payments and lease terms ranging from one to thirty years.

16. INVESTMENT IN SUBSIDIARIES

	As at 31 August 2019
	<i>HK\$'000</i>
Investment, at cost	201,488

Further details of the subsidiaries of the Group are set out in note 1 to the Historical Financial Information.

17. INVENTORIES

	As at 31 December			As at 31 August 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	10,905	13,506	14,384	16,962
Work in progress	10,169	10,579	12,157	11,951
Finished goods	14,405	13,546	14,927	13,127
	<u>35,479</u>	<u>37,631</u>	<u>41,468</u>	<u>42,040</u>

18. TRADE RECEIVABLES

	As at 31 December			As at 31 August 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	30,029	41,463	41,708	41,961
Impairment	(42)	(31)	(40)	(864)
	<u>29,987</u>	<u>41,432</u>	<u>41,668</u>	<u>41,097</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally within 90 days from the date of monthly statements. Each customer has a maximum credit limit. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of each reporting period during the Track Record Period, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
Within 1 month	15,013	20,880	24,393	24,796
1 to 2 months	11,319	15,314	10,794	10,955
2 to 3 months	2,784	3,799	2,937	1,800
Over 3 months	871	1,439	3,544	3,546
	<u>29,987</u>	<u>41,432</u>	<u>41,668</u>	<u>41,097</u>

The movements in the loss allowance for impairment of trade receivables are as follows:

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
At beginning of year/period	10	42	31	40
Recognition/(reversal) of impairment losses, net (note 7)	<u>32</u>	<u>(11)</u>	<u>9</u>	<u>824</u>
At end of year/period	<u>42</u>	<u>31</u>	<u>40</u>	<u>864</u>

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geography and customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2016

	Current	Past due			Total
		1 to 30 days	1 to 3 months	Over 3 months	
Expected credit loss rate	0.04%	0.11%	0.39%	3.46%	0.14%
Gross carrying amount (HK\$'000)	16,715	10,083	2,855	376	30,029
Expected credit losses (HK\$'000)	7	11	11	13	42

As at 31 December 2017

	Current	Past due			Total
		1 to 30 days	1 to 3 months	Over 3 months	
Expected credit loss rate	0.03%	0.04%	0.21%	1.67%	0.07%
Gross carrying amount (HK\$'000)	14,992	22,470	3,343	658	41,463
Expected credit losses (HK\$'000)	5	8	7	11	31

As at 31 December 2018

	Current	Past due			Total
		1 to 30 days	1 to 3 months	Over 3 months	
Expected credit loss rate	0.03%	0.05%	0.12%	1.22%	0.10%
Gross carrying amount (HK\$'000)	22,934	12,858	4,023	1,893	41,708
Expected credit losses (HK\$'000)	6	6	5	23	40

As at 31 August 2019

	Current	Past due			Total
		1 to 30 days	1 to 3 months	Over 3 months	
Expected credit loss rate	0.33%	0.81%	2.25%	15.16%	2.06%
Gross carrying amount (HK\$'000)	24,849	10,989	1,822	4,301	41,961
Expected credit losses (HK\$'000)	82	89	41	652	864

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	As at 31 December			As at 31 August 2019
		2016	2017	2018	2019
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Prepayments		6,290	10,245	6,096	10,906
Deposits and other receivables		3,617	4,897	5,985	6,671
		9,907	15,142	12,081	17,577
Less: Non-current portion	(a)	(2,945)	(6,637)	(1,892)	(1,365)
		<u>6,962</u>	<u>8,505</u>	<u>10,189</u>	<u>16,212</u>

Note:

- (a) The amounts mainly represent prepayments for acquisition of property, plant and equipment and non-current portion of rental deposits.

The Group has applied the general approach to provide for expected credit losses for financial assets included in prepayments, deposits and other receivables. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. The Group has classified financial assets included in prepayments, deposits and other receivables in stage 1 and continuously monitors their credit risk. As at 31 December 2016, 2017 and 2018 and 31 August 2019, the Group estimated the expected loss rate for financial assets included in prepayments, deposits and other receivables is insignificant.

20. BALANCE WITH THE ULTIMATE HOLDING COMPANY

The amount due from the ultimate holding company is unsecured, interest-free, repayable on demand and of non-trade nature. The carrying amount of the balance approximates to its fair value. The balance of amount due from the ultimate holding company as at 31 August 2019 will be settled before listing.

21. BALANCES WITH DIRECTORS

The Group's balances with directors, disclosed pursuant to section 383(1)(d) of the Hong Kong Companies Ordinance and Part 3 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, are as follows:

Amounts due from a director

	Ms. Candy Law
	<i>HK\$'000</i>
At 1 January 2016	100
Maximum amount outstanding during the year	1,092
At 31 December 2016 and 1 January 2017	1,092
Maximum amount outstanding during the year	1,092
At 31 December 2017 and 1 January 2018	740
Maximum amount outstanding during the year	1,088
At 31 December 2018	1,088
Maximum amount outstanding during the period	1,088
At 31 August 2019	282

The Group has applied the general approach to provide for expected credit losses for the amount due from a director. The Group considers the historical loss rate and adjusts for forward looking macroeconomic data in calculating the expected credit loss rate. The Group has classified the amount due from a director in stage 1 and continuously monitors its credit risk. As at 31 December 2016, 2017 and 2018 and 31 August 2019, the Group estimated the expected loss rate for the amount due from a director is insignificant.

The amounts due to directors represented amounts due to Mr. Barry Chan and Mr. James Chan as at 31 December 2016, 2017 and 2018 and 31 August 2019.

The balances with the directors are unsecured, interest-free, repayable on demand and of non-trade nature. The balances with the Directors as at 31 August 2019 will be settled before listing.

22. CASH AND CASH EQUIVALENTS

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
Cash and bank balances	22,157	34,209	22,958	23,620

The cash and cash equivalents of the Group denominated in Renminbi (“RMB”) as at 31 December 2016, 2017 and 2018 and 31 August 2019 amounted to HK\$1,385,000, HK\$3,193,000, HK\$1,866,000 and HK\$3,189,000, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China’s Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalent approximate to their fair values.

23. TRADE PAYABLES

An ageing analysis of the trade payables based on the invoice date as at the end of each of the Track Record Period is as follows:

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
Within 1 month	13,490	15,386	23,186	12,001
1 to 2 months	5,699	10,985	5,014	7,879
2 to 3 months	2,020	5,012	1,120	3,459
Over 3 months	1,005	688	1,175	3,600
	22,214	32,071	30,495	26,939

The trade payables are non-interest-bearing and are normally settled on 30 to 60-day terms.

24. OTHER PAYABLES AND ACCRUALS

	Notes	As at 31 December			As at
		2016	2017	2018	31 August
		HK\$'000	HK\$'000	HK\$'000	2019
Other payables	(a)	1,777	4,569	2,727	2,674
Accruals		17,080	21,442	23,444	22,847
Contract liabilities	(b)	7,797	9,518	8,416	5,968
Deferred government grant	(c)	–	–	1,129	999
		26,654	35,529	35,716	32,488
Less: non-current portion	(d)	–	–	(993)	(868)
Current portion		26,654	35,529	34,723	31,620

Notes:

- (a) Other payables are non-interest-bearing and there are generally no credit terms.
- (b) Details of contract liabilities are as follows:

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
Short-term advances received from customers	7,797	9,518	8,416	5,968

Contract liabilities include short-term advances received to deliver printing products to customers. The increase in contract liabilities during the year ended 31 December 2017 was mainly due to the increase in short-term advances received from customers in relation to the sales of printing products at the end of the year. The decrease in contract liabilities during the year ended 31 December 2018 was mainly due to the decrease in short-term advances received from customers in relation to the sales of printing products at the end of the year. The decrease in contract liabilities during the eight months ended 31 August 2019 was mainly due to the decrease in short-term advances received from customers in relation to the sales of printing products at the end of the period.

- (c) The amount represents government grant received from the Provincial Finance Bureau, Huizhou Province. This government grant is assets-related and is amortised over the useful life of the related assets, which is ten years since May 2018.
- (d) The amount represents non-current portion of government grant.

25. INTEREST-BEARING BANK BORROWINGS

	As at 31 December						As at 31 August	
	2016		2017		2018		2019	
	<i>Effective interest rate per annum</i>	<i>Maturity</i>	<i>Effective interest rate per annum</i>	<i>Maturity</i>	<i>Effective interest rate per annum</i>	<i>Maturity</i>	<i>Effective interest rate per annum</i>	<i>Maturity</i>
Current								
Bank loans — unsecured (note (a))	3.5%	On demand	2.5%	On demand	2.4%	On demand	2.4%	On demand
Bank loans — secured (note (b))	3.4%	On demand	-3.5%		-3.6%		5.4%	2020
		HK\$'000		HK\$'000		HK\$'000		HK\$'000
		5,401	18,417	18,417	12,737	12,737	20,002	20,002
		2,879	-	-	-	-	1,709	1,709
		<u>8,280</u>	<u>18,417</u>	<u>18,417</u>	<u>12,737</u>	<u>12,737</u>	<u>21,711</u>	<u>21,711</u>
Non-current								
Bank loans — secured (note (b))		-	-	-	-	-	5.4%	2022
		-	-	-	-	-	-	3,061
		<u>8,280</u>	<u>18,417</u>	<u>18,417</u>	<u>12,737</u>	<u>12,737</u>	<u>24,772</u>	<u>24,772</u>

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
Analysed into:				
Bank loans repayable:				
Within one year or on demand	8,280	18,417	12,737	21,711
In the second year	-	-	-	1,804
In the third to fifth years, inclusive	-	-	-	1,257
	<u>8,280</u>	<u>18,417</u>	<u>12,737</u>	<u>24,772</u>

Notes:

- (a) The bank loans are guaranteed by:
- personal guarantees given by the Controlling Shareholders up to HK\$15,000,000, HK\$26,000,000, HK\$27,919,000 and HK\$48,919,000 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively.
 - corporate guarantees given by a subsidiary of the Group.
- (b) Certain of the Group's bank loans are secured by:
- a trade receivable balance of approximately HK\$3,598,000 as at 31 December 2016; and
 - plant and machinery with net book value of approximately HK\$6,036,000 as at 31 August 2019.
- (c) All bank loans were denominated in Hong Kong dollars.

Ignoring the effect of any repayment on demand clause and based on the maturity terms of the bank loans, the amounts repayable in respect of the Group's interest-bearing bank borrowings were analysed as follows:

	As at 31 December			As at
	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	2019
				HK\$'000
Analysed into:				
Bank loans repayable:				
Within one year	5,071	13,033	9,823	7,902
In the second year	1,924	2,472	1,223	5,972
In the third to fifth years, inclusive	1,285	2,912	1,691	10,898
	<u>8,280</u>	<u>18,417</u>	<u>12,737</u>	<u>24,772</u>

26. LEASE LIABILITIES

The Group leases various buildings, plant and machinery and motor vehicles for a period of time through lease arrangements with remaining lease terms ranging from one to thirty years. These liabilities were measured at the net present value of the lease payments during the lease terms that are not yet paid.

At 31 December 2016, 2017 and 2018 and 31 August 2019, the total future minimum lease liabilities under lease arrangements and their present values were as follows:

	Minimum				Present value of minimum lease payments			
	As at 31 December			As at	As at 31 December			As at
	2016	2017	2018	31 August	2016	2017	2018	31 August
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts payable:								
Within one year	4,955	12,855	17,303	15,370	4,110	11,567	15,195	13,589
In the second to fifth years, inclusive	12,220	26,733	34,663	26,338	10,166	24,591	30,202	25,186
After five years	5,523	3,662	11,504	9,380	5,069	3,466	9,158	4,755
Total minimum lease payments	22,698	43,250	63,470	51,088	<u>19,345</u>	<u>39,624</u>	<u>54,555</u>	<u>43,530</u>
Future finance charges	<u>(3,353)</u>	<u>(3,626)</u>	<u>(8,915)</u>	<u>(7,558)</u>				
Total net lease liabilities	19,345	39,624	54,555	43,530				
Portion classified as current liabilities	<u>(4,110)</u>	<u>(11,567)</u>	<u>(15,195)</u>	<u>(13,589)</u>				
Non-current portion	<u>15,235</u>	<u>28,057</u>	<u>39,360</u>	<u>29,941</u>				

Certain of the Group's lease liabilities are guaranteed by personal guarantee provided by the Controlling Shareholders amounted to nil as at 31 December 2016 and up to HK\$28,067,000 as at 31 December 2017 and 2018 and 31 August 2019.

27. DEFERRED TAX

The movements in deferred tax liabilities during the Track Record Period are as follows:

Deferred tax liabilities

	Accelerated tax depreciation
	<i>HK\$'000</i>
At 1 January 2016	1,683
Deferred tax credited to the consolidated statement of profit or loss during the year (<i>note 11</i>)	<u>(146)</u>
At 31 December 2016, 1 January 2017, 31 December 2017 and 1 January 2018	1,537
Deferred tax credited to the consolidated statement of profit or loss during the year (<i>note 11</i>)	<u>(1,211)</u>
At 31 December 2018 and 1 January 2019	326
Deferred tax charged to the consolidated statement of profit or loss during the year (<i>note 11</i>)	<u>28</u>
At 31 August 2019	<u><u>354</u></u>

The Group estimated unrecognised tax losses of approximately HK\$32,288,000, HK\$36,165,000, HK\$37,654,000 and HK\$40,236,000 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively. Unrecognised tax losses arising in Hong Kong and certain foreign operations of approximately HK\$8,060,000, HK\$9,912,000, HK\$9,947,000 and HK\$10,292,000 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

The Group estimated tax losses arising from certain foreign operations other than Hong Kong in an aggregate amount of HK\$24,228,000, HK\$26,253,000, HK\$27,707,000 and HK\$29,944,000 as at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively, that are with expiry date ranged from five years to twenty years for offsetting against future taxable profits of the companies in which the losses arose.

Deferred tax assets have not been recognised in respect of these losses as, in the opinion of the directors, they have arisen in subsidiaries that have been loss-making for some time and it is not probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2016, 2017 and 2018 and 31 August 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes 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 in the foreseeable future. The aggregate amount of temporary differences associated with the investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totaled HK\$7,520,000, HK\$3,535,000, HK\$4,460,000 and HK\$14,961,000 at 31 December 2016, 2017 and 2018 and 31 August 2019, respectively.

There are no income tax consequences attached to the payment of dividends by the Company to its shareholders.

28. SHARE CAPITAL

	As at 31 August 2019
	<i>HK\$'000</i>
Authorised: 3,800,000 ordinary shares of HK\$0.01 each	—
Issued and fully paid: 250 ordinary shares	—*

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		<i>HK\$'000</i>
At 1 January 2016, 31 December 2016, 1 January 2017, 31 December 2017, 1 January 2018, 31 December 2018 and 1 January 2019	—	—
Issue of a new share upon incorporation of the Company	1	—*
Acquisition of subsidiaries under common control pursuant to the Reorganisation	249	—*
At 31 August 2019	250	—*

* *Less than HK\$500.*

Note: The Company was incorporated on 25 January 2019 with an initial authorised share capital of HK\$38,000 divided into 3,800,000 shares of a par value of HK\$0.01 each.

There was no authorised and issued capital as at 31 December 2016, 2017 and 2018 since the Company has not yet been incorporated by that time.

29. RESERVES

Group

The amounts of the Group's reserves and the movements therein for each reporting period during the Track Record Period are presented in the consolidated statements of changes in equity.

Company*(a) Merger reserve*

For the purpose of the preparation of the consolidated statements of financial position, the balance of merger reserve as at 31 December 2016, 2017 and 2018 and 31 August 2018 represented the aggregate of the paid up share capital of the subsidiaries now comprising the Group attributable to the Controlling Shareholders prior to the Reorganisation.

The balance of merger reserve at 31 August 2019 mainly represented the deemed distribution to the Controlling Shareholders by issuance of the Company's shares pursuant to the Reorganisation.

(b) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all relevant exchange differences arising from the translation of the financial statements of foreign operations.

(c) Share premium

The share premium represents the difference between the par value of the shares issued and the consideration paid for the Reorganisation.

30. NOTES TO THE STATEMENTS OF CASH FLOWS**(a) Changes in liabilities arising from financing activities**

	Interest bearing bank borrowings	Lease liabilities	Due to directors
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2016	12,687	25,546	7,755
Changes from financing cash flows	(4,407)	(7,832)	(1,775)
Lease commencement recognition	–	2,783	–
Foreign exchange movement	–	(1,152)	(28)
	<u>8,280</u>	<u>19,345</u>	<u>5,952</u>
At 31 December 2016 and 1 January 2017	8,280	19,345	5,952
Changes from financing cash flows	10,137	(13,795)	1,762
Lease commencement recognition	–	31,773	–
Foreign exchange movement	–	2,301	30
	<u>18,417</u>	<u>39,624</u>	<u>7,744</u>
At 31 December 2017 and 1 January 2018	18,417	39,624	7,744
Changes from financing cash flows	(5,680)	(13,993)	934
Lease commencement recognition	–	30,751	–
Foreign exchange movement	–	(1,827)	(23)
	<u>12,737</u>	<u>54,555</u>	<u>8,655</u>
At 31 December 2018 and 1 January 2019	12,737	54,555	8,655
Changes from financing cash flows	12,035	(9,398)	(8,337)
Lease commencement recognition	–	414	–
Foreign exchange movement	–	(2,041)	(100)
	<u>24,772</u>	<u>43,530</u>	<u>218</u>
At 31 August 2019	<u>24,772</u>	<u>43,530</u>	<u>218</u>

(b) Major non-cash transactions

During the years ended 31 December 2016, 2017, and 2018 and eight months ended 31 August 2019, lease commencement recognition of HK\$2,783,000, HK\$31,773,000, HK\$30,751,000 and HK\$414,000, respectively was included in right-of-use assets and lease liabilities.

31. COMMITMENTS

At the end of each of the Track Record Period, the Group had the following capital commitments:

	As at 31 December			As at 31 August 2019
	2016	2017	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for:				
Plant and machinery	4,697	4,455	333	28
	<u>4,697</u>	<u>4,455</u>	<u>333</u>	<u>28</u>

34. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has assessed that the fair values of cash and cash equivalents, trade receivables, an amount due from the ultimate holding company, balances with directors, financial assets included in prepayments, deposits and other receivables, trade payables, financial liabilities included in other payables and accruals and dividend payable approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of non-current deposits and other payables, lease liabilities and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities, and were assessed to approximate to their carrying amounts. The Group's own non-performance risk for interest-bearing bank borrowings as at 31 December 2016, 2017 and 2018 and 31 August 2019 was assessed to be insignificant.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments include cash and cash equivalents, trade receivables, deposits and other receivables, an amount due from the ultimate holding company, balances with directors, trade payables, other payables and accruals, interest-bearing bank borrowings and lease liabilities.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate 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.

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.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Hong Kong Dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity*
	%	HK\$'000	HK\$'000
As at 31 December 2016			
If Renminbi weakens against HK\$	5	(668)	–
If Renminbi strengthens against HK\$	(5)	668	–
As at 31 December 2017			
If Renminbi weakens against HK\$	5	(1,749)	–
If Renminbi strengthens against HK\$	(5)	1,749	–
As at 31 December 2018			
If Renminbi weakens against HK\$	5	(1,062)	–
If Renminbi strengthens against HK\$	(5)	1,062	–
As at 31 August 2019			
If Renminbi weakens against HK\$	5	(356)	–
If Renminbi strengthens against HK\$	(5)	356	–

* Excluding retained profits

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings with floating interest rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 25 to the Historical Financial Information. The Group's policy is to obtain the most favourable interest rates available for its borrowings. Management monitors interest rate exposure and will consider hedging significant interest rate exposures should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates at the end of the reporting period, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax
		<i>HK\$'000</i>
As at 31 December 2016		
Hong Kong dollar	100	(83)
Hong Kong dollar	(100)	83
As at 31 December 2017		
Hong Kong dollar	100	(184)
Hong Kong dollar	(100)	184
As at 31 December 2018		
Hong Kong dollar	100	(127)
Hong Kong dollar	(100)	127
As at 31 August 2019		
Hong Kong dollar	100	(248)
Hong Kong dollar	(100)	248

The change in interest rates at the end of the report period, with all other variables held constant, has no impact to the Group's equity excluding retained profits for the years ended 31 December 2016, 2017 and 2018 and eight months ended 31 August 2019.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that only well-established customers will be considered for open account terms and the approval of credit terms is subject to stringent credit check procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end/period-end staging

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2016, 2017 and 2018 and 31 August 2019. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs		Lifetime ECLs		HK\$'000
	Stage 1	Stage 2	Stage 3	Simplified approach	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
As at 31 December 2016					
Trade receivables	-	-	-	30,029	30,029
Financial assets included in prepayments, deposits and other receivables*	3,617	-	-	-	3,617
Due from a director	1,092	-	-	-	1,092
Cash and cash equivalents	22,157	-	-	-	22,157
	26,866	-	-	30,029	56,895
As at 31 December 2017					
Trade receivables	-	-	-	41,463	41,463
Financial assets included in prepayments, deposits and other receivables*	4,897	-	-	-	4,897
Due from a director	740	-	-	-	740
Cash and cash equivalents	34,209	-	-	-	34,209
	39,846	-	-	41,463	81,309
As at 31 December 2018					
Trade receivables	-	-	-	41,708	41,708
Financial assets included in prepayments, deposits and other receivables*	5,985	-	-	-	5,985
Due from a director	1,088	-	-	-	1,088
Cash and cash equivalents	22,958	-	-	-	22,958
	30,031	-	-	41,708	71,739
As at 31 August 2019					
Trade receivables	-	-	-	41,961	41,961
Financial assets included in prepayments, deposits and other receivables*	6,671	-	-	-	6,671
Due from the ultimate holding company	22	-	-	-	22
Due from a director	282	-	-	-	282
Cash and cash equivalents	23,620	-	-	-	23,620
	30,595	-	-	41,961	72,556

* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due or there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition.

Credit risk concentration

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group had certain concentrations of credit risk as the trade receivables in terms of the following percentages were due from the Group's largest external customer and the Group's five largest external customers out of the Group's total trade receivables:

	As at 31 December			As at
	2016	2017	2018	31 August
	%	%	%	2019
Due from the Group's largest external customer	30	26	14	11
Due from the Group's five largest external customers	41	40	26	30

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 instruments and 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 bank borrowings and funds generated from operations.

The maturity profile of the Group's financial liabilities as at the end of each reporting period during the Track Record Period, based on the contractual and undiscounted payments, is as follows:

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2016						
Trade payables	-	22,214	-	-	-	22,214
Financial liabilities included in other payables and accruals	-	4,301	-	-	-	4,301
Interest-bearing bank borrowings	8,280	-	-	-	-	8,280
Dividend payables	-	10,000	-	-	-	10,000
Lease liabilities	-	1,259	3,696	12,220	5,523	22,698
Due to directors	5,952	-	-	-	-	5,952
	14,232	37,774	3,696	12,220	5,523	73,445
As at 31 December 2017						
Trade payables	-	32,071	-	-	-	32,071
Financial liabilities included in other payables and accruals	-	6,989	-	-	-	6,989
Interest-bearing bank borrowings	18,417	-	-	-	-	18,417
Dividend payables	-	15,000	-	-	-	15,000
Lease liabilities	-	3,475	9,380	26,733	3,662	43,250
Due to directors	7,744	-	-	-	-	7,744
	26,161	57,535	9,380	26,733	3,662	123,471

	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	More than 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 December 2018						
Trade payables	-	30,495	-	-	-	30,495
Financial liabilities included in other payables and accruals	-	5,076	-	-	-	5,076
Interest-bearing bank borrowings	12,737	-	-	-	-	12,737
Dividend payables	-	10,500	-	-	-	10,500
Lease liabilities	-	4,334	12,969	34,663	11,504	63,470
Due to directors	8,655	-	-	-	-	8,655
	<u>21,392</u>	<u>50,405</u>	<u>12,969</u>	<u>34,663</u>	<u>11,504</u>	<u>130,933</u>
As at 31 August 2019						
Trade payables	-	26,939	-	-	-	26,939
Financial liabilities included in other payables and accruals	-	6,302	-	-	-	6,302
Interest-bearing bank borrowings	20,002	481	1,443	3,207	-	25,133
Lease liabilities	-	4,324	11,046	26,338	9,380	51,088
Due to directors	218	-	-	-	-	218
	<u>20,220</u>	<u>38,046</u>	<u>12,489</u>	<u>29,545</u>	<u>9,380</u>	<u>109,680</u>

As at 31 December 2016, 2017 and 2018 and 31 August 2019, the Group's term loans with a repayment on demand clause in the amount of HK\$8,280,000, HK\$18,417,000, HK\$12,737,000 and HK\$20,002,000, respectively, were repayable over one year in accordance with the terms of the loans. The loan agreements contained a repayment on demand clause giving the bank the unconditional right to call in the loans at any time and therefore, for the purpose of the above maturity profile, the total amount is classified as "on demand".

Notwithstanding the above clause, the directors do not believe that the loans will be called in their entirety within 12 months, and they consider that the loans will be repaid in accordance with the maturity dates as set out in the loan agreements. This evaluation was made considering: the financial position of the Group at the date of this report; the Group's compliance with the loan covenants; the lack of events of default; and the fact that the Group has made all previously scheduled repayments on time.

As at 31 December 2016, in accordance with the terms of the loans, the contractual undiscounted payments were HK\$5,225,000 within one year, HK\$2,001,000 in the second year, and HK\$1,311,000 beyond two years.

As at 31 December 2017, in accordance with the terms of the loans, the contractual undiscounted payments were HK\$13,778,000 within one year, HK\$2,604,000 in the second year, and HK\$3,019,000 beyond two years.

As at 31 December 2018, in accordance with the terms of the loans, the contractual undiscounted payments were HK\$11,114,000 within one year, HK\$1,297,000 in the second year, and HK\$1,729,000 beyond two years.

As at 31 August 2019, in accordance with the terms of the loans, the contractual undiscounted payments were HK\$8,627,000 within one year, HK\$6,465,000 in the second year, and HK\$11,340,000 beyond two years.

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to the shareholder or return capital to the shareholder. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes interest-bearing bank borrowings and lease liabilities less cash and cash equivalents. Capital represents the equity attributable to owners of the parent. The gearing ratios as at the end of the Track Record Period are as follows:

	As at 31 December			As at
	2016	2017	2018	31 August 2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest-bearing bank borrowings	8,280	18,417	12,737	24,772
Lease liabilities	19,345	39,624	54,555	43,530
Less: Cash and cash equivalents	(22,157)	(34,209)	(22,958)	(23,620)
Net debt	5,468	23,832	44,334	44,682
Equity attributable to owners of the parent	71,834	81,706	112,762	128,709
Capital and net debt	<u>77,302</u>	<u>105,538</u>	<u>157,096</u>	<u>173,391</u>
Gearing ratio	<u>7.1%</u>	<u>22.6%</u>	<u>28.2%</u>	<u>25.8%</u>

36. EVENTS AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

37. 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 August 2019.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following information does not form part of the Accountants' Report from Ernst & Young, Certified Public Accountants, Hong Kong, our Company's reporting accountants, as set out in Appendix I to this prospectus, and is included herein for information purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of the Group prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering on the consolidated net tangible assets of the Group attributable to owners of the Company as if the Global Offering had taken place on 31 August 2019. This unaudited pro forma statement of adjusted consolidated net tangible assets of the Group has been prepared for illustrative purpose only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group had the Global Offering been completed as at 31 August 2019 or any future dates:

	Consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2019	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company	Unaudited pro forma adjusted consolidated net tangible assets per Share
	<i>HK\$'000 (Note 1)</i>	<i>HK\$'000 (Note 2)</i>	<i>HK\$'000</i>	<i>HK\$ (Notes 3 and 5)</i>
Based on the Offer Price of HK\$0.25 per Share	128,709	88,884	217,593	0.11
Based on the Offer Price of HK\$0.29 per Share	128,709	106,284	234,993	0.12

Notes:

1. The consolidated net tangible assets of the Group attributable to owners of the Company as at 31 August 2019 is extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$0.25 and HK\$0.29 per Share, after deduction of the underwriting fees and other related expenses payable by the Company (excluding listing expenses of approximately HK\$14.0 million which have been recognised in profit or loss prior to 31 August 2019).
3. The unaudited pro forma adjusted consolidated net tangible assets per Share is calculated based on 2,000,000,000 Shares expected to be in issue immediately following the completion of the Global Offering without taking into account of any Shares which may be allotted and issued pursuant to the exercise of options that may be granted under the Share Option Scheme and the Over-allotment option or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares.
4. The unaudited pro forma adjusted consolidated net tangible assets attributable to owners of the Company does not take into account the dividend of HK\$10,000,000 declared by the Company to its shareholders in February 2020. Had the dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets per Share would be approximately HK\$0.10 (assuming an Offer Price of HK\$0.25 per Share) and HK\$0.11 (assuming an Offer Price of HK\$0.29 per Share), respectively.
5. No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 31 August 2019.

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Cirtek Holdings Limited

We have completed our assurance engagement to report on the compilation of pro forma financial information of Cirtek 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 August 2019 and related notes as set out on pages IIA-1 to IIA-2 of the prospectus dated 28 February 2020 (the “**Prospectus**”) 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 in notes 1 to 5 on page IIA-2 of the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of Global Offering of shares of the Company on the Group’s financial position as at 31 August 2019 as if the transaction had taken place at 31 August 2019. 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 period ended 31 August 2019, 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**”) 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 behaviour.

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 public offer and placing 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' judgement, 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

28 February 2020

The estimated consolidated profit attributable to owners of our Company for the year ended 31 December 2019 is set out in the paragraph headed “Profit estimate for the year ended 31 December 2019” under the section headed “Financial Information” in this prospectus.

A. BASES

Our Directors have prepared the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019 (the “**Profit Estimate**”) on the basis of (i) the audited consolidated results of our Group for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results of our Group for the four months ended 31 December 2019 based on the management accounts of our Group. The Profit Estimate has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by our Group as set out in note 2 to the Accountants’ Report as set out in Appendix I to this prospectus.

The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated unaudited consolidated profit attributable to owners of our Company for the year ended 31 December 2019 and on the assumption that the Global Offering and the Capitalisation Issue had been completed on 1 January 2019 and a total of 2,000,000,000 Shares had been issued during the entire year. The calculation of the unaudited pro forma estimated earnings per Share does not take into account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option and any option which may be granted under the Share Option Scheme.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a letter, prepared for the inclusion in this prospectus, received by our Directors and the Sole Sponsor from our Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, in connection with the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019.



22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

28 February 2020

The Board of Directors
Cirtek Holdings Limited
1/F, Wing Ming Industrial Centre
Lai Chi Kok
Hong Kong

Elstone Capital Limited
Suite 1612, 16/F
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

Dear Sirs,

Cirtek Holdings Limited (the “Company”)
Profit estimate for the year ended 31 December 2019

We refer to the estimate of the consolidated profit attributable to owners of the Company for the year ended 31 December 2019 (the “**Profit Estimate**”) set forth in the section headed “Financial Information” in the prospectus of the Company dated 28 February 2020 (the “**Prospectus**”).

Directors’ responsibilities

The Profit Estimate has been prepared by the directors of the Company based on the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the eight months ended 31 August 2019 and the unaudited consolidated results based on the management accounts of the Group for the four months ended 31 December 2019.

The Company’s directors are solely responsible for the Profit Estimate.

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 Hong Kong Institute of Certified Public Accountants (“HKICPA”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

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 on the accounting policies and calculations of the Profit Estimate based on our procedures.

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 *Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness* and with reference to Hong Kong Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company’s directors have properly compiled the Profit Estimate in accordance with the bases adopted by the directors and as to whether the Profit Estimate is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Opinion

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix IIB of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report dated 28 February 2020, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

C. LETTER FROM THE SOLE SPONSOR

The following is the text of a letter, prepared for the inclusion in this prospectus, received by our Directors from the Sole Sponsor, in connection with the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019.



The Board of Directors
Cirtek Holdings Limited
1/F, Wing Ming Industrial Centre
Lai Chi Kok
Hong Kong

28 February 2020

Dear Sirs,

We refer to the estimate of the consolidated profit attributable to owners of Cirtek Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2019 (the “**Profit Estimate**”) as set forth in the prospectus issued by the Company dated 28 February 2020 (the “**Prospectus**”).

The Profit Estimate, for which the directors of the Company (the “**Directors**”) are solely responsible, has been prepared by the Directors based on (i) the audited consolidated results of the Group for the eight months ended 31 August 2019; and (ii) the unaudited consolidated results of the Group for the four months ended 31 December 2019 based on the management accounts of the Group.

We have discussed with you the bases and assumptions made by the Directors, as set forth in Appendix IIB to the Prospectus, upon which the Profit Estimate has been made. We have also considered the letter dated 28 February 2020 addressed to yourself and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Profit Estimate has been made.

On the basis of the information comprising the Profit Estimate and on the basis of the accounting policies and calculations adopted by you and reviewed by Ernst & Young, we are of the opinion that the Profit Estimate, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

For and on behalf of
Elstone Capital Limited

Fanny Lee
Managing Director

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 25 January 2019 under the Cayman Companies Law. The Company's constitutional documents consist of its Amended and Restated Memorandum of Association ("**Memorandum**") and its Amended and Restated Articles of Association ("**Articles**").

1. MEMORANDUM OF ASSOCIATION

- (a) 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.
- (b) 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 adopted on 21 February 2020 and effect from the Listing Date. A summary of certain provisions of the Articles is set out below.

(a) Shares

(i) *Classes of shares*

The share capital of the Company consists of ordinary shares.

(ii) *Variation of rights of existing shares or classes of shares*

Subject to the 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, but so 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 member being a corporation, by its duly authorised 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.

(iii) 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; and (g) change the currency of denomination of its share capital.

(iv) 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 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.

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.

(v) 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.

(vi) 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.

(vii) 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 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 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, 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 annum as the Board may prescribe.

(b) Directors*(i) 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 lodgement 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:

- (aa) resign;
- (bb) dies;
- (cc) is declared to be of unsound mind and the Board resolves that his office be vacated;
- (dd) becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) he is prohibited from being or ceases to be a director by operation of law;
- (ff) without special leave, is absent from meetings of the Board for six consecutive months, and the Board resolves that his office is vacated;
- (gg) has been required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a Director; or
- (hh) 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.

(ii) 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 (as defined in the Articles) 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, but so 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.

(iii) 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.

(iv) Borrowing powers

The Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and 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.

(v) 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.

(vi) 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.

(vii) 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 of the 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.

(viii) 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 avoided, 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:

- (aa) 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;
- (bb) 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;
- (cc) 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;
- (dd) 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
- (ee) 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.

(ix) *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.

(c) **Alterations to the constitutional documents and the Company's name**

To the extent that the same is permissible under 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.

(d) **Meetings of member**

(i) *Special and ordinary resolutions*

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or by proxy or, in the case of members which are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given.

Under 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 authorised representatives or, where proxies are allowed, 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.

(ii) 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 authorised 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 but so 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 authorised representative) or by proxy shall have one vote. Where more than one proxy is appointed by a member which is a Clearing House (as defined in the Articles) 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 authorised corporate representative):

- (A) at least two members;
- (B) 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
- (C) 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 authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be deemed to have been duly authorised 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.

(iii) 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 authorised by the Stock Exchange at such time and place as may be determined by the Board.

(iv) Requisition of general meetings

Extraordinary general meetings may be convened on the requisition of one or more members holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary 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.

(v) Notices of meetings and business to be conducted

An annual general meeting of the Company shall be called by at least 21 days' notice in writing, and any other general meeting of the Company shall be called by at least 14 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% 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.

(vi) *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 authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(vii) *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 authorised representative) or by proxy.

The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under seal or under the hand of a duly authorised 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.

(e) 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 authorised 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 (as defined in the Articles), the Company may send summarised financial statements to members 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 members that have consented and elected to receive the summarised financial statements not less than 21 days before the general meeting.

The Company shall at each annual general meeting 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 a general meeting remove the auditor(s) by a special resolution at any time before the expiration of the term of office of the auditor(s) and shall, by an ordinary resolution, at that meeting appoint new auditor(s) in place of the removed auditor(s) 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.

(f) 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:

- (i) 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;
- (ii) 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
- (iii) 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:

- (aa) 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
- (bb) 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 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.

(g) 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.

(h) 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 Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

(i) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up, the surplus assets remaining after payment to all creditors shall be divided among the members in proportion to the capital paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the surplus assets available for distribution among the members are insufficient to repay the whole of the paid-up capital, such assets shall be distributed, subject to the rights of any shares which may be issued on special terms and conditions, 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, but so that no member shall be compelled to accept any shares or other property upon which there is a liability.

(j) 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 ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 25 January 2019 subject to the Cayman Companies Law. Certain provisions of Cayman Islands company 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.

(a) 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 authorised share capital.

(b) Share capital

Under 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:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (iii) any manner provided in section 37 of the Cayman Companies Law;

- (iv) writing-off the preliminary expenses of the company; and
- (v) 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 authorised to do so by its articles of association, by special resolution reduce its share capital in any way.

(c) Financial assistance to purchase shares of a company or its holding company

There 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.

(d) Purchase of shares and warrants by a company and its subsidiaries

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a 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 authorised 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 authorise 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 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.

(e) 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.

(f) 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 v. 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.

(g) 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).

(h) 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 (2013 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.

(i) Exchange control

There are no exchange control regulations or currency restrictions in effect in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (2018 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Financial Secretary that:

- (i) no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (ii) no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (aa) on or in respect of the shares, debentures or other obligations of the Company; or
 - (bb) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (2018 Revision).

The undertaking for the Company is for a period of 20 years from 8 February 2019.

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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 (2013 Revision) of the Cayman Islands.

(o) 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 30 days of any change in such directors or officers, including a change of the name of such directors or officers.

(p) 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 authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(q) Reconstructions

Reconstructions and amalgamations may be approved by a majority in number representing 75% 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 (i.e. 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.

(r) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may, at any time within two months after the expiration of 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.

(s) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, 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

Appleby, the Company's legal adviser on Cayman Islands law, has sent to the Company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Cayman Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 January 2019. Our Company has established a place of business in Hong Kong at 1/F, Wing Ming Industrial Centre, 15 Cheung Yue Street, Lai Chi Kok, Kowloon, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part 16 of the Companies Ordinance on 15 March 2019. Mr. Barry Chan has been appointed as the authorised representative of our Company for the acceptance of service of process in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and its constitution comprises the Memorandum and Articles. A summary of certain provisions of the Articles and relevant aspects of the Companies Law is set out in Appendix III to this prospectus.

2. Changes in share capital of our Company

The authorised share capital of our Company as at the date of its incorporation was HK\$38,000 divided into 3,800,000 Shares at par value of HK\$0.01 each. The following sets out the changes in the share capital since the date of our Company's incorporation:

- (a) on 25 January 2019, one Share was allotted and issued as fully paid at par to Reid Services Limited as the initial subscriber. On the same day, Reid Services Limited transferred such Share to Charming International at par;
- (b) pursuant to the share sale agreement dated 28 May 2019 and entered into among Mr. Barry Chan and Ms. Candy Law (as vendors), our Company (as purchaser) and Cirtek Investment, Mr. Barry Chan and Ms. Candy Law agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming HK at a consideration of HK\$2.6 million. The consideration was settled by the allotment and issuance of eight Shares, credited as fully paid up, to Charming International (at the instruction of Mr. Barry Chan), and eight Shares, credited as fully paid up, to Charming International by our Company;
- (c) pursuant to the share sale agreement dated 28 May 2019 and entered into among Mr. Barry Chan, Ms. Candy Law, Mr. Leung (as vendors), our Company (as purchaser) and Cirtek Investment, Mr. Barry Chan, Ms. Candy Law and Mr. Leung agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming Printing at a consideration of HK\$40 million. The consideration was settled by the allotment and issuance of 157 Shares, credited as fully paid up, to Charming International (at the instruction of Mr. Barry Chan), 56 Shares to Charming International (at the instruction of Ms. Candy Law) and 10 Shares, credited as fully paid up, to Mr. Leung by our Company;

- (d) pursuant to the share sale agreement dated 28 May 2019 and entered into among Ms. Candy Law and Mr. Ringeisen (as vendors), our Company (as purchaser) and Cirtek Investment, Ms. Candy Law and Mr. Ringeisen agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming US at a consideration of US\$100,000. The consideration was settled by the allotment and issuance of four Shares, credited as fully paid up, to Charming International (at the instruction of Ms. Candy Law) and two Shares, credited as fully paid up, to Mr. Ringeisen by our Company;
- (e) pursuant to the share sale agreement dated 28 May 2019 and entered into among Mr. James Chan and Mr. Van Duyse (as vendors), our Company (as purchaser) and Cirtek Investment, Mr. James Chan and Mr. Van Duyse agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Lowatag Limited at a consideration of HK\$300,000. The consideration was settled by the allotment and issuance of (i) two Shares, credited as fully paid up, to Mr. James Chan; and (ii) two Shares, credited as fully paid up, to Mr. Van Duyse by our Company;
- (f) pursuant to resolutions in writing of all Shareholders passed on 21 February 2020, the authorised share capital of our Company was increased from HK\$38,000 divided into 3,800,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,996,200,000 new Shares of par value HK\$0.01 each, ranking *pari passu* with the Shares then in issue in all respects; and
- (g) immediately following the completion of the Global Offering and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$20,000,000 divided into 2,000,000,000 Shares, all fully paid or credited as fully paid and 3,000,000,000 Shares will remain unissued.

Save for the above and as mentioned in the paragraph headed “A. Further information about our Company — 4. Resolutions in writing of our Shareholders passed on 21 February 2020” below in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

Our subsidiaries are referred to in the Accountants’ Report as set out in Appendix I to this prospectus.

Save as disclosed in the section headed “History, Reorganisation and Group Structure” in this prospectus, there are no changes in the Share capital of our subsidiaries within the two years preceding the date of this prospectus.

4. Resolutions in writing of our Shareholders passed on 21 February 2020

Pursuant to the resolutions in writing of our Shareholders passed on 21 February 2020:

- (a) conditional on (i) the Listing Committee granting the listing of, and permission to deal in, our Shares in issue, Shares to be issued pursuant to the Global Offering and our Shares to be issued as mentioned in this prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price among our Company and the Joint Global Coordinators (for themselves and on behalf of the Underwriters) on the Price Determination Date; (iii) the execution and delivery of the Underwriting Agreements in accordance with their respective terms; and (iv) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreement:
 - (i) the Global Offering (including the Over-allotment Option) was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and our Directors be authorised to effect the same and to allot and issue such Over-allotment Shares upon the exercise of the Over-allotment Option; and
 - (iii) the rules of the Share Option Scheme were approved and adopted and our Directors be authorised to allot and issue such Shares upon the exercise of options which may be granted under the Share Option Scheme;
- (b) conditional upon the share premium account of our Company having sufficient balance, or otherwise being credited as a result of the issue of Offer Shares under the Global Offering, our Directors were authorised to allot and issue a total of 1,499,999,750 Shares credited as fully paid at par to each of the holders of Shares whose names appear on the register of members of our Company at the close of business on 21 February 2020 in proportion to their shareholdings (save that no Shareholder shall be entitled to be allotted or issued by fraction of a Share) by way of capitalisation of the sum of HK\$14,999,997.50 standing to the credit of the share premium account of our Company, and the Shares to be allotted and issued under this resolution shall rank *pari passu* in all respects with the existing issued Shares (the “**Capitalisation Issue**”);

- (c) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles of Association, or under the Global Offering, or issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of our Company or any securities which are convertible into Shares, Shares with an aggregate number of not exceeding the sum of (aa) 20% of the total number of Shares in issue immediately following completion of the Global Offering but excluding (where applicable) any shares which may be issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme and (bb) the number of Shares which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in paragraph (d) 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 or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders revoking or varying the authority given to our Directors, whichever occurs first;
- (d) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose Shares with an aggregate number of not exceeding 10% of the total number of Shares in issue immediately following the completion of the Global Offering but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles of Association or the Companies Ordinance to be held, or the passing of an ordinary resolution by our Shareholders in a general meeting revoking or varying the authority given to our Directors, whichever occurs first;
- (e) the general unconditional mandate as mentioned in paragraph (c) above was extended by the addition to the aggregate number of the Shares which may be allotted and issued or agreed to be allotted and issued by our Directors under such general mandate of an amount representing the aggregate number of the Shares purchased by our Company under the mandate to repurchase Shares referred to in paragraph (d) above;
- (f) the Memorandum and the Articles were approved and adopted and effective on the Listing Date; and

- (g) the authorised share capital of our Company was increased from HK\$38,000 divided into 3,800,000 Shares of par value HK\$0.01 each to HK\$50,000,000 divided into 5,000,000,000 Shares of par value HK\$0.01 each by the creation of an additional 4,996,200,000 new Shares of par value HK\$0.01 each, ranking *pari passu* with the Shares then in issue in all respects.

5. Corporate reorganisation

In preparation for the Global Offering, our Group undertake the Reorganisation. Please refer to the section headed “History, Reorganisation and Group Structure — Reorganisation” in this prospectus for further details.

6. Repurchase of our Shares

(a) *Relevant legal and regulatory requirements*

The Listing Rules permit our Shareholders to grant to our Directors a general mandate to repurchase the Shares that are listed on the Stock Exchange. The mandate is required to be given by way of an ordinary resolution passed by the Shareholders in a general meeting.

(b) *Shareholders’ approval*

All proposed repurchases of Shares (which must be fully paid up) must be approved in advance by ordinary resolutions of the Shareholders in a general meeting, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the resolutions in writing passed by all Shareholders on 21 February 2020, our Directors were granted a general unconditional mandate to repurchase up to 10% of the total number of Shares in issue immediately following the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme) on the Stock Exchange or on any other stock exchange on which our Company’s securities may be listed and which is recognised by the SFC and the Stock Exchange for this purpose. Such mandate will expire at the earliest of (i) the conclusion of our Company’s next annual general meeting, (ii) the date by which our Company’s next annual general meeting is required by the Companies Ordinance and the Articles of Association to be held, or (iii) such mandate being revoked or varied by ordinary resolutions of the Shareholders in a general meeting (the “**Relevant Period**”).

(c) *Source of funds*

Our Company's repurchase of the Shares listed on the Stock Exchange must be funded out of funds legally available for the purpose in accordance with our Company's Articles and the applicable laws of Hong Kong. Our Company may not repurchase the Shares on the Stock Exchange for consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Subject to the foregoing, our Company may make repurchases out of the profit or out of the proceeds of a fresh issue of Shares for the purpose of the repurchase. Any amount of premium payable on the purchase over the par value of the Shares to be repurchased must be out of either or both the profits of our Company or our Company's share premium account before or at the time the Shares are repurchased. If authorised by the Articles and subject to the Companies Ordinance, repurchase may also be made out of capital.

(d) *Reasons for repurchases*

Our Directors believe that it is in our Company's and its Shareholders' best interests for our Directors to have general authority to execute repurchases of the Shares in the market. The repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made where our Directors believe that the repurchases will benefit our Company and its Shareholders.

(e) *Funding of repurchases*

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules, the Companies Ordinance and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Stock Exchange from time to time.

On the basis of the current financial position of our Company as disclosed in this prospectus and taking into account the current working capital position of our Company, our Directors believe that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Company 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 the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(f) *Share capital*

The exercise in full of the current Repurchase Mandate, on the basis of 2,000,000,000 Shares in issue immediately after the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), could accordingly result in up to 200,000,000 Shares being repurchased by our Company during the Relevant Period.

(g) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any of the 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, the Articles, the Companies Ordinance and any other applicable laws of Hong Kong.

If, as a result of any repurchase of our Shares, a Shareholder's proportionate interest in our Company's voting rights is increased, the 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 of repurchases which would arise under the Takeovers Code.

No connected person of our Company has notified our Group that he or it has a present intention to sell his or its Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. FURTHER INFORMATION ABOUT OUR COMPANY

1. Summary of material contracts

Our Group have entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:




- (a) the equity transfer agreement dated 20 December 2018 (as supplemented by a supplemental agreement dated 20 December 2018) entered into between Mr. Liao and Charming China pursuant to which Mr. Liao agreed to transfer his interests (held on trust for Charming China under the Declaration of Trust) in Charming Shenzhen back to Charming China at a nominal consideration of RMB1.00;

- (b) the declaration of trust dated 23 May 2019 and entered into by Mr. Barry Chan in respect of the trust arrangement where Mr. Barry Chan held one share in Charming Pakistan on trust for Charming HK;
- (c) the declaration of trust dated 23 May 2019 and entered into by Mr. James Chan in respect of the trust arrangement where Mr. James Chan held one share in Charming Pakistan on trust for Charming HK;
- (d) the deed of trust dated 20 May 2019 and entered into between Charming HK and Ms. Candy Law in respect of the trust arrangement where Ms. Candy Law held 33.3% interest in Charming Bangladesh on trust for Charming HK;
- (e) the deed of trust dated 20 May 2019 and entered into between Charming HK and Ms. Candy Law in respect of the trust arrangement where Ms. Candy Law held 16.7% interest in Charming Trim Bangladesh on trust for Charming HK;
- (f) the instrument of transfer of shares dated 20 May 2019 and entered into between Ms. Candy Law and Charming HK pursuant to which Ms. Candy Law transferred 9,997 shares in Charming Bangladesh to Charming HK at a consideration of BDT999,700;
- (g) the instrument of transfer of shares dated 20 May 2019 and entered into between Ms. Candy Law and Cirtek Investment pursuant to which Ms. Candy Law transferred three shares in Charming Bangladesh to Cirtek Investment at a consideration of BDT300;
- (h) the instrument of transfer of shares dated 20 May 2019 and entered into between Ms. Candy Law and Charming HK pursuant to which Ms. Candy Law transferred 999 shares in Charming Trim Bangladesh to Charming HK at a consideration of BDT99,900;
- (i) the instrument of transfer of shares dated 20 May 2019 and entered into between Ms. Candy Law and Cirtek Investment pursuant to which Ms. Candy Law transferred one share in Charming Trim Bangladesh to Cirtek Investment at a consideration of BDT100;
- (j) the share sale agreement dated 28 May 2019 and entered into among Mr. Barry Chan and Ms. Candy Law (as vendors), our Company (as purchaser) and Cirtek Investment pursuant to which Mr. Barry Chan and Ms. Candy Law agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming HK at a consideration of HK\$2.6 million;

- (k) the share sale agreement dated 28 May 2019 and entered into among Mr. Barry Chan, Ms. Candy Law, Mr. Leung (as vendors), our Company (as purchaser) and Cirtek Investment pursuant to which Mr. Barry Chan, Ms. Candy Law and Mr. Leung agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming Printing at a consideration of HK\$40 million;
- (l) the share sale agreement dated 28 May 2019 and entered into among Ms. Candy Law and Mr. Ringeisen (as vendors), our Company (as purchaser) and Cirtek Investment pursuant to which Ms. Candy Law and Mr. Ringeisen agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Charming US at a consideration of US\$100,000;
- (m) the share sale agreement dated 28 May 2019 and entered into among Mr. James Chan and Mr. Van Duyse (as vendors), and Lowatag Limited (as purchaser) pursuant to which Mr. James Chan and Mr. Van Duyse agreed to sell, and Lowatag Limited agreed to purchase, the 50% of the issued share capital in Charming Belgium at a consideration of HK\$150,000;
- (n) the share sale agreement dated 28 May 2019 and entered into among Mr. James Chan and Mr. Van Duyse (as vendors), our Company (as purchaser) and Cirtek Investment pursuant to which Mr. James Chan and Mr. Van Duyse agreed to sell, and our Company agreed to purchase (through Cirtek Investment), the entire issued share capital in Lowatag Limited at a consideration of HK\$300,000;
- (o) the Deed of Indemnity; and
- (p) the Hong Kong Underwriting Agreement.

2. Intellectual property rights

- (a) As at the Latest Practicable Date, our Group had registered the following trademarks in the U.S. and the PRC:

<u>No.</u>	<u>Trademark</u>	<u>Registered owner</u>	<u>Place of registration</u>	<u>Class</u>	<u>Registration number</u>	<u>Date of registration</u>	<u>Date of expiration</u>
1.		Charming U.S.	The U.S.	9, 16, 20 and 24	5,692,804	5 March 2019	5 March 2029
2.		Charming China	the PRC	40	34539563	28 June 2019	27 June 2029
3.		Charming China	the PRC	20	31721115	21 June 2019	20 June 2029

- (b) As at the Latest Practicable Date, our Group had registered the following domain names:

<u>Domain names</u>	<u>Name of registered owner</u>	<u>Expiry date</u>
www.charminghk.com	Charming Printing	28 September 2020
www.cirtek-holdings.com	Charming Printing	18 April 2021
www.cirtekholdingsltd.com	Charming Printing	18 April 2021
www.cirtek.com	Charming Printing	27 April 2021
www.charmingprinting.com	Charming Printing	29 November 2022
www.charmingtrim.com	Charming Printing	29 November 2022

Save as disclosed above, there are no other trade or service marks, patents, other intellectual or industrial property rights which are or may be material to the business of our Company.

C. DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) *Interests and short positions of our Directors in the share capital and the associated corporations following the completion of the Capitalisation Issue and the Global Offering*

Immediately following completion of the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme), the interests of our Directors and chief executives in the equity or debt securities of our Company or any associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they are taken or deemed to have under such provisions of the SFO), or which will be required, under section 352 of the SFO, to be entered in the register referred to in that section, or under the Listing Rules, to be notified to our Company and the Stock Exchange, in each case, once the Shares are listed will be as follows:

Name of Director/ Chief executive	Capacity/ Nature of interest	Number of underlying Shares ^(Note 1)	Percentage of shareholding immediately following the completion of the Capitalisation Issue and the Global Offering ^(Note 2)
Mr. Barry Chan ^(Notes 3 and 4)	Interest in a controlled corporation; interest of a spouse	1,404,000,000	70.2%
Ms. Candy Law ^(Notes 3 and 4)	Interest in a controlled corporation; interest of a spouse	1,404,000,000	70.2%
Mr. James Chan	Beneficial owner	12,000,000	0.6%

Notes:

- (1) All interests stated are long positions.
- (2) The calculation is based on the total number of 2,000,000,000 Shares in issue immediately following the completion of the Capitalisation Issue and the Global Offering (but taking no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option and options which may be granted under the Share Option Scheme).
- (3) Each of Mr. Barry Chan and Ms. Candy Law owns as to 51% and 49% of the issued share capital of Charming International which, in turn, holds 1,404,000,000 Shares. Accordingly, Mr. Barry Chan and Ms. Candy Law are deemed to be interested in 1,404,000,000 Shares held by Charming International by virtue of the disclosure requirements of the SFO.
- (4) Mr. Barry Chan is the spouse of Ms. Candy Law. Accordingly, Mr. Barry Chan and Ms. Candy Law are deemed to be interested in the Shares held by each other by virtue of the SFO.

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares in associated corporation ^(Note 1)	Percentage of shareholding in the associated corporation (%)
Mr. Barry Chan	Charming International ^(Note 2)	Beneficial owner	51	51
Ms. Candy Law	Charming International ^(Note 2)	Beneficial owner	49	49

Notes:

- (1) All interests stated are long positions.
- (2) Mr. Barry Chan and Ms. Candy Law holds 51% and 49% of the issued share capital of Charming International, respectively. Mr. Barry Chan is the spouse of Ms. Candy Law. Accordingly, Mr. Barry Chan is deemed to be interested in all the shares held by Ms. Candy Law in Charming International under the SFO and Ms. Candy Law is deemed to be interested in all the shares held by Mr. Barry Chan in Charming International under the SFO.

(b) Interests discloseable under the SFO and substantial shareholders of other members of our Group

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors are not aware of any other person, not being a Director or chief executive of our Company, who will have an interest or short position in our Shares or underlying Shares which would fall 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 who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

D. FURTHER INFORMATION ABOUT OUR DIRECTORS

1. Directors’ service contracts

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with our Company for an initial fixed term of three years commencing on the Listing Date which may only be terminated in accordance with the provisions of the service contract or the appointment letter (as the case may be) or by (i) our Company giving to any Director not less than three months’ prior notice in writing or (ii) by any Director giving to our Company not less than one month’s prior notice in writing.

Each of our Directors is entitled to the respective basic salary under their respective service contracts or appointment letters set out below. Our Directors may also be entitled to a discretionary bonus. A Director may not vote on any resolution regarding the increment of annual salary and the amount of the discretionary bonus payable to him or her.

The current basic annual salaries of our Directors under the current service contracts or appointment letters with our Company are as follows:

Name	Annual Amount
	<i>HK\$'000</i>
Mr. Barry Chan	2,564
Ms. Candy Law	2,228
Mr. James Chan	265
Mr. Lam Chor Ki Dick	180
Mr. Lee Tak Cheong	180
Dr. Wong Chi Wing	240

Our Company has not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determinable by our Company within one year without payment of compensation (other than statutory compensation).

2. Directors' remuneration during the Track Record Period

For the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019, the aggregate of the remuneration paid and benefits in kind granted to our Directors was approximately HK\$4.7 million, HK\$4.8 million, HK\$5.1 million and HK\$2.7 million, respectively.

Save as disclosed above, no other emoluments have been paid or are payable, in respect of the years ended 31 December 2016, 2017 and 2018, and the eight months ended 31 August 2019 by our Group.

Under the arrangements currently in force, our Company estimates that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including discretionary bonus) for the financial year ending 31 December 2019 will be approximately HK\$5.3 million.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted in connection with the issue or sale of any capital of any member of our Group within the two years preceding the date of this prospectus.

4. Disclaimers

Save as disclosed in the prospectus:

- (a) none of our Directors or chief executives has any interest or short position in our Shares, underlying shares or debentures of our Company or any of its associated corporation (within the meaning 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 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 be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once our Shares are listed;
- (b) none of our Directors or experts referred to under the paragraph headed “Consents” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group; and
- (f) so far as is known to our Directors, as at the Latest Practicable Date, none of our Directors, their respective close associates (as defined under the Listing Rules) or Shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the top five customers or the top five suppliers of our Group.

E. SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted under the written resolutions of our Shareholders passed on 21 February 2020:

1. Purpose

The purpose of the Share Option Scheme is to enable our Company to grant options to selected participants as incentives or rewards for their contribution to our Group.

2. Who may join

Our Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee or proposed employee (whether full-time or part-time and including any executive Director), consultants or advisers of or to our Company, any of the subsidiaries or any entity (the “**Invested Entity**”) in which our Company holds an equity interest;
- (b) any non-executive Directors (including independent non-executive Directors) of our Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of our Group or any Invested Entity;
- (d) any customer of our Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to our Group or any Invested Entity; and
- (f) any Shareholders or 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.

For the purposes of the Share Option Scheme, the options may be granted to any company wholly-owned by one or more persons belonging to any of the above classes of 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 participants shall not, by itself, unless our Directors otherwise determine, be construed as a grant of option under the Share Option Scheme.

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by our Directors from time to time on the basis of the participants' contribution to the development and growth of our Group. In order for a person to satisfy our Directors that he is qualified to be (or where applicable, continues to qualify to be) a participant, such person shall provide all such information as our Directors may request for the purpose of assessing his eligibility (or continuing eligibility).

3. Maximum number of Shares

- (a) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 30% of the issued share capital of our Company from time to time. No options may be granted under any schemes of our Company or the subsidiary of our Company if such grant will result in the maximum number being exceeded.
- (b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme) to be granted under the Share Option Scheme and any other share option schemes of our Group must not in aggregate exceed 10% of the total number of Shares in issue at the time dealings in the Shares first commence on the Stock Exchange (excluding the Shares which may be issued pursuant to the exercise of the options that may be granted under the Share Option Scheme) which amounts to 200,000,000 Shares (the "**General Mandate Limit**").
- (c) Subject to (a) above and without prejudice to (d) below, our Company may issue a circular to our Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek approval of our Shareholders in general meeting to refresh the General Mandate 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 option scheme of our Group must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit and for the purpose of calculating the limit, options (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme or exercised options) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted.
- (d) Subject to (a) above and without prejudice to (c) above, our Company may issue a circular to our Shareholders in compliance with Note (1) to Rule 17.03(3) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and seek separate shareholders' approval in general meeting to grant options beyond the General Mandate Limit or, if applicable, the refreshed limit referred to in (c) above to participants specifically identified by our Company before such approval is sought.

4. Maximum entitlement of each participant and connected persons

- (a) Unless approved by our Shareholders, the total number of Shares issued and to be issued upon exercise of all options granted under the Share Option Scheme and any other share option schemes of our Group (including both exercised and outstanding options) to each participant in any 12-month period shall not exceed 1% of the Shares then in issue (the “**Individual Limit**”).
- (b) 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 our Shareholders in compliance with the Note to Rule 17.03(4) and Rule 17.06 of the Listing Rules and/or such other requirements as prescribed in the Listing Rules and the approval of our Shareholders in general meeting 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 the Shareholders’ approval and the date of the 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.
- (c) In addition to the Shareholders’ approval set out in Note (1) to Rule 17.03(3) and the Note to Rule 17.03(4) of the Listing Rules, each grant of options under the Share Option Scheme or any other share option scheme of our Group to a Director, chief executive or substantial Shareholder of our Company or any of their respective associates must be approved by our independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options).
- (d) Where any grant of options to a substantial Shareholder or an independent non-executive Director 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, cancelled and outstanding) under the Share Option Scheme or any other share option schemes of our Group to such person in the 12-month period up to and including the date of such grant:
 - (i) representing in aggregate more than 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 our Shareholders in general meetings. Our Company must send a circular to our Shareholders. The grantee, his associates and all core connected persons of our Company must abstain from voting in favour at such general meeting. Any core connected person of our Company may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

5. Minimum period of holding an option and performance target

Our Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

6. Subscription price for Shares

The subscription price of a Share in respect of any option granted under the Share Option Scheme, subject to any adjustments made in accordance with the Share Option Scheme, shall be such price as our Board in its absolute discretion shall determine, provided that such price shall not be less than the highest of (i) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days (as defined in the Listing Rules) immediately preceding the date of grant of the option (which must be a business day (as defined in the Listing Rules)); (ii) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option (which must be a business day (as defined in the Listing Rules)); and (iii) the nominal value of the Shares. A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

7. Rights are personal to grantee

An option granted under the Share Option Scheme shall not be transferable or assignable and is personal to the grantee.

8. Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the grant of the option.

9. Rights on ceasing employment or death

If the grantee of an option, who is an employee of our Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Group or Invested Entity for any reason other than death, ill-health or retirement in accordance with his contract of employment or certain other grounds, before exercising the option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and 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 or termination, which date shall be the last day on which the grantee was actually at work with our Group or the relevant Invested Entity, whether salary is paid in lieu of notice or not. Failing such exercise, the option will lapse.

If the grantee of an option, who is an employee of our Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of our Company or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercising the option in full, the grantee or, as appropriate, his lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or any Invested Entity, whether salary is paid in lieu of notice or not (or such longer period as our Directors may determine), failing which it will lapse.

10. 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 endeavours to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, our Shareholders. If such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, a grantee (or his personal representative(s)) shall, notwithstanding any other terms on which his options were granted, be entitled to exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in the grantee's notice to our Company in accordance with the provisions of the Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

11. Rights on winding-up

In the event of an effective resolution being proposed for the voluntary winding-up of our Company during the option period, the grantee of an option (or his personal representative(s)) may, subject to the provisions of all applicable laws, by notice in writing to our Company elect to exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two business days (as defined in the Listing Rules) prior to the proposed general meeting of our Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee shall be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his options, to receive out of the assets available in the liquidation *pari passu* with the holders of the Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding-up of our Company.

12. Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to all the provisions of the Memorandum of Association and the Articles of Association for the time being in force and will rank *pari passu* in all respects with the then existing 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 name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

13. Period of the Share Option Scheme

Unless terminated by our Company by resolution in general meeting, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

14. Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of our Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or prospective grantees without the prior sanction of any resolution of our Company in general meeting.

The amended terms of the Share Option Scheme or the options must still comply with the applicable requirements under the Listing Rules. Any change to the authority of our Directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Share Option Scheme must be approved by our Shareholders in general meeting.

15. Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of our Company or otherwise howsoever, then, in any such case, our Company shall instruct the auditors for the time being or an independent financial adviser to our Company to certify in writing the adjustment, if any, to be made either generally or as regards any particular grantee, to (a) the number of Shares to which the Share Option Scheme or any option(s) relates (insofar as it is/they are unexercised), and/or (b) the subscription price of any unexercised option, and/or (c) the maximum number of Shares referred to in the sub-paragraph headed “Maximum number of Shares” above, and (d) an

adjustment as so certified by the auditors or the independent financial adviser to our Company shall be made, provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would increase the proportion of the issued share capital of our Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; (iv) the issue of Shares or securities of our Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment; and (v) for the avoidance of doubt, any adjustments shall be made in compliance with the Listing Rules and the “Supplementary Guidance on Main Board Listing Rule 17.03(13)/GEM Listing Rules 23.03(13) and the note immediately after the rule” set out in the letter from the Stock Exchange to all listed issuers dated 5 September 2005 or other relevant guidance as the Stock Exchange may from time to time issue. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled.

16. Cancellation of options

Our Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as our Directors may in their absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where our Company cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the cancelled options) within each of the limits as referred of in the sub-paragraph headed “Maximum number of Shares” above.

17. Conditions of the Share Option Scheme

The Share Option Scheme is conditional upon (i) the Listing Committee granting approval of the listing of, and permission to deal in, the Shares on the Main Board, which Shares may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme; (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any conditions by the Sole Sponsor and/or the Joint Global Coordinators, for themselves and on behalf of the Underwriters) and such obligations not being terminated in accordance with the terms of the Underwriting Agreements; and (iii) the commencement of dealings in the Shares on the Stock Exchange.

18. Termination of the Share Option Scheme

Our Company may by resolution in general meeting at any time terminate the operation of Share Option Scheme and in such event no further options will be offered but in all other respects the provisions of Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any outstanding options granted prior to such termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme and outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

Details of the options granted, including options exercised or outstanding, under the Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to our Shareholders seeking approval of the first new scheme to be established after such termination.

19. Status of the Listing Rules

The Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

20. Present status of the Share Option Scheme

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme. Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options granted under the Share Option Scheme as described above.

F. OTHER INFORMATION**1. Tax and other indemnity**

Our Controlling Shareholders entered into the Deed of Indemnity with and in favour of our Company (for ourselves and as trustee for each of our subsidiaries) (being the contract referred to in the paragraph headed “Summary of material contracts” in this Appendix) to provide indemnities in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on our Company or any of our subsidiaries.

2. Litigation

As at the Latest Practicable Date, neither our Company nor any of our subsidiaries are involved in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to our Directors to be pending or threatened by or against any member of our Group.

3. The Sole Sponsor

The Sole Sponsor satisfies the independence criteria applicable to sponsors as set out in Rule 3A.07 of the Listing Rules and has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

The Sole Sponsor's fee is approximately HK\$6.25 million and is payable by our Company.

4. Preliminary expenses

The estimated preliminary expenses incurred or proposed to be incurred by our Company are approximately HK\$64,000 and were paid by our Company.

5. Promoters

Our Company has no promoter for the purpose of the Listing Rules. Within the two years immediately preceding to the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given to, or is proposed to be paid, allotted or given to, any promoter in connection with the Global Offering or the related transactions described in this prospectus.

6. Qualification of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies (Winding Up and Miscellaneous Provisions) Ordinance) who have given their opinions or advice in this prospectus are as follows:

<u>Name</u>	<u>Qualifications</u>
Elstone Capital Limited	A corporation licensed by the SFC to conduct Type 6 (advising on corporate finance) regulated activity under the SFO
Ernst & Young	Certified Public Accountants
JunHe LLP	PRC legal advisers to our Company
Appleby	Cayman Islands legal advisers to our Company
DLA Piper Hong Kong	U.S. legal advisers to our Company
Frost & Sullivan Limited	Industry consultant
Ernst & Young Tax Services Limited	Tax adviser

7. Consents

Each of the experts named in paragraph 6 above has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included in this prospectus in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

8. Share register

Our share register will be maintained in Hong Kong by Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Share Registrar.

9. Miscellaneous

Save as disclosed in this prospectus:

- (a) none of our Directors nor any of the parties listed in the paragraph headed "Consents" in this Appendix has any direct or indirect interest in the promotion of our Company or any of the subsidiaries, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to our Company or any of the subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of the subsidiaries;
- (b) none of our Directors nor any of the parties listed in the paragraph headed "Consents" in 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;
- (c) save for the Underwriting Agreements, none of the parties listed in the paragraph headed "Consents" in this Appendix:
 - (i) is interested legally or beneficially in any of the Shares or any shares in any of the subsidiaries; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for the securities;

- (d) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought from any other stock exchange;
- (e) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (f) our Company has not issued or agreed to issue any founder shares, management shares or deferred shares;
- (g) our Company has no outstanding convertible debt securities;
- (h) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special items have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries and our Company has not issued or agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (i) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in or debentures of our Company;
- (j) no amount or securities or benefit has been paid or allotted or given within the two years preceding the date of this prospectus to any of the promoters of our Company nor is any such securities or amount or benefit intended to be paid or allotted or given;
- (k) since 31 August 2019 (being the date to which the latest audited consolidated financial information of our Group were made up), there has been no material adverse change in the financial or trading position or prospects of our Company;
- (l) there is no arrangement under which future dividends are waived or agreed to be waived;
- (m) the Global Offering does not involve the exercise of any right of pre-emption or the transfer of subscription rights;
- (n) as at the date of this prospectus, there is no restriction affecting the remittance of profits or repatriation of capital of our Company into Hong Kong from outside Hong Kong;

- (o) there has not been any interruption in the business of our Company which may have or has had a significant effect on the financial position of our Company in the 12 months preceding the date of this prospectus;
- (p) the English text of this prospectus shall prevail over the Chinese text; and
- (q) none of our Company or any of our subsidiaries is presently listed on any stock exchange or traded on any trading system.

10. Binding effect

This prospectus shall have the effect, if an application is made in pursuance of this prospectus, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

11. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the laws of Hong Kong).

APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to a copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Consents” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus and a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Kwok Yih & Chan at Suites 2103-05, 21st Floor, 9 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum and the Articles;
- (b) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the audited financial statements of the companies comprising our Group for each of the years ended 31 December 2016, 2017 and 2018, other than Charming Belgium and Charming US;
- (d) the report on the unaudited pro forma financial information of our Group prepared by Ernst & Young, the text of which is set out in Appendix IIA to this prospectus;
- (e) the audited consolidated financial statements of our Company for the three years ended 31 December 2018 and the eight months ended 31 August 2019;
- (f) the letter from Ernst & Young in connection with the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019, the text of which is set out in Appendix IIB to this prospectus;
- (g) the letter from the Sole Sponsor in connection with the estimate of the consolidated profit attributable to owners of our Company for the year ended 31 December 2019, the text of which is set out in Appendix IIB to this prospectus;
- (h) the F&S Report;
- (i) the legal opinions issued by our PRC Legal Advisers in relation to our general matters and property interests in the PRC;
- (j) the memorandum of legal advice issued by our legal advisers as to U.S. law in relation to the Trade War Tariffs, reformatted to protect attorney-client communication which is privileged;
- (k) the review memorandum issued by the Tax Consultant in relation to our transfer pricing arrangement;

**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES
AND AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

- (l) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus;
- (m) the service contracts and appointment letters referred to in the paragraph headed “Directors’ service contracts” in Appendix IV to this prospectus;
- (n) the written consents referred to in the paragraph headed “Consents” in Appendix IV to this prospectus;
- (o) the Companies Law; and
- (p) the rules of the Share Option Scheme.



CIRTEK HOLDINGS LIMITED
常達控股有限公司

